ANNUAL REPORT 2006 SDFI AND PETORO

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THE SDFI

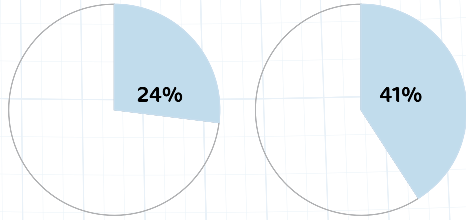
or the State's Direct Financial Interest in oil and gas reserves on the Norwegian continental shelf and associated facilities, was established in 1985. It represents the largest portfolio of oil and gas fields, installations and transport systems on the NCS. At 31 December 2006, the SDFI had interests in 105 production licences, including 37 producing fields. It was valued at NOK 875 billion on 1 January 2006, based on a long-term oil price far below today's level.

Petoro AS

was founded on 9 May 2001 as a consequence of the partial privatisation of Statoil, and on the basis of a mandate from the Storting (parliament) concerning management of the SDFI on commercial terms. The company is the licensee for the SDFI's holdings in 105 production licences on the NCS, and has as its objective the creation of the highest possible financial value for the Norwegian state. Its strategy is to maximise the value of the SDFI portfolio through area development, maturing reserves and early application of technology.

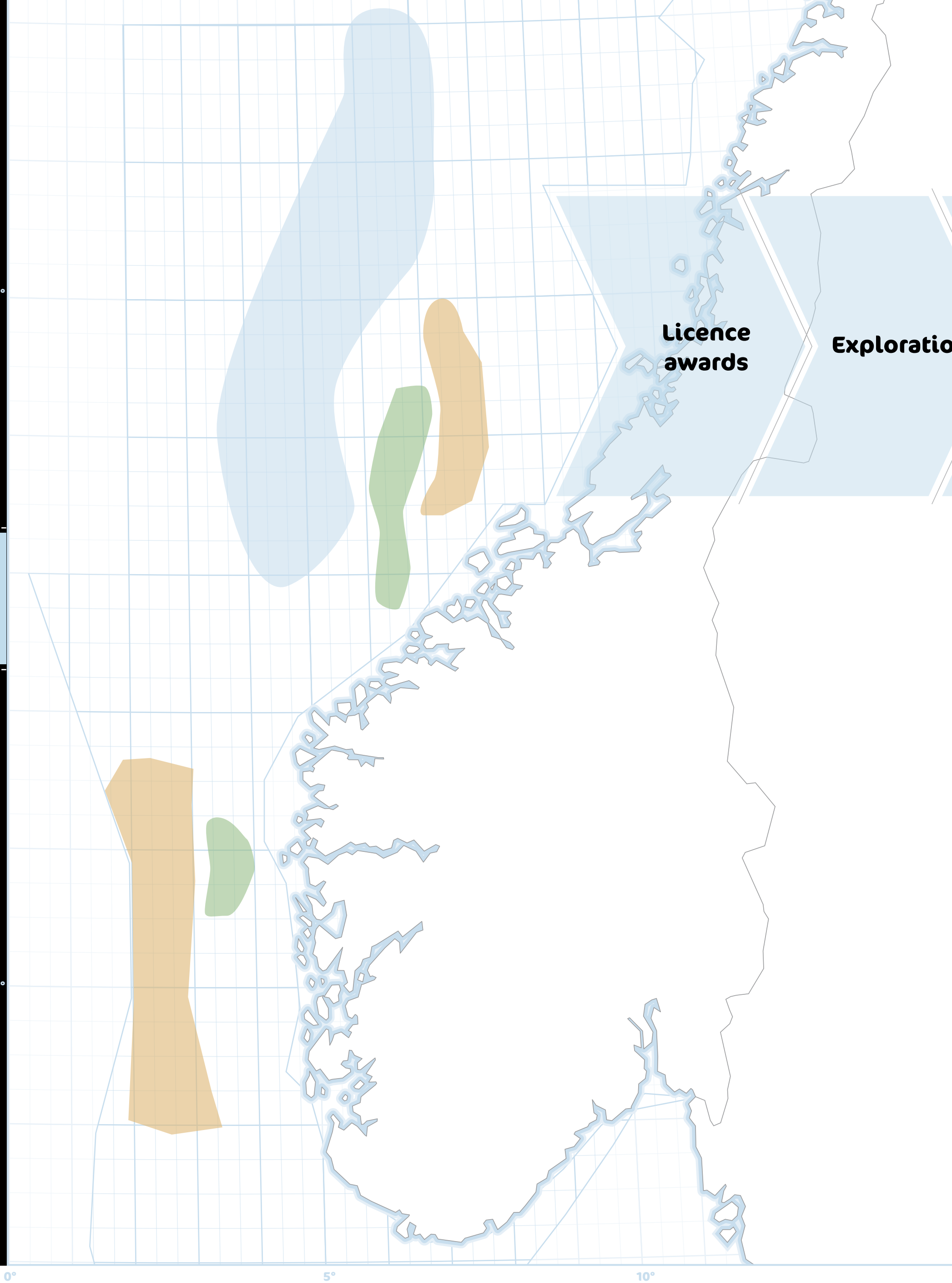
Petoro's share of oil reserves on the NCS

Petoro's share of gas reserves on the NCS



The SDFI portfolio embraces almost a quarter of the oil on the NCS and more than 40 per cent of the gas. Oil still exceeds gas in the production mix, but crude output has been declining in recent years while the gas share is still climbing and will receive a fresh boost when the Snøhvit and Ormen Lange fields come on stream later in 2007.

* FRONT COVER: The pie chart shows the distribution of remaining producible reserves.



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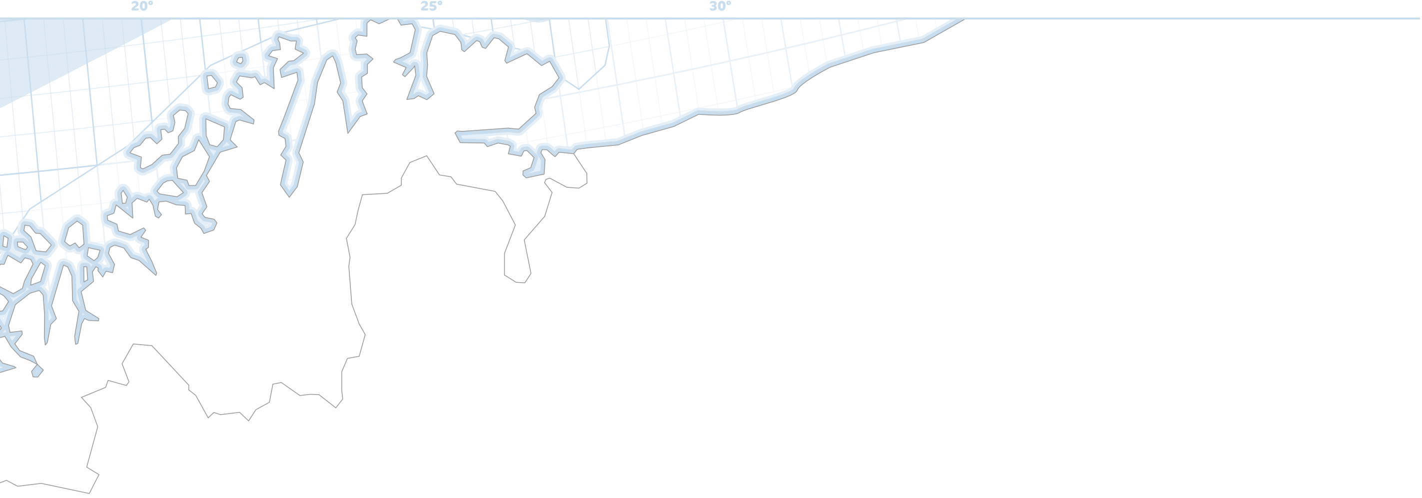
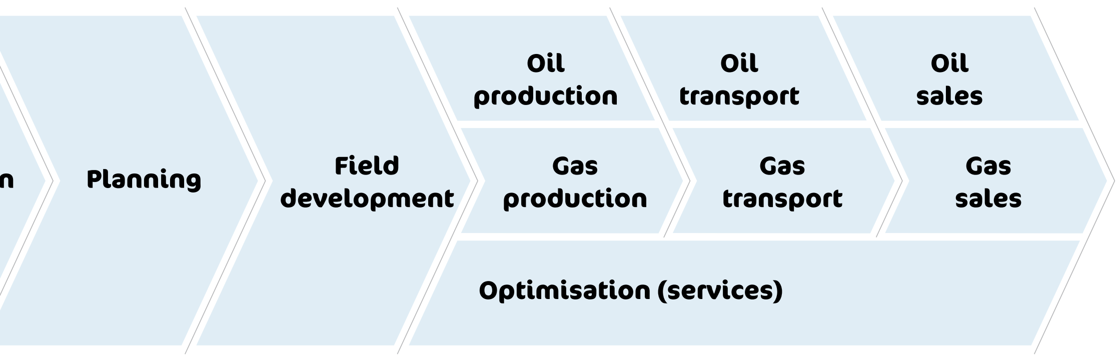


Petoro: The best partner



Petoro as manager of the SDFI has tasks associated with several links in the value chain, from the licence awards to the marketing and sale of oil and gas. However, the scope of its involvement varies a great deal, as the figure at the foot of page 9 also shows.

Mandate

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

Main objective

The company's main objective is to maximise the economic value of the state's oil and gas portfolio on the basis of sound business principles.

NOK 128 500 000 000*

* Net income for the SDFI in 2006 was NOK 128.5 billion, while net cash flow was NOK 126 billion.

Getting our act together

Another record year lies behind us. Net income from the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf in 2006 totalled NOK 128 500 000 000 in round numbers, and cash flow was roughly the same at NOK 126 billion

«In light of the merger between Statoil and Hydro, many of us other players need to sharpen up in order to protect the diversity which has contributed to a successful development of the NCS.»

KJELL PEDERSEN, CEO

Meanwhile, oil and gas prices look like remaining high for the time to come. Forecasts for total production over the next few years are still high, and gas output is rising. The level of investment is being sustained for longer than we had anticipated. We expect to have large remaining resources, and have an infrastructure and an expertise which help to make discoveries commercial.

But oil production will continue to decline. We are not exploring enough, and our discoveries are few and small. New reserves fall far short of replacing the oil and gas we produce. High prices and booming activity globally have unleashed a wave of costs which is already bothering us and could become a serious problem the day prices begin to fall.

On top of such industrial challenges, we can discern the outline of a "Norwait", which is more concerned to spend its revenues than to make the long-term commitment required to earn them. Professor Ivar Frønes dusted off an old fear during the petroleum policy seminar staged in Sandefjord by the Norwegian Petroleum Society at the beginning of 2007. He asked whether we are becoming a nation of oil-rich Norwegians who put comfort and wellbeing first, while ignoring the demanding development of the expertise needed to manage the natural wealth we have been given.

Our unemployment figures may be the lowest ever, and we may be able to bask in top marks from international surveys of living standards. But no less than 750 000 Norwegians of working age are outside the labour market. A study of 27 school classes show that only half of each lesson is devoted to actual teaching, with the rest of the time spent on such activities as eating, clearing up, going to the toilet, sharpening pencils and waiting for the teacher. We are well down internationally for the number of young people applying to study science. Figures for research and development put Finland well ahead – while Norway lags far behind.

Norway has been able to sweep such issues under a carpet of high oil revenues. But oil prices are a faithless friend. And those who believe it will be simple – or cheap – to recover the remaining two-thirds of Norway's estimated oil and gas reserves can think again.

We will need to attract and continue to develop a high level of expertise and drive, both to make the best out of mature fields and areas such as Troll and the Halten Bank, and to develop the less mature Barents Sea and the deepwater regions of the Norwegian Sea. Petoro will contribute to this, and has drawn up a strategy which receives detailed coverage in this annual report.

In light of the merger between Statoil and Hydro, many of us other players need to sharpen up in order to protect the diversity which has contributed to a successful development of the NCS. The merger will strengthen the international commitment of these two Norwegian companies. But the NCS as a whole and the management of the SDFI will be weakened by the loss of one competent, independent centre of technical and operational expertise.

To ensure continued good management of the SDFI, we are working to mitigate the effects by strengthening our own expertise. But other players will also need competent and motivated personnel to ensure future value creation from the NCS. Motivating youngsters to educate themselves for this exciting industry, and ensuring that people of working age are motivated, competent and available, represents a major job for which many of us must accept responsibility – both in the industry and in government.

We have no need to panic. But it will not hurt to get our act a bit more together.

Kjell Pedersen
President and CEO

PETORO IN 2006

NOK 500 BILLION

- cash flow to the government since 2001

NOK 126 BILLION

- cash flow to the government in 2006
- biggest single contribution to the Government Pension Fund – Global

TROLL

- accounted for 51 per cent of gas revenues

NOK 128.5 BILLION

- highest net income since Petoro was created
- up by NOK 15.3 billion from 2006
- fifth record result since 2001

CARBON DIOXIDE (CO_2)

- can be pumped into oil reservoirs to improve recovery. Petoro identified six relevant fields for such injection in the spring of 2006

PRODUCTION

- oil and NGL: 723 000 barrels per day
- gas: 75 mill cubic metres per day
- total production: 1.2 mill barrels of oil equivalent per day

Financial data (NOK million)

	2006	2005	2004	2003	2002
Operating revenue	174 979	152 683	120 807	101 699	103 709
Operating income	129 833	113 069	83 653	68 621	70 366
Net income for the year	128 467	113 172	82 343	68 154	67 417
Cash flow from operating activities	146 616	119 767	98 428	85 045	82 078
Cash flow applied to investment activities	19 877	20 686	17 153	14 465	13 140
Net cash flow	126 213	99 175	81 401	69 005	66 082

BARENTS SEA

• Petoro has gained a completely new position on the northernmost NCS after the SDFI was awarded interests in five production licences

NEW INDUSTRY AGREEMENTS

• came into force on 1 January 2007, ensuring improved governance
• also stronger licensee influence in production licences
• Petoro has been one of the prime movers in this work

GJØA AND VEGA

• were sanctioned for development as an area solution. Petoro contributed actively to the area thinking

LANGELED

• gas pipeline to the UK became operational in October, opening the way for Norwegian gas to resume a dominant position in the British market

NEW RESERVES

• the SDFI secured 210 million boe in new reserves, in part from Gjøa, Vega and Rev.

• some reserves were also downgraded, so that the net addition was 97 million boe.

OIL PRICE

• averaged USD 64.50 or NOK 412 per barrel. Gas was sold at an average price of NOK 1.92 per scm

ON ÅSGARD

• the SDFI interest increased by 0.19 per cent or five million boe, worth around NOK 2 billion at 2006 prices, after Petoro requested a redetermination

Operational data

	2006	2005	2004	2003	2002
Production oil and NGL (1 000 barrels per day)	723	788	886	933	949
Production dry gas (mill standard cubic metres per day)	75	73	70	65	61
Oil, NGL and gas production (1 000 boe per day)	1 198	1 244	1 324	1 341	1 333
Remaining reserves (million boe)	8 083	8 422	8 773	9 095	8 478
Reserves added* (million boe)	97	177	88	1 104	95
Reserve replacement rate* (three-year average in per cent)	26	96	88	84	25
Oil price (USD per barrel)	64.50	53.03	37.57	28.76	24.20
Oil price (NOK per barrel)	412	344	254	203	196
Gas price (NOK per scm)	1.92	1.47	1.07	1.00	0.93

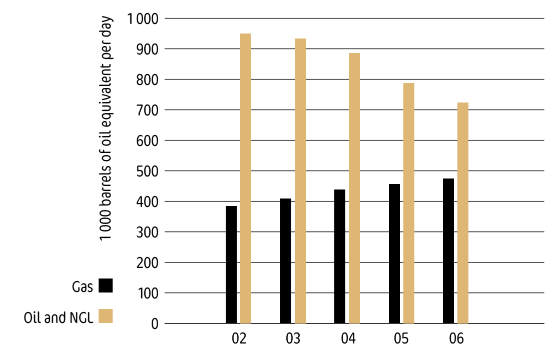
* Excluding purchase and sale of reserves related to the asset sales in 2001 and 2002.

Key figures SDFI

Net income for the SDFI portfolio in 2006 came to NOK 128.5 billion, and net cash flow was NOK 126 million. These good results primarily reflected higher oil and gas prices. Total production was rather lower than the year before, while gas output increased. Costs rose substantially.

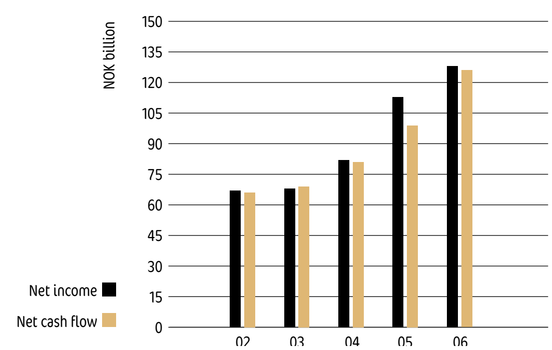
PRODUCTION

Production of oil and natural gas liquids fell by eight per cent from 2005. This primarily reflects drilling delays and declining output from mature fields. However, gas production expanded on several fields compared with 2005. The overall increase was four per cent for the SDFI portfolio, with Troll accounting for about 50 per cent of this.



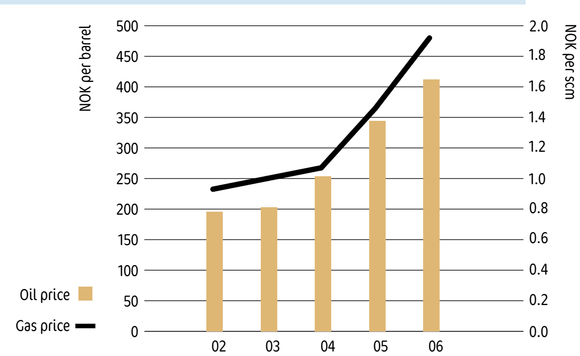
NET INCOME AND CASH FLOW

The net income of NOK 128.5 billion represents an improvement of NOK 15.3 billion from the year before, primarily because of higher oil and gas prices. Oil and gas sales for the year totalled 1 234 000 barrels of oil equivalent per day (boe/d), compared with 1 284 000 in 2005. Cash flow, represented by transfers to the government, was NOK 126.2 billion as against NOK 99.2 billion the year before.



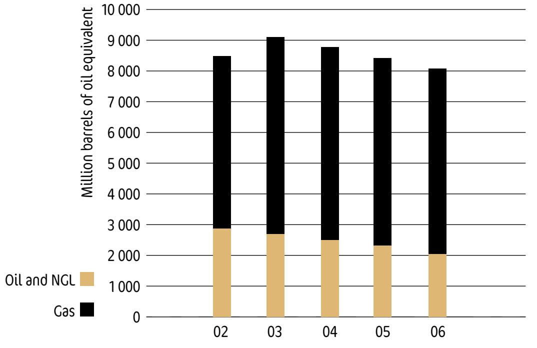
OIL AND GAS PRICES

The oil price for the SDFI portfolio averaged NOK 412 per barrel, compared with NOK 344 the year before – an increase of 20 per cent. In US dollars, the price rose by 22 per cent to USD 64.50 per barrel. The average gas price rose from NOK 1.47 per standard cubic metre in 2005 to NOK 1.92.



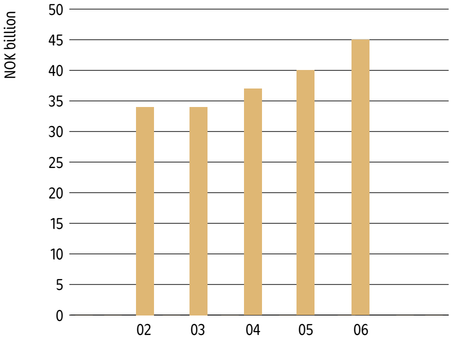
REMAINING RESERVES

The portfolio's remaining estimated oil, NGL and gas reserves at 31 December totalled 8.1 billion boe, a reduction of 340 million boe from the year before. New reserves in 2006 related primarily to the submission of plans for development and operation of Gjøa, Vega and Rev. Reserves were downgraded on some producing fields.



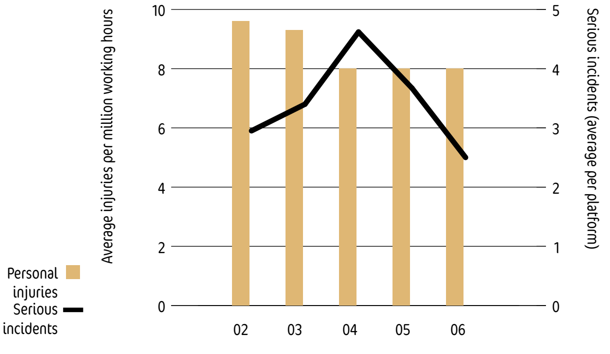
COSTS

The cost of operating fields, pipelines and land-based plants rose by 20 per cent compared with 2005. This reflected a high level of activity, increased prices in the supplies sector, greater spending on maintenance and modifications, and expenses relating to readying and starting up new fields and installations. Exploration-related costs totalled NOK 1.1 billion, compared with NOK 0.9 billion in 2005.



PERSONAL INJURIES

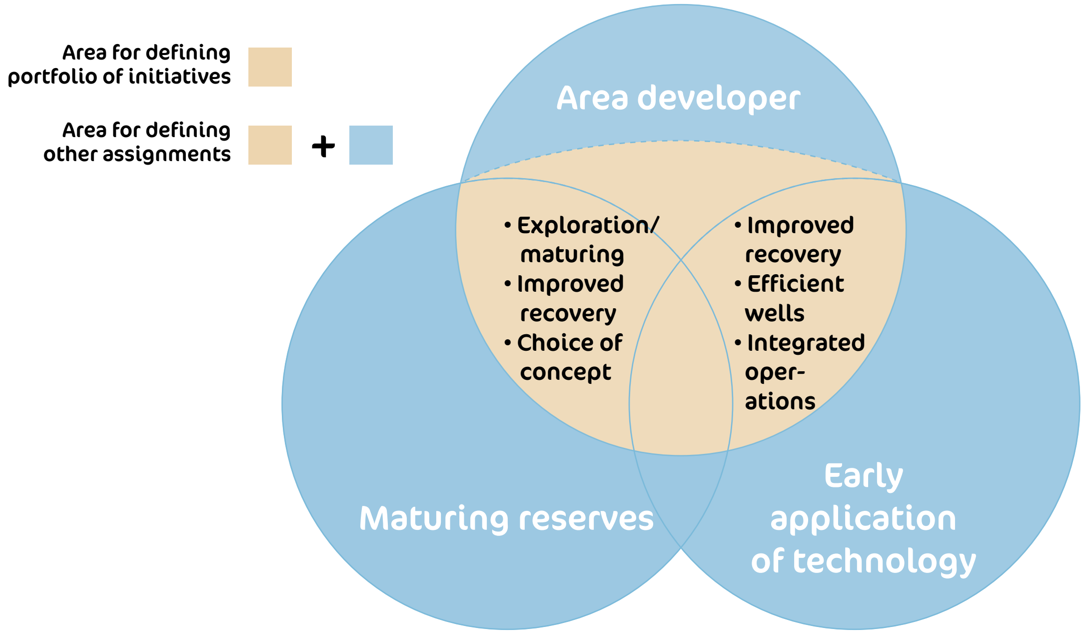
The target for reducing the personal injury frequency was not met. This indicator remained unchanged from the two preceding years. An improvement from earlier years was seen for serious incidents.



Petoro's strategy

"Area developer" is the headline for Petoro's strategy after a revision in 2006. This recognises that the biggest opportunities for value creation in the State's Direct Financial Interest (SDFI) relate to increasing reserves, accelerating production volumes and applying new technology. Petoro's contribution to reducing unit costs will continue to be a key activity. It is important that the company maintains its commitment in this area even when product prices are good.

Area developer is Petoro's main strategy. Its broad portfolio give it good opportunities to promote unified solutions and efficient resource utilisation in geographical core areas. Two subsidiary strategies have a particular value creation potential:

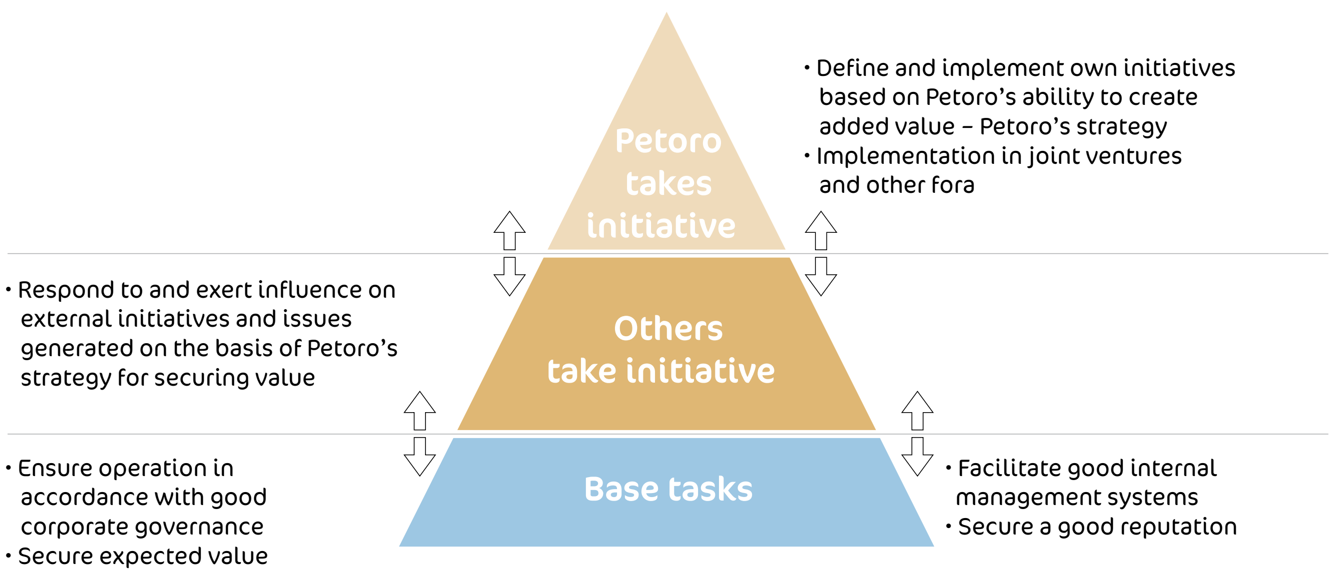


Maturing reserves concerns Petoro's ability to influence the value of the portfolio through a selective commitment to accelerating exploration for new resources and enhancing its efficiency, achieving more efficient production and a higher recovery factor from existing fields, and bringing resources in mature areas on stream. Further development of the gas infrastructure could also help to mature reserves.

Early application of technology represents a strategy for effectively combining technological solutions, work processes and expertise development as well as efficient management of necessary change processes which follow from this. Petoro will work for faster implementation of technology from the pilot trial stage to wide application in the portfolio through the opportunities provided by its broad and heavyweight position.

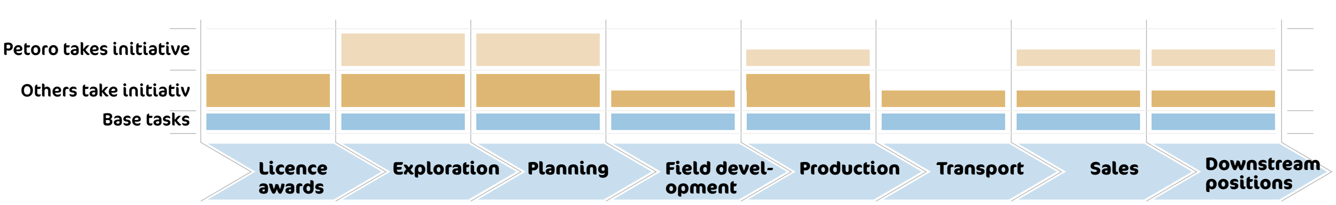
PETORO WILL TAKE THE INITIATIVE

Petoro is a flexible organisation. It possesses a substantial part of the expertise required to accomplish its main tasks, take account of the environment, and comply with health and safety standards. To operate efficiently and pursue its tasks and activities, Petoro gives weight to defining and implementing its own initiatives where opportunities for creating value added are observed.



EARLY INVOLVEMENT

Petoro will become involved earlier in decision-making processes and the value chain in order to implement its strategy in the joint ventures and other fora. Good strategic initiatives and the right choice of activities are critically important for maximising value creation in the SDFI.



STRATEGY AND EXPERTISE

Petoro's main strategy is area development, with the focus on maturing reserves and early application of technology. The company combines expertise, boldness and innovative thinking in implementing its strategy.

BROAD PORTFOLIO

Petoro manages more than a third of the petroleum reserves on the NCS. This gives the company the opportunity to strengthen collaboration between operators and promote holistic solutions in its core areas.

VALUE CREATION

The value of the portfolio is increasing under Petoro's management. With the right initiatives and resources, the company can continue to maximise value from the portfolio.

Area developer for value creation

The value of the SDFI portfolio has risen by an average of NOK 20 billion per annum at constant prices under Petoro's management, and stood at NOK 875 billion in 2006. The company is aiming for continued value creation, based on expectations of high prices and a strategy for area development, maturing reserves and early application of new technology on the NCS. The Statoil-Hydro merger represents a new challenge for Petoro's management of the SDFI.

Five years of experience also provide a reason for revising Petoro's strategy, and put weight behind it. One lesson has been that the company must strike a good balance between important issues which others put on the agenda and its own issues/projects. Another is that it must make more of its commitment at an earlier stage in the decision-making process in order to exert effective influence.

"We can create more value during studies and decision-making than in the production phase," says Jan Rosnes, Petoro's vice president for projects and strategy.

Geography and holistic thinking

Mr Rosnes relates the "area developer" concept to two dimensions – the geographical and the unified assessment. An example of the first is that a decision in one licence may have implications for others in the same area. Similarly, Petoro might see big opportunities for improvement through learning and transfer of best practice between fields.

Holistic thinking means applying leading-edge expertise in a broader context, and can also extend to linking commercial requirements with technological possibilities.

Despite high oil prices and unusually good times, Mr Rosnes notes that not enough is being done to mature resources into viable reserves. In his view, the ability to perceive the unity of a value chain can give area development a stronger commercial character and lead more quickly to practical solutions.

"When dealing with complex issues, our challenge is to assess technological maturity,

commercial and strategic value and risk," he says. "We must see the overall picture and focus on the drivers which yield the biggest value creation."

Area development pays off, Mr Rosnes emphasises, and cites the Tampen region of the North Sea as a case in point. Petoro is cooperating here with operator Statoil on a strategy for the whole area. Noting that that the value of the SDFI rose by roughly NOK 80 billion in fixed prices during 2002-06, he says that some of these billions have hailed from Tampen.

Technology for value creation

Historically, technology has played a crucial role for value creation on the NCS. Mr Rosnes mentions the Condeep concrete gravity base structures, new drilling techniques such as horizontal wells, floating production, subsea solutions and multiphase flow methods for transporting liquids and gases in the same pipeline.

"In many ways, you could say that our strategy helps us to identify the right things to do rather than to do things right," he says. "And when we try to establish the right things to do in technological terms, the biggest opportunities for enhanced value creation seem to lie in moving more quickly with new technology from development and pilot trials to large-scale application."

Petoro intends to devote particular attention to efficient wells, integrated operation and technology for improved recovery (see separate article).

Need to strengthen

Many players on the NCS have been able to play on the competition between Statoil and Hydro, the two large Norwegian centres of operational expertise. That applies not only to the local subsidiaries of major international companies but also to the government.

The presence of these two big companies has not least allowed Petoro to manage the SDFI portfolio efficiently by combining its own contribution with the expertise and capacity of whichever of the pair has held the partner role in order to challenge and test proposals from the other in the operator position.

The Tampen region of the northern North Sea is an example of area development based on existing fields, such as Snorre.

The Heidrun field in the Norwegian Sea is included in the thinking about future area development in these waters.

Jan Rosnes, vice president projects and strategy.

> **"Viewed realistically, we therefore believe that a substantial strengthening of our technical and commercial expertise and capacity is needed to ensure continued good management of the SDFI."**

A merger of Statoil and Hydro will mean a radical change to this picture. Mr Rosnes says that it seems right for the two – and particularly for their international ambitions. At the same time, Petoro believes the merger must lead to efficiency gains on the NCS which will also benefit the SDFI portfolio. But the loss of one company enhances long-term management risks for the SDFI.

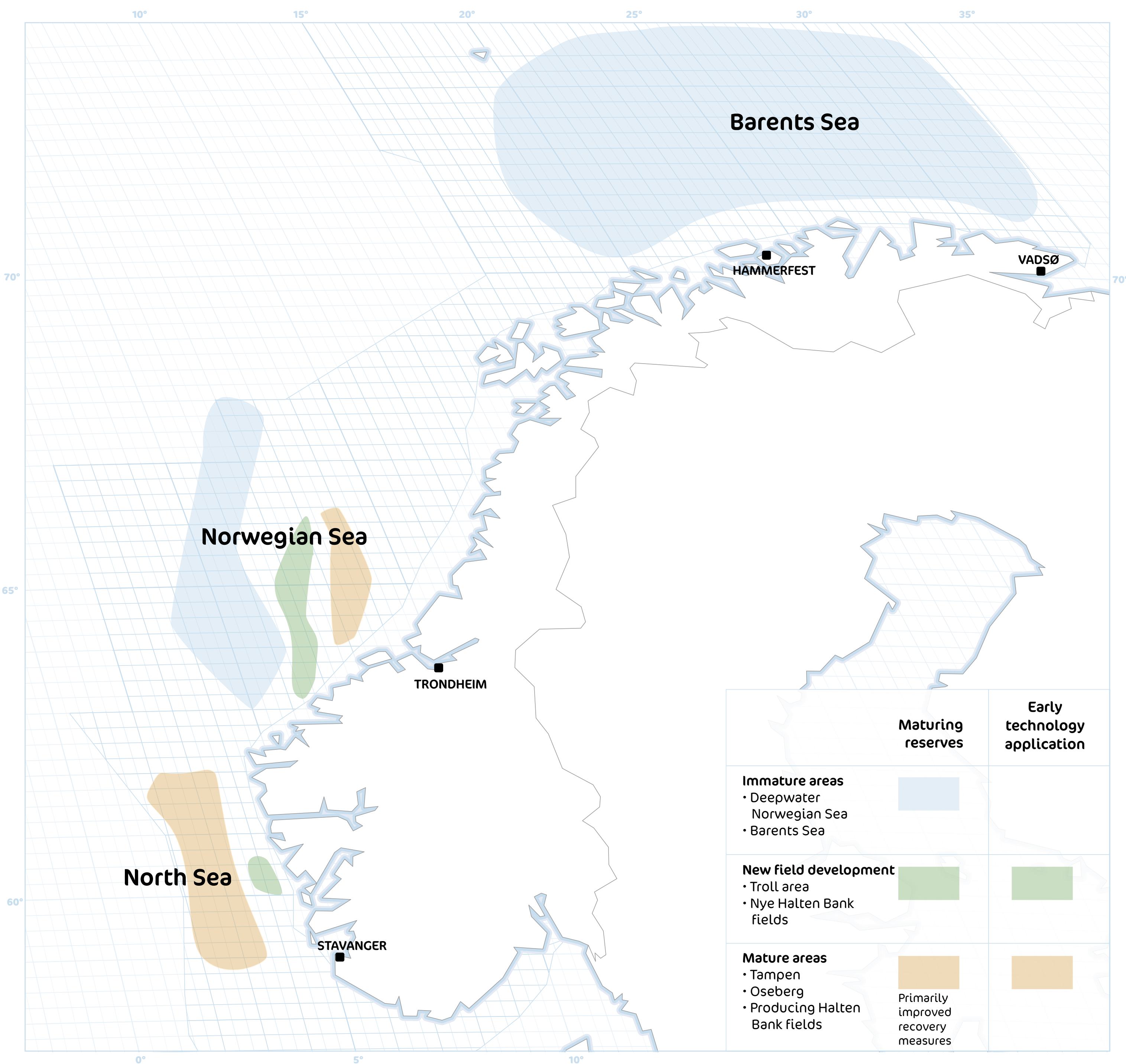
Mr Rosnes does not believe it will be fully possible to replace the role Hydro and Statoil have played as separate companies. But the change can be mitigated to some extent through a strengthening of the other players – including Petoro.

"We also hope that the major international companies will gain a stronger position on the NCS, and devote greater resources to their role as licensees here," says Mr Rosnes. "But we also know that competition over such resources is intense, both from NCS fields and projects operated by these companies and from their assignments in other parts of the world.

"Viewed realistically, we therefore believe that a substantial strengthening of our technical and commercial expertise and capacity is needed to ensure continued good management of the SDFI."

Petoro's strategy

Petoro's "area developer" strategy covers the North, Norwegian and Barents Seas. But the emphasis and instruments vary with the maturity of the area concerned. In the North Sea and the mature parts of the Norwegian Sea, most of the attention is focused on maturing reserves through improved recovery and by applying technology to achieve greater efficiency and new development in or around existing fields. Petoro's focus in the deepwater areas of the Norwegian Sea and in the Barents Sea is on maturing reserves through increased exploration activity.



MATURING RESERVES

Large parts of the NCS are in a mature phase. Oil production on the NCS is declining while unit costs increase. Good profitability depends on improving recovery factors, making early use of new technology and better utilisation of infrastructure.

EXTENDED OIL AGE

The level of activity on the NCS is high, and large resources remain. To extend Norway's oil age, the industry must be prepared for profitable recovery of oil and gas located further from land and in deeper water than before. At the same time, it must devote all its ingenuity to extract as much as possible from existing discoveries.

NEW OPPORTUNITIES

Today's production must be replaced with new reserves. The most relevant are discoveries in the Norwegian and Barents Seas. Petoro is a prime mover in strengthening exploration activity, and in seeing opportunities for coordination and thereby making even small discoveries profitable.

Maturing reserves – exploring more and improving recovery

Securing sufficient exploration activity in the deepwater areas of the Norwegian Sea and in the Barents Sea presents a challenge. In the mature areas of the North and Norwegian Seas, improved recovery and good use of infrastructure are key aspects of Petoro's sub-strategy on maturing reserves.

«The Norwegian Sea is interesting for Petoro's strategy of maturing resources into commercial reserves because these waters embrace both mature and immature areas. »

This approach involves not only making discoveries in new areas and converting them from uncertain resources to commercial reserves, but also increasing reserves and production in the mature parts of the NCS.

In close cooperation with area operator Statoil, Petoro has contributed to substantial value creation in the Tampen region of the North Sea through improved recovery and integrating separate fields.

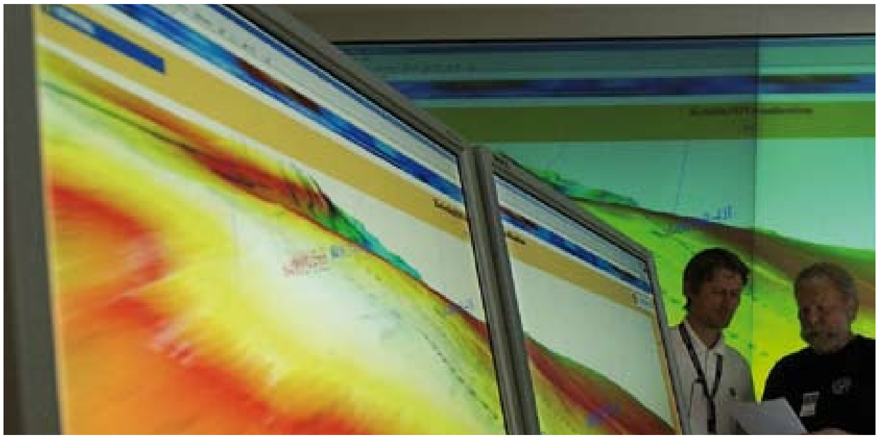
In the mature section of the Norwegian Sea, Petoro believes that unified thinking on maturing reserves in and around existing developments could yield additional oil and gas volumes corresponding to an Åsgard field.

The availability of qualified rigs at acceptable rates represents a challenge for the less mature areas in the deepwater Norwegian Sea and the Barents Sea. Petoro is cooperating with other companies to secure sufficient rigs to increase exploration activity. One aim in the Barents Sea is to prove enough gas for a second process train at the Snøhvit receiving terminal on Melkøya.

Gas strategy for Norwegian Sea

The Norwegian Sea is interesting for Petoro's strategy of maturing resources into commercial reserves because these waters embrace both mature and immature areas. In addition to large interests in 10 producing fields, the company manages a big stake in the Ormen Lange development and holdings in discoveries under evaluation.

A total of 11 operators and 20 partners have interests in this part of the NCS, but many of these have a limited portfolio. According to area manager Gunnar Eide, Petoro's



New technology for sub-surface visualisation has contributed to greater understanding, and thereby to better solutions and increased production.

strength is that it sits in many licences and can see connections. Another special feature of the company is that it only has licence holdings on the NCS, and will optimise in relation to these.

Petoro has implemented a special strategic project for new gas in the Norwegian Sea, where it has described new gas centres with associated transport solutions and infrastructure. Project manager Sigurd Omland explains that the work has also looked at maturing resources and exploiting existing infrastructure as well as a possible coordination of field development with future carbon dioxide storage.

Roughly speaking, the Norwegian Sea can be divided into three areas, each with different challenges – the Halten Bank/Nordland, Møre/Vøring South and Vøring North.

Halten/Nordland primarily involves mastering and further developing a mature oil and gas province which embraces the Njord, Draugen, Åsgard, Kristin, Heidrun and Norne fields.

Petoro is looking at opportunities for maturing reserves through better utilisation of field centres with the aid of measures for improved recovery from producing fields and more exploration activity close to these. Approaches to boosting recovery include increased injection of gas and water as well as drilling more and cheaper wells.

The company wants to see the established fibreoptic cable network in the Norwegian Sea used to optimise operations. That involves greater integration between operation rooms on land and offshore installations. According to Mr Eide, Petoro has been a prime mover in maturing reserves through long-term plans for existing fields in the area.

Møre/Vøring South is on the verge of entering production with the completion of the Ormen Lange development. The challenge thereafter is to exploit the infrastructure which ties this field to the receiving terminal at Nyhamna in western Norway. Petoro believes that the key to enhanced value creation lies in exploiting spare capacity in the pipeline by accelerating output from Ormen Lange and phasing in discoveries yielded by greater exploration activity.

Discovered in 1997, Ormen Lange is the first real deepwater project in the Norwegian Sea. Water depths on this gas field vary from 800 to 1 100 metres. Before the plan for development and operation (PDO) was submitted in 2003, discussion centred on

Work currently under way on the future for Draugen could also be significant in the surrounding area.

The receiving terminal for gas from Ormen Lange at Nyhamna could prove significant for further development of the Norwegian Sea.

Project manager Sigurd Omland (left) and area manager Gunnar Eide.

whether the field should be developed with a floating offshore installation or a land-based facility for processing and onward transport of gas and condensate (light oil).

Petoro was one of the prime movers for the latter option, which Mr Eide describes as a forward-looking choice. A floater would have had limited production capacity, while a pipeline to land provides the opportunity and flexibility to increase output. The receiving terminal is dimensioned to expand from today's daily capacity of 70 million cubic metres to handle higher production from Ormen Lange as well as future phasing-in of new Norwegian Sea discoveries.

"It was important for us as early as the PDO to make choices which provide opportunities in a rather longer perspective," says Mr Eide. "That includes the flexibility to phase new discoveries into the field centres. The Ormen Lange plan also allocated funds for long-term technology development to qualify subsea compression. This work is under way, and the Ormen Lange partnership recently resolved to build a full-scale pilot plant for testing at Nyhamna. The aim is a cheaper but equally reliable alternative to a compressor platform in the second development phase."

Normal practice in licences on the NCS has been to allocate money for such technology development projects on an annual basis. In this instance, Mr Eide highlights the long-term collaboration with Hydro and the other partners and the fact that it has proved possible to pursue this pilot project within a cost framework of several billion kroner.

Vøring North is regarded by Petoro as a potential new core area. Discoveries and prospects lie in deep water. Exploration has so far yielded only a few small non-commercial deposits, but a number of large prospects remain to be drilled. All the indications are that new discoveries in this province will be gas.

Mr Eide still believes that big strikes are possible in the Norwegian Sea. "But it's more likely that we must coordinate small and medium-sized discoveries," he concedes.

Several exploration wells over the next two years will hopefully provide more answers. As a participant in a number of the licences, Petoro regards it as part of its area development strategy to influence relevant players to coordinate exploration and maturation activities with a view to maximising value creation.

"We envisage that this province will be explored relatively quickly, and could start producing by 2014," says Mr Eide. He believes that new field centres for gas will be established in the Norwegian Sea, and Petoro is concerned to see how new production can be phased in. The company accordingly wants more exchange of data between licences and further development of exploration tools. If drilling succeeds, the next challenge will be transporting the gas. Constructing new pipelines will only be profitable with large discoveries or coordination of enough small fields.

In such cases, opportunities for piping unprocessed gas over long distances will be important. The commitment now being made on Ormen Lange to qualify seabed compression could accordingly have spin-offs for developing other deepwater fields in the Norwegian Sea.

Where several discoveries are coordinated, Petoro envisages the use of subsea compression to transport gas from small fields to a central processing facility. Another issue is optimal and unified exploitation of the existing pipeline system on the NCS and the transport hubs at Nyhamna, Kollsnes near Bergen and Kårstø north of Stavanger.

Indian elephants

The deepwater areas of the Norwegian Sea must still be regarded as immature, and Petoro wants to be a prime mover for drilling in the less explored areas. But Mr Eide also calls for some of the same patience already shown in the Barents Sea. "It's worth recalling that drilling delays are primarily down to a shortage of rigs. Fewer than 15 wells have so far been drilled in the deepwater Norwegian Sea."

Production from the Norwegian Sea is set to change its composition, with gas output from Petoro's portfolio in these waters exceeding oil by around 2010. By then, production from most of the fields in the portfolio will have fallen substantially. That makes it necessary to lay the basis for new fields right now, and preferably with far more and bigger discoveries than has been the trend in recent years.

"The 20th licensing round will be highly interesting in that respect," says Mr Eide,

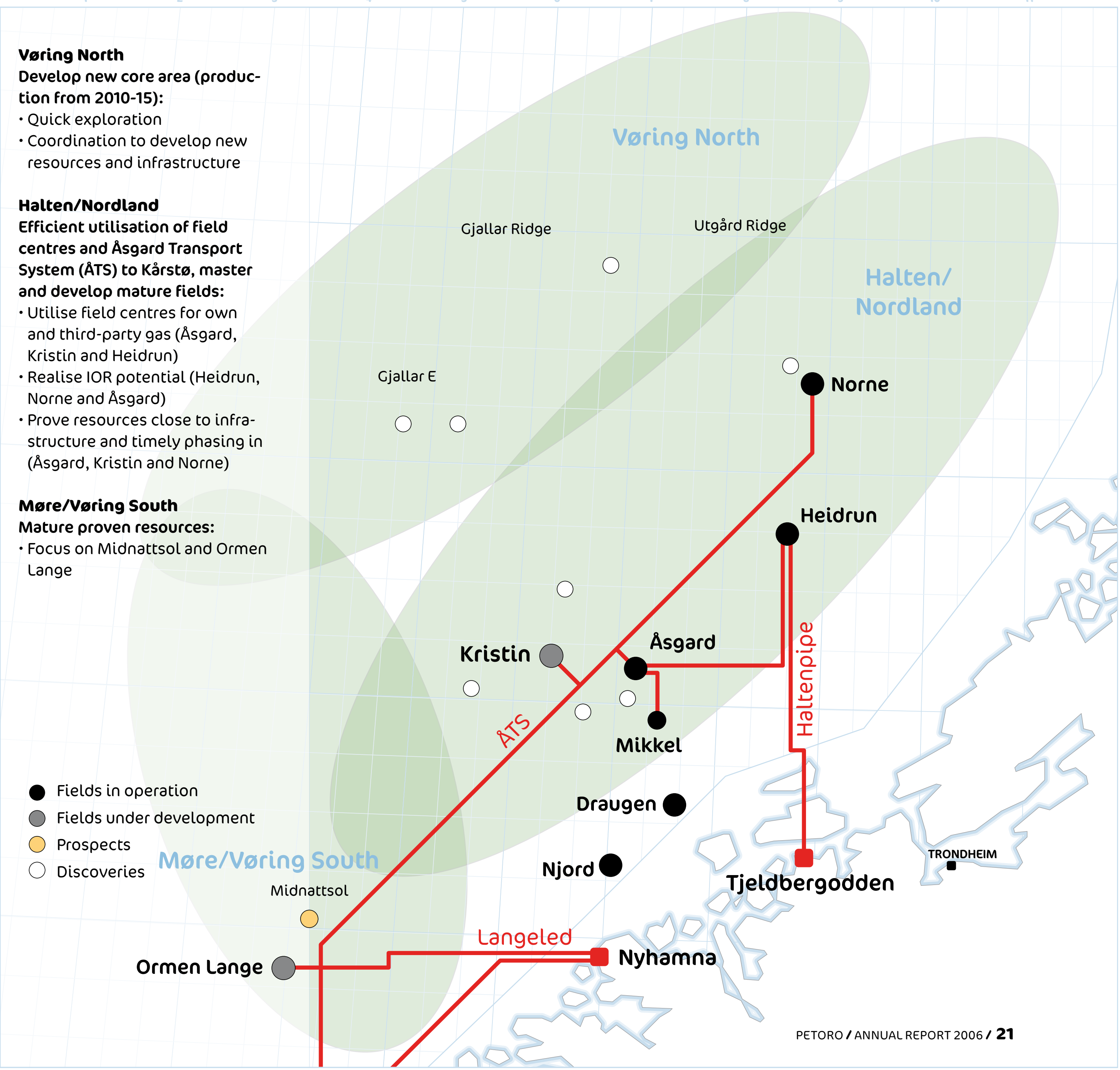
Petoro's three Norwegian Sea areas

Further development of the Norwegian Sea presents the companies with greater challenges than ever. But this also creates bigger opportunities, maintains Petoro – providing decisions take account of the overall picture and are taken in an early phase.

Vøring North
Develop new core area (production from 2010-15):
- Quick exploration
- Coordination to develop new resources and infrastructure

Halten/Nordland
Efficient utilisation of field centres and Åsgard Transport System (ÅTS) to Kårstø, master and develop mature fields:
- Utilise field centres for own and third-party gas (Åsgard, Kristin and Heidrun)
- Realise IOR potential (Heidrun, Norne and Åsgard)
- Prove resources close to infrastructure and timely phasing in (Åsgard, Kristin and Norne)

Møre/Vøring South
Mature proven resources:
- Focus on Midnattsol and Ormen Lange



A priority in the Barents Sea is finding sufficient quantities of gas in the area around Snøhvit to justify a second process train at the Melkøya gas liquefaction plant.

and emphasises that the hope is still to make discoveries in the "elephant" class. These may not be as large as the African type, but an Indian size would also trigger new optimism and drive.

Second train for Snøhvit

Due to come on stream in the autumn of 2007, 23 years after it was discovered, the Snøhvit gas field contains the only commercial reserves in the Norwegian sector of the Barents Sea so far. An important job now is to mature sufficient additional reserves to permit a second process train which can substantially improve the economics of the project. The nearby Goliat oil field is approaching the development stage. Otherwise, the industry has large areas to explore after the awards of the past couple of years.

Maturing reserves to maximise the value of Snøhvit is currently the only specific item in Petoro's Barents Sea strategy. But the company has secured a completely new foothold in these waters after the 19th licensing round in the spring of 2006 and the awards in predefined areas (APA) of January 2007. Petoro secured interests in five of six production licences allocated in the 19th round, and in both the APA ones.

"We'll know more within a couple of years," says Mr Eide. "We explored earlier for oil in the Barents Sea and found gas. A lot of people are now looking – and gas is what they primarily expect to encounter. But oil prospects also exist."

Gas from Snøhvit will be piped from subsea field installations to the liquefaction plant at Melkøya for export as liquefied natural gas (LNG), primarily to the USA.

Petoro is initially looking at opportunities offered by its 30 per cent holding to enhance the value of Snøhvit through new reserves and another pipeline from the field. Mr Eide notes that the long-term outlook for oil and gas prices makes this more interesting than before.

After long and difficult assessments concerning the development of the Snøhvit oil zone, it was resolved in early 2007 to drill a well in order to be better able to assess the prospects for a profitable development of the oil zone.

The industry is now hopeful about further exploration in the area around Snøhvit, which could support a second pipeline to Melkøya. Statoil is among the companies which has expressed faith in the potential of the Barents Sea, and wants to continue exploring these waters regardless of the outcome of the latest wells.

New light on Barents Sea

High oil prices have made a major contribution to the renewed interest in the Barents Sea. Intense debate has flared periodically over possible oil and gas resources in these waters and the environmental consequences of activity there ever since the first well was spudded 27 years ago.

Exploration wells so far drilled in the Barents Sea amount to little more than random pinpricks. Many prospects remain untested. A pinprick which succeeded was Eni's Goliat discovery in 2000, and supplementary resources proven at a deeper level in this field ranked as the largest single discovery on the NCS in 2006.

Bente Nyland, exploration director at the Norwegian Petroleum Directorate, notes that, generally speaking, many good prospects in the Barents Sea lie a long way from land. This makes infrastructure and logistics for transporting oil and gas a challenge.

"What will happen in the wake of Snøhvit and Goliat remains unclear," she says. "Bringing Snøhvit on stream naturally represents a major event, but activity in the Barents Sea will otherwise be modest in 2007."

Exciting discoveries

The status for the 19th round licences is an exploration well drilled by Hydro in the Nucula prospects (Petoro 20 per cent) in the Hammerfest Basin this winter. This proved both oil and gas, and the result is regarded as positive for the prospectivity of this part of the Barents Sea.

More drilling is planned later in the year on Goliat. Statoil is pursuing a seismic programme on another 19th round licence in the eastern North Cape Basin. A possible exploration well would first be drilled one or two years from now.

Results from more seismic surveys on acreage awarded in the 19th round and the 1997 Barents Sea round are awaited with great interest at the NPD. The licensees must soon decide whether they want to go on or relinquish their holdings.

"We remain optimistic for the future in the Barents Sea, which will undoubtedly find expression in our new resource report for 2007." says Ms Nyland. The previous report, published in 2005, calculated that undiscovered resources in the Barents Sea could total just over six billion barrels of oil equivalent – divided 40/60 between oil and gas. By comparison, undiscovered resources in the North Sea – mainly oil – and the Norwegian Sea – largely gas – were put at 7.5 billion barrels of oil equivalent.

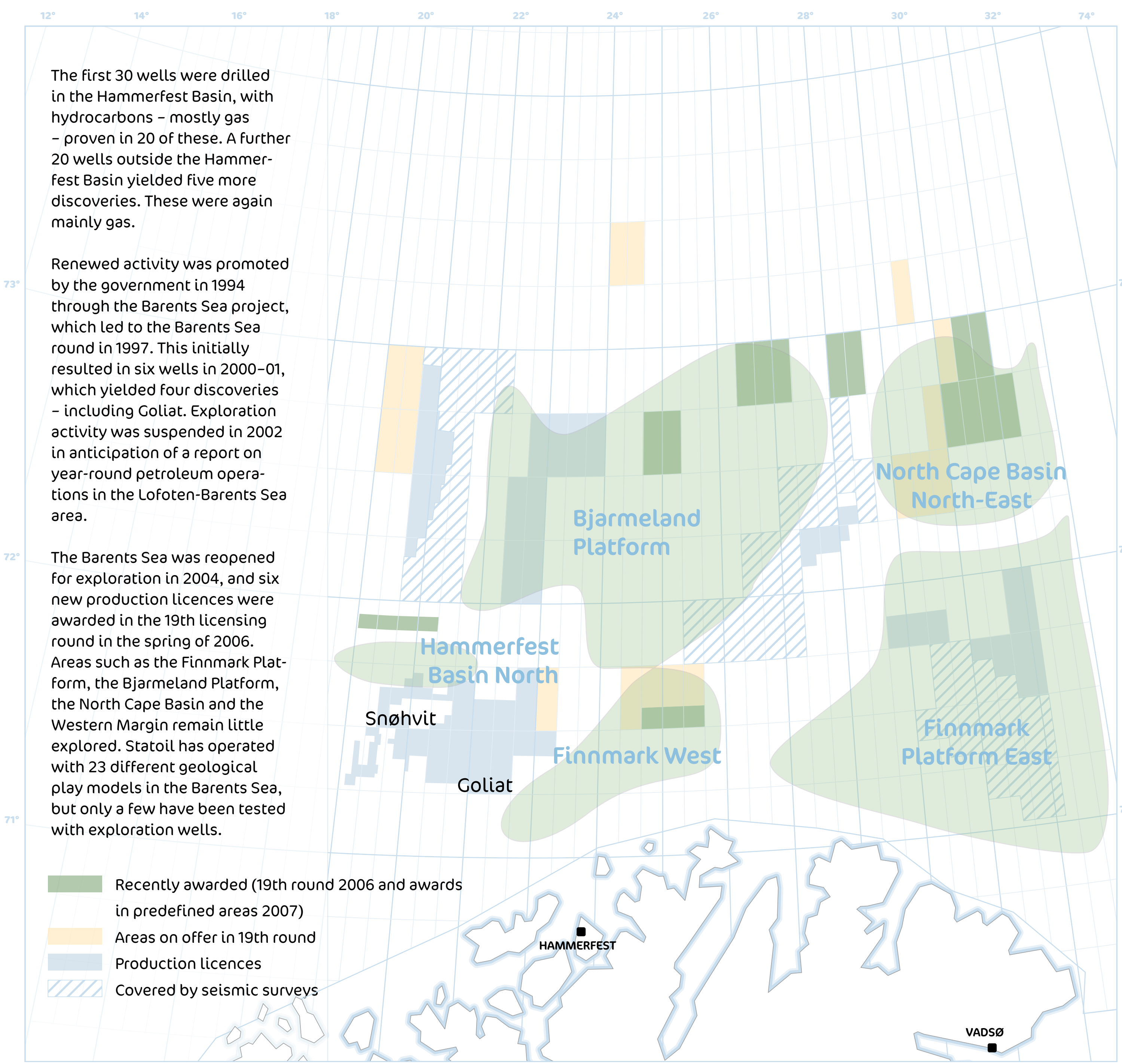
Barents Sea in brief

Barents Sea South covers 235 000 square kilometres. This compares with 100 000 square kilometres for the Norwegian sector of the North Sea, for instance. The first wildcat in these waters was spudded on 1 June 1980. This has been followed by almost 70 exploration wells in the Norwegian sector of the Barents Sea.

The first 30 wells were drilled in the Hammerfest Basin, with hydrocarbons – mostly gas – proven in 20 of these. A further 20 wells outside the Hammerfest Basin yielded five more discoveries. These were again mainly gas.

Renewed activity was promoted by the government in 1994 through the Barents Sea project, which led to the Barents Sea round in 1997. This initially resulted in six wells in 2000–01, which yielded four discoveries – including Goliat. Exploration activity was suspended in 2002 in anticipation of a report on year-round petroleum operations in the Lofoten-Barents Sea area.

The Barents Sea was reopened for exploration in 2004, and six new production licences were awarded in the 19th licensing round in the spring of 2006. Areas such as the Finnmark Platform, the Bjarmeland Platform, the North Cape Basin and the Western Margin remain little explored. Statoil has operated with 23 different geological play models in the Barents Sea, but only a few have been tested with exploration wells.



NEW TECHNOLOGY

Petoro is an advocate of the early application of new technology on the NCS. The company wants to see a bigger commitment to integrated operation, for instance. Fibre-optic networks and information technology allow offshore installations to be monitored and controlled in real time through an effective interaction between sea and shore.

ENHANCING VALUE ON THE NCS

Petoro has earlier calculated that more efficient production through integrated operation could increase the value of the NCS by about NOK 150 billion. A report from the Norwegian Oil Industry Association in 2006 put this figure at NOK 250 billion. The differential primarily reflects higher prices.

WILLINGNESS TO ADAPT

Integrated operation depends on the willingness of operators to modify their work processes and develop new expertise. The gains lie in more efficient operation, better use of know-how and increased production.

Applying technology fast – rather than inventing it

Petoro's sub-strategy of early application of technology orients the company more towards fast and broad application of good solutions from pilot projects than lying in the absolute forefront of research and development. The commercial potential for Petoro lies in an effective combination of technological solutions, working methods and expertise development, plus efficient management of associated change processes.

Close collaboration will be sought by the company with other licensees, petroleum industry suppliers and research teams in order to help ensure that R&D results are quickly applied. On the basis of the SDFI portfolio, it will work to strengthen petroleum R&D in Norway.

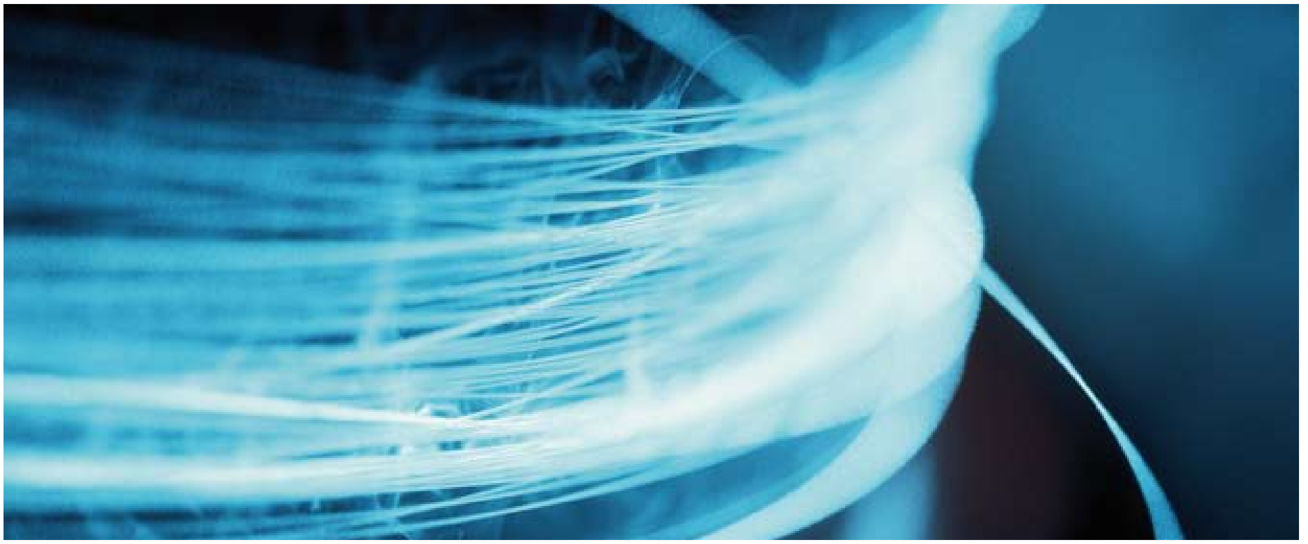
Technologies given priority by Petoro are integrated operation, efficient wells and improved recovery methods. These have broad application across the portfolio, giving the company big opportunities to exert influence. Its commitment will take the form of studies carried out in-house or with other licensees to help encourage faster implementation.

Enhanced efficiency

Integrated operation involves enhancing the efficiency of process and operating them remotely with the air of information technology and more effective work processes. Technologies under this strategic choice will largely relate to drilling, production optimisation and maintenance. The principal challenge for applying new operational solutions in coming years does not appear to lie in the choice of technology, but in amending working methods and developing the necessary expertise. Managing the major change processes involved will be demanding for operators.

Petoro expects a good return from integrated operation, not only for the sub-strategy of early technology application but also for its heavy focus on unit costs. An analysis commissioned by the company in 2003 showed that the value of the NCS could be increased by NOK 150 billion through stronger integration of offshore and land-

Many platforms on the NCS are already linked to control rooms on land through fibreoptic cables which provide completely new opportunities for data transfer, and thereby for greater integration between offshore and land.



based operations. A similar estimate of this potential for value enhancement by the Norwegian Oil Industry Association (OLF) in the spring of 2006 put the figure at NOK 250 billion. Higher oil prices were the most importance difference between the two calculations. In both analyses, the huge possible gain reflected the sum of reduced costs and increased revenues.

After three years of seeking to raise this issue higher up the agenda of the Norwegian oil sector, Petoro believes that the industry's players are now pulling in the same direction.

Roy Ruså, Petoro's vice president for technology and information and communication technology (ICT), believes that the goal has been reached. "We worked for two years together with operators and suppliers to move this issue from the desks of the enthusiasts to management meetings," he notes. "Integrated operation has now been systematised. It's no longer confined to scattered trials, but entrenched in company business plans. We also see that implementation has become more structured."

World leader

The position was different two years ago. A comparison by Petoro showed that companies on the NCS were pursuing different strategies on integrated operation. Some had come a long way, whilst others were not even started. Petoro believes that a number of companies are now reaping the benefits of a bigger commitment in this area.

"We see that results are emerging in those companies where the management has been most visible," says Mr Ruså. "Workforce doubts have also changed to more positive attitudes."

Among more specific results, he points to the fibreoptic cable rings established in the North and Norwegian Seas. Where a number of unconnected installations previously stood, fields and satellites have now connected to a fibreoptic network. Mr Ruså highlights the role played by the OLF and the Norwegian Petroleum Directorate as prime movers for this coordination. Researchers have also put the pressure on.

"We don't find a commitment of this kind on the UK continental shelf or off the USA," he says. "Fibreoptic cables haven't been laid in the Gulf of Mexico. I believe Norway's probably a world leader in integrated operation."

Spending on drilling and wells accounts for 40 per cent of investment by the SDFI. Much can be gained through drilling improvements.

> **"We see that results are emerging in those companies where the management has been most visible. Workforce doubts have also changed to more positive attitudes."**

The companies still have differing priorities in this area, and can have good reasons for such variation. Petoro can define best practice in cooperation with the operators, and is concerned to ensure that players are able to learn from each other. "We can be a partner which is good at identifying problems while providing support," notes Mr Ruså

During the first half of 2007, Petoro plans to assess the ability of the companies to exploit integrated operation. Mr Ruså says this will be a qualitative evaluation which must be conducted in cooperation with the the companies.

Integrated operation focused earlier to a great extent on the technology as such. So much has subsequently happened in the IT field that the consequences of applying it have become clearer. Work processes are changing as collaboration between land and offshore gets tighter. Moving jobs ashore has organisational consequences. Mr Ruså accordingly believes that the companies face demanding internal change processes, and that these will be the biggest challenge over the next few years.

More oil per drill bit

The trend in production drilling on the NCS in recent years has been to drill fewer wells at a higher cost than planned and to encounter a smaller volume than expected. Surprisingly, the operations expected to be the least complicated are the ones which fail to go according to plan. Petoro has taken an initiative to look at the potential for creating more value from drilling and completion, initially on fixed installations.

More than NOK 100 billion has been budgeted for drilling, completion and well-

Wells have recently taken longer than planned and yielded smaller volumes than expected.

Roy Ruså, vice president for technology and ICT, believes Norwegian companies are leaders in developing and adopting integrated operation. But this remains an arena where best practice must be learnt.

related work in licences covered by the SDFI during 2007-12. Petoro's share of this investment is 40 per cent, or roughly NOK 40 billion.

"Drilling is becoming steadily more important, and we want greater attention paid to this area," says Mr Ruså.

Oil production will continue to fall towards 2010 across Petoro's overall portfolio, while gas output is set to rise. The production curve on a field declines rapidly unless measures are taken to increase and extend output. Drilling new production wells and good downhole operations are crucial for enhancing value-added from the fields.

Good planning

Petoro has opted to concentrate its efforts on a limited number of areas, including the planning phase as one of them. The aim here is to secure the best possible overview of where the reserves are located in and around the fields in order to put together a drilling plan with a balance of risk. Mr Ruså emphasises that the operators are responsible for planning and executing individual drilling operations.

Another Petoro concern is to ensure that the technology used matches well with the planning and execution of drilling activities. The latest and most complex technical solutions are not always suitable for every job. Mr Ruså wonders whether the negative trend in production drilling could be partly related to the use of excessively complex technology on simple wells, and whether the new solutions actually needed are implemented fast enough.

Petoro is also concerned with rig efficiency. "At the end of the year, a unit may have been used to drill new production wells for only half the time," Mr Ruså observes. "The reasons for that are complex, and we want to take a closer look at them."

In the first instance, the company plans to study drilling from fixed installations and has selected five large fields which are representative for the negative trend. They account for almost half of Petoro's oil production.

"Our initiative has been well received by the operators and other licence partners, and fits well with the work being done by Statoil and Hydro in this area," says Mr Ruså. "Our goals are the same. Efficient drilling isn't only important for the medium term, but crucial for maximising value creation from the fields in a long-term perspective."

Integrated operation saves money by reducing transport requirements and the amount of time used, and boosts revenues through better and faster decisions.

HSE

The NCS is in a mature phase. Its remaining reserves lie further from land and in deeper water than before. New technology is needed.

No deaths in 2006. Reduction in serious incidents. Still too many personal injuries. Improvement on the environmental side.

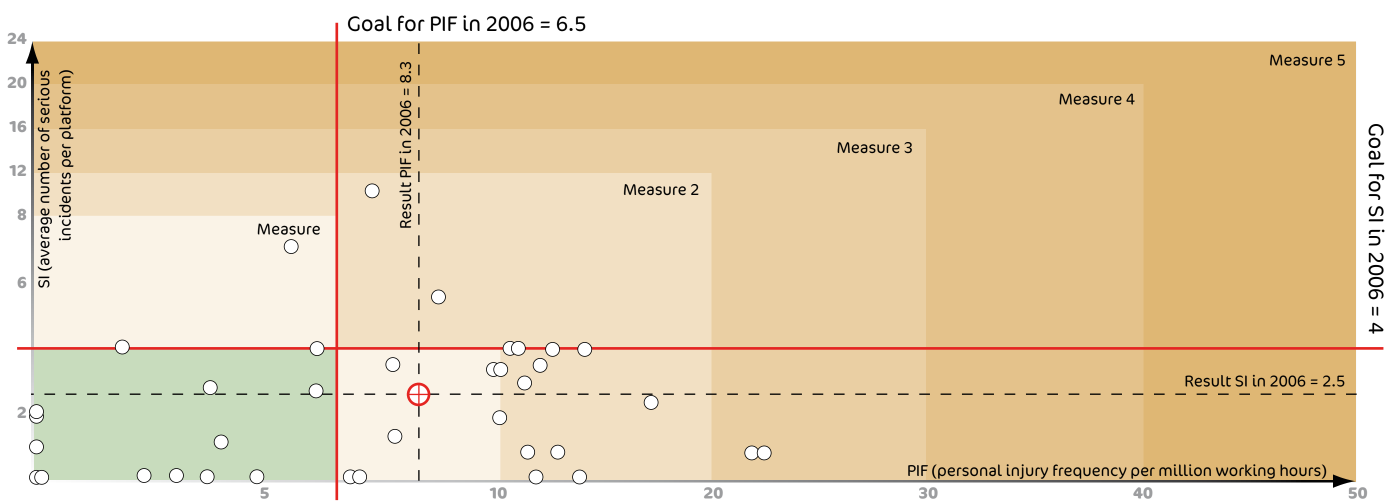
The most positive aspect on the safety side is that no fatalities were suffered in connection with work in the SDFI portfolio. In addition, serious incidents showed a positive trend. The number of such events per installation was 2.5 in 2006, compared with 3.6 the year before.

Good progress was also made in reducing the number of gas leaks. This must be seen in relation to a project run by the Norwegian Oil Industry Association (OLF), which centred on three principal areas for gas leaks: the technical condition of installations, behaviour and management focus. The goal for the first part of this project was to halve the number of major gas leaks from 2002 to 2005. This was achieved. The second phase aims to achieve a further halving by 2008. Paying greater attention to management and human behaviour as well as experience transfer between the oil companies is the key to the good results.

One of the incidents with the biggest potential for developing into a major accident occurred on the Visund field, where a steel plate in the flare knock-out drum loosened and created a hole in the piping. The result was a very serious gas leak. As a consequence of this incident, all knock-out drums on the NCS with a similar design have been modified.

Other serious incidents were dominated by dropped objects. The level of such incidents remained relatively stable but too high. Dropped objects relate to a great extent to lifting operations and to items which fall after people have put down while working at a height.

The industry has initiated a number of measures to reduce the incidence of dropped objects. These include sending small teams of observers around an installation, which can then lead to specific improvements.



Installations in the SDFI portfolio — Petoro's target for reducing personal injuries and serious incidents — Results for personal injuries and serious incidents — Average for 2006

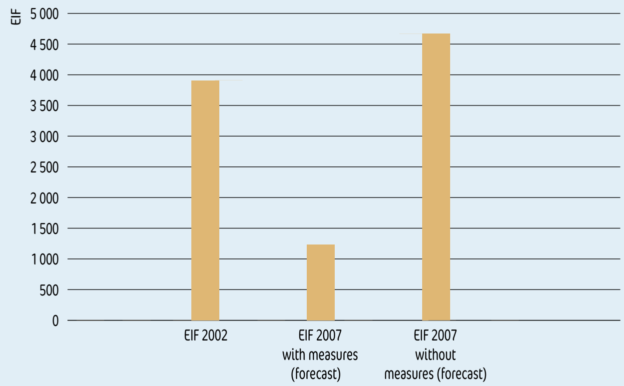
Measure 1: Challenge in licences ■ Consider meeting at field/area level
Measure 2: Meeting at field/area level ■ Assess operator measures and implementation ■ Consider doing own analysis
Measure 3: Perform own analysis ■ Call field manager after each SI ■ Consider meeting at management level ■ Consider requesting partner inspection
Measure 4: Hold meeting at management level ■ Initiate and execute partner inspection ■ Consider meeting at company level
Measure 5: Hold meeting at company level ■ Consider meeting with Petroleum Safety Authority Norway

EIF in brief

Environmental risk is expressed by the environmental impact factor (EIF). On the basis of the composition of discharge water on each field, information about local currents and physical/chemical data for components in the discharge, the concentration of each component in the sea around the installation is calculated. This is then compared with limit values related to potential biological effects. The risk of environmental harm arises in areas where the concentration in the seawater exceeds the limit value. Summing the risk for each component in the discharge gives a volume of seawater with a heightened risk. The EIF is arrived at after weighting the contribution of each component in the discharge by its bioaccumulation potential and biodegradability. Since this figure is dimensionless, it provides a relative value.

Development of the EIF has given the industry a common management tool for calculating the risk of environmental harm. This makes it possible to compare the risk of individual substances and groups of substances and to compare discharges from different fields and operators. The most effective measures for reducing the risk of environmental harm can thereby be adopted, and a strategy chosen for further work on reaching the target of zero environmentally harmful discharges.

EIF development for Petoro's key environmental platforms



Most fields have implemented the plans for zero discharges of environmentally harmful substances set by the industry in 2003. Some delays have nevertheless occurred, in part because certain fields have needed to coordinate discharge reductions with other modification projects and requirements for more extensive modification and testing of equipment.

Petoro's personal injury frequency was 8.3 per million working hours. This was disappointing given the resources which partners and operators have devoted to this area, which include extensive campaigns such as Statoil's safe behaviour programme. It is nevertheless worth noting that the high number is dominated by less serious injuries in the categories of crushing, eye damage and strain.

Four undesirable incidents were registered within Petoro during 2006, all related to installation work at the company's office building. None of Petoro's own personnel were involved in an incident or suffered injury.

Biggest environmental improvement for five years

Efforts to achieve zero discharges of environmentally harmful substances to the sea from producing fields yielded good results. Forecasts indicate a 68 per cent improvement in the environmental impact factor (EIF – see box) from the start of work in 2002 to the end of 2007.

The installations defined by Petoro as the most important within the SDFI portfolio in this context are Troll B and C, the Oseberg field centre, Gullfaks A, B and C, Snorre A, Draugen, Norne and Heidrun. Improvements have been achieved here through a combination of phasing out environmentally harmfully chemicals, injecting the produced water brought up from the reservoir in the oil and gas stream, and installing more efficient treatment technology. But continuous optimisation and modification of existing process equipment have also played a part.

Selection of the most effective approaches for each field was based on environmental impact, technical opportunities, safety aspects and costs. Discharge data for 2006 were not available when this report went to press, but Petoro will post such information to its website at www.petoro.no later this spring.

Given that background, the development of the EIF as shown in the graph is based on forecasts for the present year. These indicate a reduction of 68 per cent from 2002 to 2007. Comparing predictions for the EIF in 2007 with and without the measures adopted by the industry shows a 74 per cent reduction. See the figure.

Most of the fields have implemented the plans adopted by the industry in 2003 for achieving zero discharges of environmentally harmful substances. Some delays have been experienced, however, partly because certain fields have needed to coordinate discharge reductions with other modification projects and to implement more extensive adaptation and testing of the equipment.

Tough on nitrogen oxides

Under the Gothenburg protocol of 1999, Norway is committed to reducing its annual emissions of nitrogen oxides to 156 000 tonnes by 2010. The actual figure has lain around 215 000 tonnes in recent years. Projections indicate that the reduction in such emissions will be relatively modest up 2010, but considerably larger up to 2020. Norway needs to cut emissions in 2010 by 20–25 per cent compared with projections. This will be very demanding.

The government resolved in 2006 to introduce a tax of NOK 15 per kilogram of nitrogen oxides emitted with effect from 1 January 2007. According to an analysis of emission-reducing measures by the Norwegian Pollution Control Authority (SFT), a tax rate at this level could yield a cut of up to 25 000 tonnes.

Petoro wants to help ensure that Norway meets its obligations under the Kyoto and Gothenburg protocols in a way which is efficient in terms of both cost and environmental protection.

Corporate governance

Corporate governance in Petoro builds on the company's overall objective, which is to create the highest possible financial value from the State's Direct Financial Interest (SDFI) on the NCS.

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

Attention in Petoro is focused on values-based management. The company's values form an integrated part of its day-to-day activities:

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

The company has clear guidelines on business ethics, and requires that all its employees confirm annually that they have studied and accepted these. Rules on commercial ethics also form part of the company's standard contracts with its suppliers.

The business

Petoro is a limited company owned by the Norwegian state. Its operations are subject to 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 a licensee – with the same rights and obligations as the other licensees – in 105 production licences, of which 37 contain producing fields, as well as 16 joint ventures and companies relating to pipelines and terminals.

Petoro is responsible for monitoring Statoil's marketing and sale of the government's petroleum. Since the government is the majority shareholder in Statoil and the sole owner of Petoro, it pursues a common ownership strategy through the marketing and sales instruction adopted by Statoil's general meeting. Petoro's board and members of the company's management are included on Statoil's register of primary insiders with the Oslo Stock Exchange. Inhouse guidelines have also been established for insider trading in shares, together with a special system for approving external directorships held by employees.

Petoro presents separate accounts for the SDFI portfolio's transactions. Cash flows generated from the portfolio are transferred to the government's own accounts with the Bank of Norway. The company's operating expenses are covered by annual appropriations over the central government budget.

General meeting

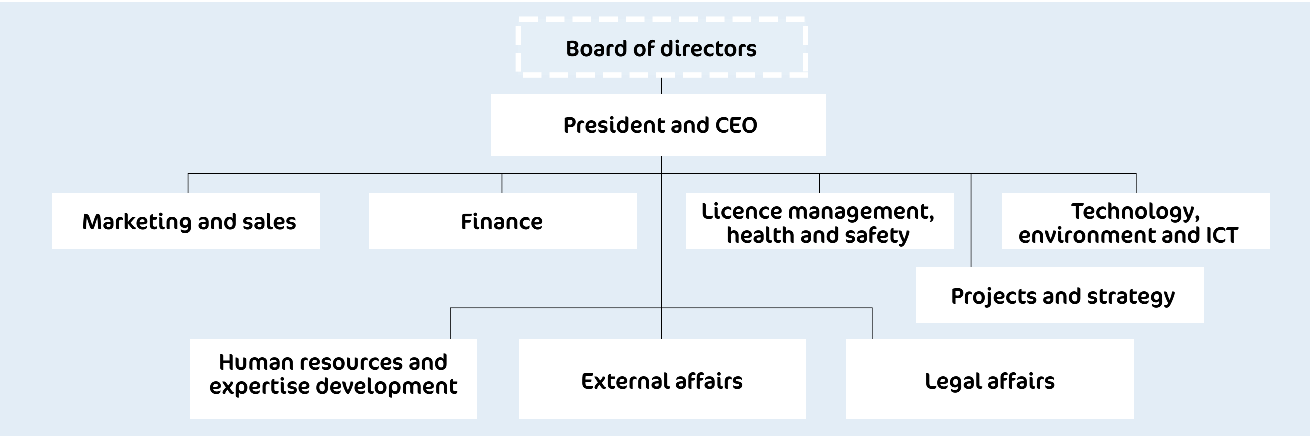
The Ministry of Petroleum and Energy, in the person of the minister, represents the government as sole owner and serves as the company's general meeting and highest authority. The annual general meeting is held before the end of June each year. It considers matters as specified by Norwegian law, including amendments to the articles of association and approval of the annual accounts. The Petroleum 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 elects the company's external auditor.

Board of directors and its work

Petoro's board comprises seven directors, of whom five are elected by the general meeting. Two are elected by and from among the company's employees. Directors are elected 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 employment for the worker directors.

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

The board resolved in September 2006 to appoint a compensation committee to submit proposals and recommendations to the board concerning the company's overall compensation policy and for the chief executive's remuneration. An annual self-assessment is conducted by the board, embracing an evaluation of its own work and mode of working and of its collaboration with the company's management.



Risk management and internal control

Petoro has utilised the Coso framework when establishing its own risk management and internal control systems.

Identification and management of risks and risk exposures form an integrated part of Petoro's business processes. The company works systematically on risk management in order to handle conditions which could affect its ability to reach specified targets and implement chosen strategies, as well as those which could influence its ability to present accurate accounts. Factors which could affect trust in the company are given weight when assessing Petoro's risk picture.

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

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

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

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

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

Remuneration of the board and senior employees

The general meeting determines the remuneration of directors. The board determines the remuneration of the president and CEO. The chief executive determines the remuneration of the other members of the company's senior management. Details of the actual remuneration paid to directors and to the president and CEO are provided in the notes to the annual accounts.

Information and communication

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

Information is published via the company's website, through press releases and in the interim and annual reporting of its results.

Auditor

The Auditor General is the external auditor for the SDFI portfolio. It conducts an audit of the annual accounts for the SDFI portfolio and submits a final auditor's report.

In addition, the board selects an external audit company to serve as the internal auditor for the SDFI. The internal auditor conducts a financial audit of the portfolio's accounts and submits an auditor's report pursuant to Norwegian auditing standards, including the RS800 standard on auditor's reports for special-purpose audits. Deloitte is currently the internal auditor for the SDFI portfolio.

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

PETORO'S MANAGEMENT TEAM

1. GRETE WILLUMSEN (1962)

Vice president human resources

Community economics degree, University of Bergen. Career includes senior adviser, Petoro's licence management department and various posts with the Norwegian Petroleum Directorate and the Ministry of Transport and Communications.

2. SVEINUNG SLETTEN (1953)

Vice president external affairs

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

3. KJELL PEDERSEN (1952)

President and CEO

MSc petroleum technology, Norwegian Institute of Technology (NTH). Has had a long international career, holding a number of leading posts both upstream and downstream in Exxon and ExxonMobil. President of ExxonMobil Norway before joining Petoro.

4. ROY RUSÅ (1956)

Vice president technology and ICT

BSc petroleum, Rogaland Regional College. Long experience of Norwegian oil and gas business after 20 years with Statoil and two with Baker Hughes Inteq.

5. OLAV BOYE SIVERTSEN (1951)

Vice president legal affairs

Law degree. Previously legal affairs officer, ExxonMobil, head, legal affairs department, Mobil Norway. Has held posts in the Ministry of Petroleum and Energy, Ministry of Labour and Local Government, and Norwegian Petroleum Directorate. International experience from Mobil's US business.

6. JAN ROSNES (1965)

Vice president projects and strategy

MSc petroleum engineering, Stavanger University College. Broad experience from project and strategy work with Shell in Norway and the UK and with Statoil, among others. Asset manager at Petoro for Tampen and Oseberg areas of the North Sea.

7. LAURITS HAGA (1954)

Vice president marketing and sales

Economics degree. Has long experience from the Norwegian and international oil and gas business. Held a number of management posts with Mobil and was head of the gas division in ExxonMobil Norway before joining Petoro.

8. TOR RASMUS SKJÆRPE (1950)

Vice president licence management

MSc engineering, Norwegian Institute of Technology (NTH). Has long experience of Norwegian oil and gas operations, most recently as head of Petoro's technology department and before that as head of Norsk Hydro's operations in the Tampen area of the North Sea.

9. MARIANNE ESKELAND (1955)

Senior adviser,
acting chief financial officer

MBA. Has spent most of her career in the oil industry. Previously 15 years with Norske Shell E&P, including manager accounting and controller, and six years with Statoil. Also three years in the consultancy business outside the oil industry.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BOARD OF DIRECTORS OF PETORO

1. BENTE RATHE (1954)

Chair

Elected 2001, up for re-election 2007. Self-employed since 2002. MSc business economics, MBA. Career includes deputy chief executive, Gjensidige Nor, president, Gjensidige Bank, president Elcon Finans. Chair, Enviro Energi ASA, director of Svenska Handelsbanken AB, Sweden, Powel ASA, Kongsberg Automotive ASA and Oppdal Everk AS.

2. JØRGEN LUND (1953)

Deputy chair

Elected 2002, up for re-election 2007. Partner, Thommessen Krefting Greve Lund law firm. Law degree, Master of international management. Former legal executive, Norwegian Shipowners Association, partner, Lund & Co. Acting chair, Eitzen Chemical ASA, director of R S Platou and Camille Eitzen & Co ASA, alternate director, Uglands Rederi AS.

3. HILDE MYRBERG (1957)

Director

Elected 2006, up for re-election 2007. Executive vice president, Orkla. Law degree, MBA from Insead. Previously head, market sector, Hydro Oil & Energy, and held a number of posts in Hydro, including business development for Hydro Energy, head of marketing activities in the power area, corporate legal executive and board secretary. Director of Elkem AS, Borregaard Industrier, Kongsberg Automotive, Orkla Foods AS and Salvesen & Thans AS.

4. PER-CHRISTIAN ENDSJØ (1941)

Director

Elected 2006, up for re-election 2007. Consultant. MSc business economics, Norwegian School of Economics & Business Administration (NHH), MA economics and PhD, University of Michigan. Has previously held a number of leading positions in Norske Hydro, both in Norway and Singapore, director-general, Ministry of Industry, 1977-83, and Ministry of the Environment, 1972-77. Director of OAO Hydro OGK, Russia, Nortechs Offshore Pte Ltd, Singapore, and Capo Gas AS, Bergen.

5. NILS-HENRIK M VON DER FEHR (1960)

Director

Elected 2005, up for re-election 2007. Professor of community economics, University of Oslo. Economics degree. Has held a number of academic posts at the University of Oslo, and also lectured at the Universities of Heidelberg and Oxford. In addition, he has held a number of public and private posts, including membership/chair of several official committees.

6. OVE SKRETTING (1953)

Director*

Elected 2006, up for re-election 2008. Senior adviser, market, Petoro AS. Economics degree. Previously an adviser with ExxonMobil's gas department. Sits on a number of committees and serves as negotiator for transport, tie-in and process agreements.

7. BRITT BJELLAND (1967)

Director*

Elected 2006, up for re-election 2008. Adviser, technology, Petoro ASA. MSc engineering. Considerable experience of offshore modification projects from Kvaerner Oil & Gas in Stavanger and Aker Offshore Partner.

* *Elected by the employees.*

Directors' report 2006

As manager of the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf, Petoro's object is to create the highest possible financial value from this portfolio. Net income for the portfolio in 2006 came to NOK 128.5 billion, compared with NOK 113.2 billion the year before. Total operating revenue was NOK 175 billion, compared with NOK 152.7 billion in 2005. Cash flow, as represented by transfers to the government, amounted to NOK 126.2 billion as against NOK 99.2 billion the year before.

Income, costs and reserves

The increase of NOK 15.3 billion in net profit from 2005 primarily reflects higher oil and gas prices. Overall oil and gas sales for the year averaged 1 234 000 barrels of oil equivalent (boe) per day compared with 1 284 000 boe per day in 2005. A general maturation of the portfolio is reducing oil production, but this has been offset by a steady expansion in gas sales. The latter are expected to continue compensating for declining oil output over coming years.

Income before financial items came to NOK 129.8 billion. Net financial expenses of NOK 1.4 billion comprise net realised and unrealised currency gain related to a slight weakening of the NOK exchange rate against the USD and higher interest costs relating to future removal liabilities.

Total operating revenue was NOK 175 billion as against NOK 152.7 billion in 2005. This increase reflected higher oil and gas prices.

Revenue for the year from dry gas sales totalled NOK 59.4 billion as against NOK 45.2 billion in 2005. Several fields increased their gas production from the year before. The volume of equity gas sold was 27.5 billion standard cubic metres (scm) or 475 000 boe per day as against 456 000 in 2005. Troll Gas accounted for 51 per cent of total gas revenue. The average gas price for the year was NOK 1.92 per scm as against NOK 1.47 in 2005.

Total revenue for 2006 from oil and NGL was NOK 104.9 billion, compared with NOK 96.5 billion the year before. The sales volume was 267 million barrels or a daily average of 730 000 barrels. Production of oil and NGL fell by eight per cent from 2005, primarily because of drilling delays and declining output from mature fields. The oil price for the year for the SDFI portfolio averaged NOK 412 per barrel in 2006, up by 20 per cent from NOK 344 the year before. The oil price in US dollars was 64.50 per barrel, an increase of 22 per cent from 2005.

Total investment in 2006 was NOK 22 billion as against NOK 21.3 billion the year before. The largest investments related to Snøhvit, Ormen Lange, Langeled and Troll Oil.

The cost of operating fields, pipelines and land-based facilities was 20 per cent higher than in 2005 as a consequence of a high level of activity and increased prices in the supplies market, higher costs for maintenance and modifications, and costs related to readying and starting up new fields and facilities.

Exploration-related costs amounted to NOK 1.1 billion, of which NOK 0.4 billion was capitalised as investment and the remainder recorded as exploration expenses in the income statement. Correspondingly, exploration expenses totalled NOK 0.9 billion in 2006. A total of 12 wells were drilled during the year, compared with 10 in 2005. The board wants to see a further increase in exploration activity during 2007 to secure additional reserves for the portfolio, and plans for such work represent a sharp increase from 2006.

At 31 December, the portfolio's expected oil, NGL and gas reserves comprised 8.1 billion boe – a decrease of 340 million boe from the year before. Petoro reports the portfolio's expected reserves in accordance with categories 1-3 in the Norwegian Petroleum Directorate's classification system. Only reserves subject to a plan for development and operation (PDO) submitted by the licensees to the authorities are included. The gross addition of expected reserves in 2006 came to 210 million boe, mainly related to the submission of PDOs for Gjøa, Vega and Rev. In addition, a number of producing fields had their reserves downgraded. These reductions corresponded to NOK 113 million boe. The net reserve replacement rate for 2006 was 22 per cent, compared with 38 per cent in 2005. See the table in Note 19. An average rate of 26 per cent was achieved by the portfolio over the past three years. The corresponding percentage for 2003-05 was 96 per cent because of a substantial increase in reserves from the Ormen Lange development during 2003.

Book assets and equity

The book value of assets totalled NOK 179.2 billion at 31 December 2006. These assets primarily comprise operating facilities relating to field installations, pipelines and land-based plants, as well as current debtors.

Equity at 31 December amounted to NOK 136.7 billion. Long-term liabilities totalled NOK 31.2 billion, of which NOK 29.2 billion related to future removal liabilities. These liabilities are calculated in accordance with an established industry standard based on existing technology. Great uncertainty exists over the removal estimates and the timing of removals. Current liabilities, primarily provision for costs incurred but not paid, were NOK 11.2 billion at 31 December.

Petoro served at 31 December as the licensee for interests in 105 production licences and 12 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 and Norpipe Oil AS.

Strategy for Petoro

Petoro conducted a broad review of all the elements in its strategy during 2006. On the basis of geopolitical and market analyses and future value creation opportunities, the company established a new strategy during the year with the emphasis on area development. Its broad portfolio gives Petoro good opportunities to promote unified solutions and efficient resource management in geographic core areas. Two sub-strategies with the focus on value creation help to highlight the main strategy of being an area developer and give it specific content.

• *Maturing reserves*

– Substantial resources are available on the NCS both inside and outside licensed acreage. Petoro can influence the value of the portfolio through a selective commitment to accelerated and more efficient exploration for new resources and to maturing proven resources towards production. Its commitment will also be directed towards the need to develop major new gas infrastructure.

• *Early application of technology*

– Petoro's commercial potential lies in an effective combination of technological solutions, working methods and expertise development, plus efficient management of associated change processes.

– Key technology areas for the company are efficient wells, integrated operation and improved recovery.

The Barents Sea and the deepwater Norwegian Sea represent immature areas in the portfolio. Such areas are characterised by the particular importance of exploration and development of discoveries in an early phase. No major investments have been made, and the reserve base is expected to be relatively large but uncertain. Petoro's main activities here will be linked to the sub-strategy on maturing reserves.

New field development will occupy a central place in more mature parts of the NCS. Major investments are expected both in fields where the SDFI is a licensee and in the tie-in of resources from surrounding satellites to parent fields. The Troll area and those parts of the Halten Bank beyond today's producing fields fall into the latter category. Petoro's principal operations here will be linked to the sub-strategies on maturing reserves and early application of technology.

In mature areas, the main activity will relate to production from fields already on stream. Opportunities for adding reserves in these fields could be substantial, and additional reserves could also lie in surrounding discoveries. The Tampen/Oseberg area and the producing fields on the Halten Bank fall into this category. Petoro's main activities in mature areas of the NCS will relate to the sub-strategy on early application of technology. Some work in certain of these regions relates to maturing reserves, principally in relation to improved recovery.

Petoro's contribution to reducing unit costs will continue to be a key activity. It is important that the company maintains its commitment in this area even when product prices are good. Petoro will focus particular attention in the time to come on measures to expand production volumes, and will assess carbon dioxide injection for improved oil recovery (IOR) as one possible solution.

Development of the SDFI portfolio

Management of the SDFI portfolio is organised in three core areas.

The Troll area

This embraces the Troll Oil, Troll Gas and Kvitebjørn developments, the pipelines tying them to the Mongstad and Kollsnes terminals, and Vega and Gjøa in the Sogn area. In addition, the Troll area team monitors the interests in Ekofisk, Jotun and a number of production licences in the exploration phase.

Production from the Troll area declined from 2005, reflecting lower oil output from Troll Oil as a result of delays to the drilling programme and gas breakthrough in several of the wells.

The Troll field has the lowest operating costs in relation to volume produced on the NCS, but expenditure has increased since 2005 because of higher spending on well maintenance in Troll Oil.

Investment in the Troll area was on a par with 2005. The investment programme was somewhat delayed because activities in the Troll future development project were postponed. PDOs were submitted for Gjøa and Vega in December 2006, and these fields are expected to come on stream in the fourth quarter of 2010.

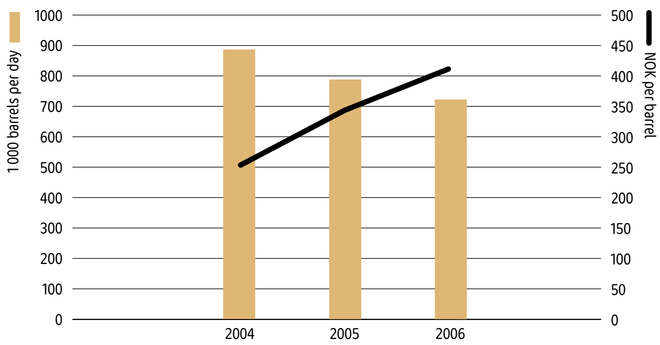
The addition of reserves in the Troll area during 2006 was 163 million barrels, and relates to Gjøa and Vega plus an upgrading on Kvitebjørn.

Two exploration wells were completed in 2006 – Kogge in the Farsund Basin and an appraisal well on the Valemon discovery near Kvitebjørn. The first of these was dry, while Valemon proved gas with condensate and confirmed the possibility of a future development.

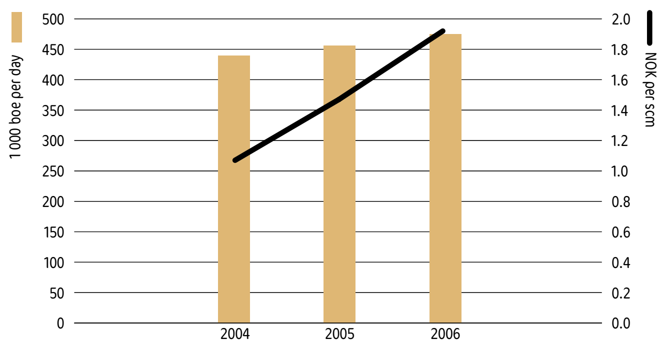
Petoro places great emphasis on maintaining a high level of drilling activity on Troll Oil in order to achieve the ambition of the licensees to increase recoverable reserve to more than 1 900 million barrels.

The company has played an active role in the Troll joint venture to ensure optimum value creation through the Troll future development (TFD) project. This concentrated in 2006 on gas and water injection studies to assess a long-term oil strategy for the field. These studies will form the basis for conceptual choices and submission of a PDO in the fourth quarter of 2007.

Oil production/price



Gas sales/price



Tampen / Oseberg area

The largest producing fields with Petoro interests in this area are Oseberg, Grane, Gullfaks and Snorre. In addition, the area team monitors interests in a number of other nearby fields and production licences.

Total output from the area remained high, but declined in 2006 from the year before. This fall primarily reflected technical and capacity-related challenges in drilling and well management. Delays and problems related to the complicated extended-reach Gulltopp well were the primary reason for lower production on Gullfaks. This was partly offset by an earlier build-up to plateau output from Grane. New developments brought on stream in 2006 were Ringhorne East and Oseberg west flank. Gimle also began regular production during May after a year of test output.

After several years of stability, operating costs for the area rose in 2006. The biggest increase was on Grane, which has the highest level of costs in the area – primarily because of a rise in the price of purchased injection gas. This gas injection strategy has proved successful and is contributing to increased oil production. Most of the purchased gas is expected to be recovered in a later phase. High priority was given in 2006 to enhancing production efficiency, both through the future use of integrated operation and through other improvements to operation and maintenance.

Capital spending in the area remains high overall, and rose during 2006. The biggest investments related to drilling, developing Oseberg Delta and IOR on Skinfaks/Rimfaks, and developing and facilitating low-pressure production and subsea separation on Tordis.

The joint venture submitted a PDO for Rev to the authorities in July 2006. This is based on a subsea development of this gas discovery at the southern end of Norway's North Sea sector, close to Varg, with production expected to start in the summer of 2008.

The addition of reserves was moderate in 2006. Activities related to production drilling and well maintenance were given priority over exploration activities.

Six exploration wells were drilled in the Tampen / Oseberg area during 2006, of which two yielded discoveries. The biggest of these was Oseberg Gamma, but two small finds were also made near Gullfaks. An appraisal well which confirmed the productivity of the Rev discovery was also completed.

Petoro played an active role in a number of important initiatives in this area. The most important were the upgrading project for Snorre, development of the G centre in the Oseberg area, new drilling modules on Oseberg and Snorre, Snorre future development, Gullfaks towards 2030, and maturing a possible development of Hild and Valemon.

Norwegian and Barents Seas

Production in this area comes from Åsgard, Heidrun, Norne, Draugen, Njord and Kristin. Snøhvit, Ormen Lange and the Langeled North transport system are under development, and the portfolio also includes a number of production licences in the exploration phase.

Most of the output in 2006 derived from oil producers, but gas production is rising and will account for more than half the area total from 2010 as a result of Ormen Lange and Snøhvit.

Production in 2006 was somewhat lower than the year before. Rising output from newer developments failed to compensate fully for the decline on mature fields in the area and unforeseen incidents on Åsgard. The southern leg of Langeled became operational as planned with gas deliveries to Easington in the UK on 1 October 2006. Petoro has played a key role in negotiations on the Langeled merger.

Operating costs for the area increased from 2005 as a result of studies relating to new projects on Draugen and Åsgard as well as production preparations on Ormen Lange and Snøhvit.

Investment was on a par with 2006, with the largest spending relating to the Snøhvit, Ormen Lange and Langeled development projects. Snøhvit investment included the capitalisation of three liquefied natural gas carriers fixed on long-term charters. This field is due to come on stream in the fourth quarter of 2007.

Reserves in Åsgard were written down by NOK 74 million barrels. Petoro exercised its right to request a redetermination of interests in the Åsgard Unit, with the result that the SDFI's share was increased by 0.19 per cent with effect from 1 August 2006. This represents the addition of five million barrels to the portfolio, corresponding to NOK 2.1 billion measured by the prices obtained in 2006.

Four exploration wells were completed in the area during 2006. Appraisal of the Tornerose discovery confirmed the expected extent of the field. A small gas discovery was made on Trost near Norne, but the other exploration wells failed to prove mobile hydrocarbons.

Petoro again sought in 2006 to influence operators to maintain existing efforts and initiate new measures to combat higher unit costs for the portfolio – particularly on Draugen and Norne, but also on Åsgard and Heidrun. The Draugen joint venture worked in 2006 on projects to identify new opportunities for IOR with the help of carbon dioxide, natural gas or water injection. These will be presented for a commercialisation decision in the first quarter of 2007.

Marketing and sale of the products

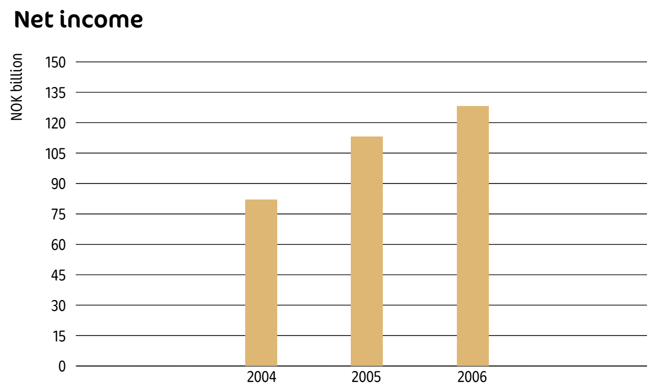
All oil and NGL produced from the SDFI portfolio is sold to Statoil, which is also responsible for marketing all the gas. Petoro is responsible for monitoring that Statoil's sales of the government's petroleum achieve the highest possible overall value for the petroleum belonging to both Statoil and the government, and for ensuring an equitable division of total value creation. Petoro concentrates in this work on Statoil's marketing and sales strategy and risks, issues of great significance in value terms, matters of principle and questions relating to incentives, as well as checking that the SDFI receives the correct share of revenue and costs.

Natural gas belonging to Statoil and the government is sold as a single portfolio. The bulk of this gas is committed under long-term contracts, with contractual opportunities for price revisions. Much work on gas sales during 2006 related to negotiations over such revisions. Petoro has monitored on-going gas sales to ensure that all available supplies are sold and to help overcome the challenges relating to delivery delays arising from the delayed start-up of Snøhvit. The company has also been concerned with sales to Statoil's own installations, and conducted a review of gas sales costs incurred by Statoil. Checks were also carried out to ensure that the SDFI receives its rightful share of costs and revenues from gas sales. The board takes the view that Statoil carried out its duties relating to the marketing and sale of the SDFI's petroleum in a satisfactory manner and in accordance with the marketing and sales instruction.

Gas export capacity from the NCS was increased in 2006 by the completion of the Langeled pipeline from Sleipner East to Easington in the UK. This represents a new landing point for Norwegian gas and has also created opportunities for increased exports and value creation in the period before Ormen Lange comes on stream in October 2007.

Oil and gas prices remained high in 2006, although with major fluctuations over the year. The dated Brent price peaked in August at USD 78.7 per barrel before declining, and had fallen to USD 59.8 per barrel at 31 December. Rising prices in the first half reflected a view that Opec lacked spare capacity, fears of lost production encouraged by the geopolitical outlook, and concerns about fresh hurricanes in the Gulf of Mexico. The fall in prices from August reflected an awareness that crude stocks were high and that a substantial expansion in production was planned for the fourth quarter by countries outside Opec. Global demand is estimated to have grown by about one per cent in 2006. This was rather lower than the 2005 increase, largely because of a shift from oil to gas in US energy supply and mild weather in Europe. For the year as a whole, production outside Opec rose slightly. Opec output is thought to have been virtually unchanged from 2005. The expansion in global oil stocks continued, but less strongly.

As with oil, gas prices were high in 2006. This is because the price in most long-term European gas contracts is primarily indexed against oil products. The gas price fell sharply in the UK during the first half, but the annual average was nevertheless rather higher than in 2005. According to figures from the International Energy Agency, gas consumption in Europe grew by 3.1 per cent during the first nine months of 2006, compared with 3.9 per cent in the



same period of the year before. Domestic gas production is declining in Europe, particularly in the UK. The start-up of new pipelines such as Langeled in October and the BBL from the Netherlands in December ensured that the British market was well supplied with gas during the autumn.

Health, safety and the environment (HSE)

Despite the purposeful efforts being made by the industry to avoid harm to people and the environment, undesirable incidents and personal injuries of varying degrees of seriousness occur in licences where Petoro has interests. This underlines the need for good management models and work to change attitudes. Petoro makes an active commitment to influencing the operators and the industry to concentrate attention on their long-term efforts to achieve a reduction in personal injuries and serious incidents on the NCS.

In accordance with its management system, Petoro works systematically to improve HSE results through active involvement in the portfolio's joint ventures. As part of this supervision, bilateral management meetings are held regularly with the largest operators. Petoro again participated during 2006 in several HSE management inspections on selected fields and installations where a negative trend in HSE results had been observed.

The goal of reducing the total personal injury frequency in 2006 was not met. This indicator remained on a par with the two preceding years. A marginal improvement was seen for serious incidents. The incident on Visund, when a steel plate in the flare system scrubber came loose and breached the downstream piping system, resulted in a very serious gas leak. Good progress was registered on reducing the number of serious gas leaks, while the number of other serious incidents – dominated by dropped objects – remained too high.

The zero discharge plans adopted by the industry in 2003 were due to be implemented during 2005. A few fields have still failed to implement these measures in full, partly because installation of new treatment technology has not been completed. Petoro will continue its work in the joint ventures to meet the environmental requirements for reduced discharges of oil in produced water.

Sickness absence in Petoro remained low in 2006, with short-term (one-three days) and long-term (more than three days) rates of 0.3 and 2.5 per cent respectively. Total sickness absence was 2.8 per cent, compared with 2.7 per cent in 2005. The company's inclusive workplace agreement with the national insurance service embraces an action plan for keeping sickness absence at a continued low level. Petoro implemented measures in 2006 to influence the personal attitudes of its own employees towards HSE and their commitment in this area. Further development of the HSE culture during the year included a focus on safety, diet, fitness training and health through lectures and campaigns.

Working environment and personnel

Petoro's employees have a high level of education and expertise. Substantial activity in the industry has created a heavy demand for the necessary expertise.

The number of personnel who left the company in 2006 was larger than desirable. Petoro's ability to attain its object of maximum value creation depends on its ability to attract, retain and develop skilled employees in competition with new and existing players on the NCS. Petoro implemented the company's expertise strategy in 2006, which gives weight to purposeful development of its employees through participation in key assignments, rotation between departments, and participation in multidisciplinary projects, courses and conferences.

Petoro again conducted a workplace climate survey among all its staff in 2006. Such polls are an important instrument and basis for measures to secure continuous improvement of the working environment. The board is satisfied that the survey attracts broad participation and generally yields good results compared with similar polls conducted in other organisations.

The company is concerned to achieve diversity in its organisation with regard to gender, age and cultural background. It is committed to treating men and woman equally, and facilitates equal opportunities for both genders in the company. This is given particular priority through recruitment and development opportunities and by laying the basis for flexible arrangements on working hours. The proportion of females in the company's board and executive management is 42 and 11 per cent respectively. Women account for 34 per cent of total employees.

Collaboration with Petoro's working environment committee and works council again functioned well in 2006. This work lays an important basis for a good climate of in-house cooperation.

Research and development

Petoro contributes to research and development through its interests in production licences on the NCS. These funds are managed by the respective operators and devoted either to general research or work specific to the licence. This R&D activity has contributed to a number of initiatives which have been commercialised. Petoro regards this work as central, and sees R&D as crucial for making continued technological progress. The SDFI currently covers about 30 per cent of the costs charged to the production licences by the operators.

Corporate governance

Good corporate governance is characterised by a responsible interaction between owner, board and management in a long-term value creation perspective. Petoro is a substantial licensee on the NCS, and was a prime mover in 2006 for the development of new joint operating agreements to achieve better governance in the joint ventures. The Ministry of Petroleum and Energy approved the new agreements, which came into effect on 1 January 2007.

The company's values base and ethical guidelines provide important inputs for corporate governance. Petoro seeks the continuous development of a corporate culture characterised by opportunity-oriented attitudes and a sound internal control environment. Maintaining a high level of trust in the company is crucial if Petoro is to deliver lasting value to owner, employees and society as a whole. The company's management models are based on long-term value creation, and focused on the risks posed by its business and targets for cost efficiency. Information from Petoro will be credible, timely and consistent. The board gives weight to continued development of the management of the company's operations through dynamic processes between owner, board and management in accordance with sound principles for good corporate governance.

Shareholder-elected director Ingelise Arntsen withdrew from the board on 26 June 2006, and Hilde Myrberg was elected to the board on the same time. At the same time, worker directors John Magne Hvidsten and Elen Carlson were replaced by Ove Skretting and Britt Bjelland.

Risk

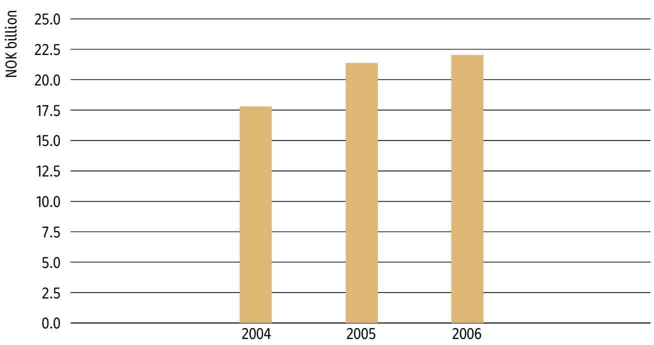
To discharge its overall responsibility for supervision and control of the business, the board is concerned to ensure that the company's management models are effective and purposeful and that great attention is paid to the risks facing the company. Unified risk management deals with the assessment of conditions and incidents which could prevent the business from attaining specified targets and implementing chosen strategies. Development and application of systematic risk management as an integrated part of the company's business processes and internal control environment involve a process of maturation, and planned development of the culture is crucial. Risk management will again be a priority area in 2007.

The portfolio's oil and NGL are sold to Statoil at market-based prices. Its gas is sold by Statoil, and revenue from the sale of gas to customers reflects its market value. The business is exposed to fluctuations in oil and gas prices and exchange rates in the global market for oil and gas sales. Such changes will have an effect on revenues, operating costs and investments over shorter or longer periods.

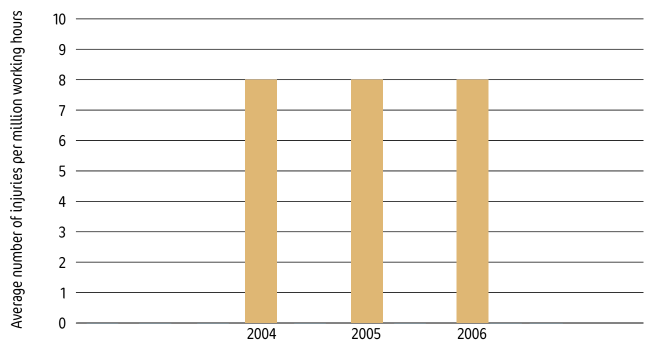
Given that the SDFI forms part of the government's overall risk management, its strategy is to make only limited use of financial instruments (derivatives). The use of derivatives to counter fluctuations in results caused by changes in raw material prices is undertaken by Statoil through its responsibility 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

Investment



Personal injury frequency



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 portfolio's overall sales are made to a limited number of customers, with all oil and NGL sold to Statoil. Financial instruments used in connection with gas sales are purchased from counterparties which are considered to have 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.

Further information on the risks facing the business is provided in note 14.

Prospects

It was announced in December 2006 that the board of Statoil and Hydro had recommended a merger of the upstream operations of these companies, which will come into effect in the third quarter of 2007. The merged company will create a new position on the NCS. When two large players join forces, competition in the Norwegian offshore sector will be reduced. That will make new demands on the other partners, and particularly on Petoro as a substantial licensee on the NCS. The board is assessing the consequences of the merger and measures to continue maintaining the company's principal object after the merger becomes effective.

The portfolio's oil production is expected to decline in coming years, but gas output will increase. Viewed overall, total production will remain at today's level.

Substantial changes have occurred in the European supply position compared with conditions only a few years ago. Strong global growth in the production of and trade in LNG is expected to persist, and this commodity should account for an increasing share of the European gas market. Gazprom has resolved to lay a new pipeline from Russia to northern Germany, and this North Stream facility is due to be operational in 2010–11. The European Union is still focusing great attention on security of supply, despite plans to increase delivery capacity to Europe – including LNG. Bringing Ormen Lange on stream and completion of the Statfjord late life project in 2007 will expand gas export capacity to the UK.

The market expects oil prices to remain at a relatively high level in 2007. While the capacity position is expected to be less difficult than in 2006, Opec's production cuts are expected to lead to a drawing down of oil stocks and thereby to a tighter physical market. Price trends will also depend on geopolitical developments, with the threat of production losses from Iran, Iraq and Nigeria remaining the main concerns. The market expects UK gas prices to be lower than in 2006. Long-term gas contracts primarily indexed against oil products are expected to lie a little lower in price during 2007.

Petoro AS – share capital and shareholder

The company's share capital at 31 December 2006 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government. Petoro's business office is in Stavanger.

Petoro AS – net income and allocations

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

Petoro's operating revenue takes the form of a contribution from the government, which is directly liable for the commitments accepted by the company under contract or in other forms. The government contribution for 2006 was NOK 225 million, compared with NOK 217.9 million the year before. This sum includes VAT, so that disposable revenue was NOK 180 million as against NOK 174.3 million in 2005. Operating revenue for 2006 was NOK 185.3 million, compared with NOK 177.9 million the year before.

Operating expenses of NOK 169.9 million for the year, compared with NOK 177.9 million in 2005, related primarily to payroll and administration expenses and to the purchase of external services. The purchase of leading-edge expertise relating to supervision of production licences in the SDFI portfolio accounts for a substantial proportion of the company's operating expenses.

Profit after financial items came to NOK 17.3 million. The board proposes that this profit be allocated to other equity. The company's non-restricted equity totals NOK 22.9 million.

In accordance with section 3, subsections 3 and 2a of the Norwegian Accounting Act, the board confirms that the annual accounts for the portfolio and the company give a fair picture of the assets and liabilities, financial position and results of the business, and that the annual accounts have been prepared under the assumption that the company is a going concern.

Stavanger, 22 February 2007

Bente Rathe Chair	Jørgen Lund Deputy chair	Hilde Myrberg Director	Nils-Henrik M von der Fehr Director
Per-Christian Endsjø Director	Ove Skretting Director*	Britt Bjelland Director*	Kjell Pedersen President and CEO

** Elected by the employees.*

SDFI appropriation accounts

Expenses and revenue	Note	NOK
Removal		0.00
Pro and contra settlements (payments)	1	11 615 098.25
Investment	2	19 967 276 253.21
Total expenses		**19 978 891 351.46**
Pro and contra settlements (receipts)		**0.00**
Operating revenue	3,4	(176 443 188 658.88)
Operating expenses	5	29 077 687 506.23
Exploration and field development expenses		1 122 225 968.78
Depreciation	2	14 537 729 114.41
Interest	6	6 844 453 207.25
Operating income		**(124 861 092 862.21)**
Depreciation	2	(14 537 729 114.41)
Transfer from Government Petroleum Insurance Fund	8	(462 182 824.96)
Interest on fixed capital	6	(6 820 176 783.00)
Interest on intermediate accounts	6	(24 276 424.25)
Total revenue		**(146 705 458 008.83)**
Cash flow (net revenue from the SDFI)		**(126 726 566 657.37)**

SDFI capital accounts

Items	Note	NOK	NOK	NOK
Open account government 31 Dec 06				(223 942 866.19)
Fixed asset before write-down			134 307 436 848.22	
Write-down	2,8		(100 337 230.99)	
Fixed asset account	2		134 207 099 617.23	134 207 099 617.23
Total				**133 983 156 751.04**
Open account government 1 Jan 06			737 453 441.61	
Total expenses		19 978 891 351.46		
Total revenue		(146 705 458 008.83)		
Cash flow		(126 726 566 657.37)	(126 726 566 657.37)	
Net transfer to the government			126 213 056 081.95	
Open account government at 31 Dec 06			**223 942 866.19**	**223 942 866.19**
Fixed assets 1 Jan 06			(128 877 889 709.42)	
Investments for the year	2		(19 967 276 253.21)	
Depreciation for the year			14 537 729 114.41	
Write-down	2,8		100 337 230.99	
Fixed assets 31 Dec 06	2		(134 207 099 617.23)	(134 207 099 617.23)
Total				**(133 983 156 751.04)**

Stavanger, 22 February 2007

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Deputy chair

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Director*

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SDFI income statement

All figures in NOK million	Note	2006	2005	2004
OPERATING REVENUE				
Operating revenue	3,4,8,9	174 979	152 683	120 807
Total operating revenue		**174 979**	**152 683**	**120 807**
OPERATING EXPENSES				
Exploration expenses		940	543	473
Depreciation and amortisation	2,11	15 898	14 051	15 656
Other operating expenses	5,8,9,10	28 308	25 020	21 025
Total operating expenses		**45 146**	**39 614**	**37 154**
Operating income		**129 833**	**113 069**	**83 653**
FINANCIAL ITEMS				
Financial income		4 339	3 056	3 542
Financial expenses		5 705	2 953	4 852
Net financial items	7	**(1 366)**	**103**	**(1 310)**
Net income for the year		**128 467**	**113 172**	**82 343**

SDFI balance sheet

All figures in NOK million	Note	2006	2005	2004
ASSETS				
Intangible fixed assets		1 302	1 241	999
Tangible fixed assets		157 125	140 990	130 869
Other fixed assets		5	7	10
Fixed assets	2	158 432	142 238	131 878
Stocks		585	505	469
Trade debtors	9, 10	20 108	20 693	11 607
Bank deposits		63	76	75
Current assets		20 756	21 274	12 151
Total assets		**179 188**	**163 512**	**144 029**
EQUITY AND LIABILITIES				
Equity at 1 Jan		134 554	120 530	119 427
Paid from/(to) government during the year		(126 213)	(99 175)	(81 401)
Net income		128 467	113 172	82 343
Translation differences*		(60)	27	161
Equity	17	136 748	134 554	120 530
Long-term removal liabilities	11	29 202	18 538	14 930
Other long-term liabilities	12	2 026	648	1 001
Long-term liabilities		31 228	19 186	15 931
Trade creditors		1 909	1 966	1 679
Other current liabilities	9, 13	9 303	7 806	5 889
Current liabilities		11 212	9 772	7 568
Total equity and liabilities		**179 188**	**163 512**	**144 029**

* Relating to translation difference and settlements after the 2001 asset sale.

Stavanger, 22 February 2007

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SDFI cash flow statement

All figures in NOK million	2006	2005	2004
OPERATING ACTIVITIES			
Cash receipts from operations	176 737	144 800	120 317
Cash disbursements to operations	(30 052)	(25 069)	(21 841)
Net interest payments	(69)	36	(48)
Cash flow from operational activities	**146 616**	**119 767**	**98 428**
INVESTMENT ACTIVITIES			
Pro and contra from government sale	(10)	0	21
Investments	(19 867)	(20 686)	(17 173)
Cash flow from investment activities	**(19 877)**	**(20 686)**	**(17 152)**
FINANCING ACTIVITIES			
Change in working capital in the licences	(984)	484	687
Change in under/over calls in the licences	446	(389)	(601)
Net transfer to the government	(126 213)	(99 175)	(81 401)
Cash flow from financing activities	**(126 751)**	**(99 080)**	**(81 315)**
Increase in bank deposits of partnerships with shared liability	(12)	1	(39)

SDFI notes

ACCOUNTING PRINCIPLES

GENERAL

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

Petoro served at 31 December 2006 as the licensee for interests in 105 production licences and 12 joint ventures for 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 and Norpipe Oil AS. It has the same rights and obligations as other licensees, and manages the SDFI on the NCS on a commercial basis. Petoro maintains separate accounts for all the transactions relating to its participatory interests, so that revenue and costs from production licences and joint ventures are separated from the operation of the company. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. Petoro prepares separate annual accounts for the SDFI, with an overview of the participatory interests managed by the company and associated resource accounting.

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

ACCOUNTING PRINCIPLES (NORWEGIAN ACCOUNTING ACT)

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

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

Principles for revenue recognition

All oil and NGL from the SDFI is sold to Statoil, and all gas is sold by Statoil for the SDFI's expense and risk. 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 service is rendered.

Gas swap and borrowing agreements where settlement takes the form of returning volumes 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. Furthermore, the SDFI's share of location swaps related to the purchase or sale of third-party gas is recorded net as operating revenue.

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

Purchases and sales between fields and/or transport systems

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

Foreign currencies

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

Classification of assets and liabilities

Assets intended for ownership or use for a longer period are classified as fixed assets. Other assets are classified as current assets. Debtors due within one year are classified as current assets. Classification of current and long-term liabilities is based on the same criteria.

Tangible fixed assets

Tangible fixed assets and investments are carried at historical cost with a deduction for planned depreciation. Expenses for major alterations and renewals which significantly increase the economic life of fixed assets are capitalised. 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 has been written down to its fair value.

Fixed assets under construction are carried at historical cost. Should the fair value be lower than the book value, the asset under construction will be written down to its fair value. The SDFI does not take up loans, and incurs no interest expenses associated with the financing of development projects.

Depreciation

Ordinary depreciation of oil and gas production facilities is calculated for each field and field-dedicated transport system using the unit of production method. This means that the acquisition cost is depreciated in line with the relationship between volume sold during the period and reserves at the beginning of the period. Investments in wells are depreciated in line with the reserves made available by the wells drilled.

Petoro determines the reserve base for depreciation purposes on the basis of estimated proven reserves (basis estimate in accordance with the Norwegian Petroleum Directorate's resource categories 1-3. See Note 19) per field, which is downwardly adjusted by a factor calculated as the relationship between the NPD's sum of low estimates (resource category 1) and the sum of basis estimates (resource category 1) for oil and gas reserves respectively. The reserve base for depreciation of oil fields in 2006 totals 73.9 per cent of expected remaining oil reserves, while the corresponding figure for gas fields is 84 per cent. The reserve estimate is revised annually. Possible changes are given a prospective effect.

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

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

Exploration and development costs

Petoro employs the successful-effort method to record exploration and development costs for oil and gas operations in the SDFI accounts. Expenses related to exploration drilling are capitalised in anticipation of the drilling results. Should no commercial discoveries of oil and gas be made, the drilling expenses are expensed. Capitalised exploration expenses are assessed quarterly, and dry wells expensed.

All expenses relating to development of wells, field installations and production facilities are capitalised. Expenses incurred by the operator's project organisation for fields under development and development expenses incurred after submission of the plan for development and operation are also capitalised.

Costs for operational preparations are expensed on a continuous basis. The same applies to the procurement of spare parts in the production phase, expenses relating to repairs and maintenance, and the operator's charges for research and development.

Abandonment and removal expenses

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

Intangible fixed assets

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

Stocks

Stocks of spare parts and operating materials are valued at the lower of acquisition cost in accordance with the Fifo principle and net realisable value. Spare parts of insignificant value for use in connection with the operation of oil or gas fields are expensed at the time of acquisition. Spare parts of significant value are recorded as stock at the time of acquisition and expensed when they are used in operations.

Materials for drilling wells are capitalised and expensed as a well cost as and when used. Petoro accepts the assessments made by operators regarding which materials should be capitalised and which expensed.

Debtors

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

Bank deposits

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

Current liabilities

Current liabilities are valued at their face value.

Taxes

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

Financial instruments

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

Such instruments are valued at their market value on the balance sheet date. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are recorded as income if all the following criteria are fulfilled: the instrument is classified as a current asset, is part of a trading portfolio with a view to onward sale, is traded on an exchange, an authorised marketplace or similar regulated market outside Norway, and has a good ownership spread and liquidity.

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

Contingent liabilities

Probable and quantifiable losses are expensed.

NOTE 1 Asset transfers and changes

The SDFI was awarded participatory interests in five new production licences in connection with the 19th licensing round. These interests were formally awarded by the Ministry of Petroleum and Energy on 31 March 2006.

With effect from 1 August 2006, the SDFI acquired a 10 per cent participatory interest from ExxonMobil in production licence 264 and thereby increased its holding to 30 per cent. This transfer was made free of charge.

In connection with the incorporation of Langeled in Gassled, the participatory interest in Gassled and the terminals in continental Europe was amended with effect from 1 September 2006.

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) continued in 2006. Outstanding issues relating to the 2002 asset sale were resolved during 2005 with cash effect in 2006. This involved a dispute over the valuation of stocks related to a production licence. A couple of points remain to be settled which could lead to changes in the payment.

To achieve better utilisation of oil production from Brage and surrounding areas, the licensees in production licences 053B, 055, 055B and 185 have resolved to unitise their participatory interests. Subject to the approval of the company's general meeting, this agreement will become effective on 1 July 2006.

NOTE 2 Specification of fixed assets

All figures in NOK mill	Historical cost at 1 Jan 06	Addition 2006	Write-down 2006	Disposal* 2006	Trans-fers 2006	Accumula-ted depre-ciation 1 Jan 06	Deprecia-tion 2006	Book value at 31 Dec 06
Fields under development								
Gjøa		54						54
Ormen Lange	5 965	4 270						10 235
Rev		109						109
Ringhorne East	7	35			(42)			0
Snøhvit	9 978	4 914					(52)	14 840
Sub-total	**15 950**	**9 382**	**0**	**0**	**(42)**	**0**	**(52)**	**25 238**
Fields in operation								
Brage	1 988	48				(1 929)	(31)	75
Draugen	9 536	500				(7 567)	(524)	1 945
Ekofisk II	2 562	326				(1 040)	(205)	1 643
Frøy	2 441			(11)		(2 439)		(9)
Grane	4 839	281			8	(972)	(833)	3 323
Gullfaks	27 535	3 538		0	3	(22 904)	(1 139)	7 032
Heidrun	25 613	1 793				(15 538)	(1 680)	10 188
Heimdal	2 016			(41)		(1 999)	(3)	(27)
Huldra	2 281	478				(1 962)	(124)	674
Jotun	215	23				(179)	(7)	52
Kristin	3 840	460				(49)	(739)	3 512
Kvitebjørn	3 352	707				(554)	(611)	2 894
Njord	698	109				(555)	(66)	186
Norne	9 290	1 298				(6 489)	(1 030)	3 069
Oseberg South	5 009	442		0	36	(2 050)	(640)	2 797
Oseberg Unit	19 008	1 009		0		(15 584)	(406)	4 027
Oseberg East	2 542	198				(1 603)	(136)	1 000

All figures in NOK mill	Historical cost at 1 Jan 06	Addition 2006	Write-down 2006	Disposal* 2006	Trans-fers 2006	Accumula-ted depre-ciation 1 Jan 06	Deprecia-tion 2006	Book value at 31 Dec 06
Ringhorne East					42		(17)	25
Skirne	774	23				(266)	(151)	380
Snorre	15 279	1 196			56	(9 298)	(778)	6 454
Statfjord North	1 770	55				(1 441)	(89)	295
Statfjord East	1 595	101				(1 314)	(99)	284
Sygna	607	25				(484)	(24)	125
Tordis	2 431	470				(2 089)	(83)	730
Troll Gas	23 561	260				(5 211)	(705)	17 905
Troll Oil	35 684	2 271				(27 541)	(2 064)	8 350
Urd	812	191				(17)	(205)	781
Tune	1 529	101				(1 412)	(139)	78
Varg	1 236	32				(950)	(116)	202
Veslefrikk	4 663	1 148				(3 589)	(217)	2 005
Vigdis	2 928	339				(2 240)	(244)	783
Visund	5 016	442			27	(1 849)	(116)	3 521
Åsgard	20 466	1 849				(6 904)	(1 323)	14 089
Sub-total	**241 118**	**19 713**	**0**	**(52)**	**172**	**(148 018)**	**(14 544)**	**98 387**
Pipelines and terminals								
Dunkerque Terminal	179	1				(50)	(6)	124
Etanor	983	4				(165)	(52)	771
Gassled	39 375	1 690				(15 059)	(1 060)	24 946
Haltenpipe	1 145					(462)	(27)	656
Langeled	3 582	1 003					(19)	4 566
Mongstad Terminal	111	34				(49)	(4)	92
Oseberg Transport System	2 647	21				(2 180)	(40)	448
Ormen Lange Eiendom DA	37	0						37
Troll Oil Pipeline I and II	915	1				(746)	(41)	129
Vestprosess	860	0				(148)	(36)	677
Frostpipe	240	0				(228)		12
Tampen Link	20	39						59
Zeepipe Terminal	199	5				(102)	(3)	99
Sub-total	**50 293**	**2 798**	**0**	**0**	**0**	**(19 189)**	**(1 288)**	**32 614**
Capitalised exploration expenses	836	720	(540)		(129			886
Total tangible fixed assets	**308 196**	**32 613**	**(540)**	**(52**	**0**	**(167 207)**	**(15 884)**	**157 126**
Intangible assets	1 243	73				(3)	(11)	1 302
Other fixed assets	184					(177)	(2)	5
Total fixed assets	**309 625**	**32 686**	**(540)**	**(52**	**0**	**(167 388)**	**(15 898)**	**158 432**
Translation to cash basis	(24 744)	(12 717)	440	52		11 384	1 360	(24 225
Total fixed assets on cash basis	**284 882**	**19 967**	**(100)**	**0**	**0**	**(156 004)**	**(14 538)**	**134 207**

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

Fixed assets for the Snøhvit field include a capitalised long-term charter for three ships to be used for LNG transport when the field comes on stream. These vessels will be capitalised over 20 years, which is the duration of the charter.

Intangible assets of NOK 1 302 million relate mainly to:
- Capacity rights for regasification of LNG at the Cove Point terminal in the USA, with an associated agreement on the sale of LNG from Snøhvit to Statoil Natural Gas LLC (SNG) in the USA. These rights are associated with LNG from Snøhvit. Straight-line depreciation over the 20-year duration of the agreement on these rights began in October 2006 at the same time as the obligation to deliver LNG to SNG.
- Investment in rights related to the storage of gas in the UK. The development of gas storage at Aldbrough will provide a combined capacity for the SDFI and Statoil of 140 million scm, of which the SDFI share is 57.7 per cent. Plans call for the facility to come into commercial operation towards the end of 2007, and the amount invested will be depreciated on a straight-line basis over the estimated 20-year economic life.

Other fixed assets relate to machinery and technical equipment in Statpipe and Åsgard Transport. These are being depreciated over five years. The SDFI also owns shares in Norsea Gas AS with a book value of NOK 3.98 million, and a shareholding in Norpipe Oil AS transferred free of charge from Statoil with effect from 15 October 2005.

NOK 430 million of capitalised exploration expenses at 31 December related to wells capitalised for a period of more than a year in anticipation of further appraisal drilling, evaluation or early field planning. These expenses relate to six wells.

See also note 11 concerning the increase in removal estimates.

NOTE 3 Specification of operating revenue

All figures in NOK million	2006	2005	2004
Troll	58 002	47 650	34 207
Tampen/Oseberg	55 680	51 910	43 295
Norwegian Sea	47 182	38 591	34 078
Gassled and other infrastructure	11 173	9 819	8 457
Net profit agreements	1 359	1 688	210
Other revenue	5 922	6 964	4 271
Elimination internal sales	(4 339)	(3 939)	(3 711)
Total operating revenue	**174 979**	**152 683**	**120 807**
Translation to cash basis	1 464	(8 502)	(475)
Total cash basis	**176 443**	**144 181**	**120 332**

Classification by geographical area has changed from reporting in previous years. Information in the note has been updated and amended in accordance with the new organisation. Other revenue principally comprises revenues from onward sale of purchased gas.

NOTE 4 Specification of operating revenue by product

All figures in NOK million	2006	2005	2004
Crude oil and NGL*	104 945	96 460	80 927
Gas	59 375	45 205	32 072
Transport and processing revenue	9 684	8 564	7 603
Other revenue	(384)	766	(5)
Net profit agreements	1 359	1 688	210
Total operating revenue	**174 979**	**152 683**	**120 807**
Translation to cash basis	1 464	(8 502)	(475)
Total cash basis	**176 443**	**144 181**	**120 332**

* Includes condensate.

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. A small quantity is sold to the USA.

NOTE 5 Specification of other operating expenses

All figures in NOK million	2006	2005	2004
Troll	8 001	6 448	5 216
Tampen/Oseberg	9 295	8 872	8 440
Norwegian Sea	6 005	4 805	4 624
Gassled and other infrastructure	1 603	1 879	1 695
Other operating expenses	7 743	6 955	4 761
Elimination internal purchases	(4 339)	(3 939)	(3 711)
Total other operating expenses	**28 308**	**25 020**	**21 025**
Translation to cash basis	770	(731)	671
Total cash basis	**29 078**	**24 289**	**21 696**

Classification by geographical area has changed from reporting in previous years. Information in the note has been updated and amended in accordance with the new organisation.

Other operating expenses comprise expenses from purchasing gas for onward sale.

NOTE 6 Interest

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

Interest on the government's fixed capital is included in the accounts. The amount of interest is calculated as specified in Proposition no 1 Appendix no 7 (1993-94) to the Storting (the Finance Bill) and in item 5.6 in the 2006 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy.

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

Interest on the open account with the government is calculated as specified in item 5.7 in the 2006 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	2006	2005	2004
Interest	24	96	25
Other financial revenue	71	60	60
Currency gain	4 244	2 900	3 457
Currency loss	(4 867)	(2 247)	(4 482)
Interest costs	(175)	(60)	(73)
Interest on removal liability	(663)	(646)	(297)
Net financial items	**(1 366)**	**103**	**(1 310)**

NOTE 8 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.

NOTE 9 Related parties

The government (represented by the Ministry of Petroleum and Energy) owns 70.9 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 104 billion (266 million boe) for 2006 and NOK 96.5 billion (292 million boe) for 2005. These amounts and quantities are exclusive of the government's royalty oil.

Statoil markets and sells the government's natural gas at the government's expense and risk, but in Statoil's name and together with its own production. The government receives the market value for these sales. The government sold dry gas directly to Statoil to a value of NOK 300 million in 2006 and NOK 262 million in 2005. Statoil is reimbursed by the government for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for onward sale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 13.7 billion in 2006 and NOK 10.7 billion in 2005. In addition came costs associated with the activity in the USA. Open accounts with Statoil totalled NOK 9.2 billion in favour of the SDFI, converted at the exchange rate prevailing at 31 December. No open accounts between Statoil and the SDFI relating to the marketing and sales instruction existed at 31 December in the accounts compiled on a cash basis.

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

NOTE 10 Trade debtors

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

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

Trade debtors due later than 12 months after the balance sheet date amounted to NOK 7.4 million. A provision for this amount has been made in the accounts.

NOTE 11 Abandonment/removal

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

The liability is calculated on the basis of existing technology and information from the respective operators. Great uncertainty prevails with regard to both estimated removal costs and the removal date. The removal date is expected by and large to coincide with the cessation of production. See note 20.

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

The estimate for removal costs has been increased by NOK 13.1 billion as a result of upward adjustments in the estimates from operators. This adjustment has been made on the basis of revised cost estimates for removal, including operating costs for rigs and other vessels required for such complex operations.

All figures NOK million	2006	2005	2004
Liability at 1 Jan	18 538	14 930	13 320
New liabilities	17	191	295
Actual removal	(131)	(31)	(33)
Changes to estimates	13 081	1 654	(304)
Change in discount rate	(2 966)	1 148	0
Interest expense	663	646	1 652
Liability at 31 Dec	**29 202**	**18 538**	**14 930**

NOTE 12 Other long-term liabilities

Other long-term liabilities comprise:
- debt related to financial leasing of three LNG carriers delivered in 2006
- debt relating to the final settlement of commercial arrangements concerning the move to company-based gas sales
- provision for possible payment of environmental tax relating to the sale of gas to the Netherlands.

Three financial leasing contracts were entered into in 2006 on the delivery of three ships for transporting LNG from Snøhvit. These contracts run for 20 years, with two options for five-year extensions. The future minimum payment for financial leasing totals NOK 1 672 million. Of this, NOK 142 million falls due for payment in 2007, NOK 567 million in the subsequent four years, and the residual NOK 963 million after 2011.

Other long-term liabilities falling due longer than five years total NOK 331 million.

NOTE 13 Other current liabilities

Other current liabilities falling due in 2007 comprise:
- provisions for unpaid costs accrued by licence operators in the accounts at November
- provisions for accrued unpaid costs at December, adjusted for cash calls in December
- other provisions for accrued unpaid costs not included in the accounts received from operators
- current share of long-term liabilities.

NOTE 14 Financial instruments and risk management

The SDFI makes very limited use of financial instruments (derivatives) to manage risk. This is primarily because the SDFI is owned by the state and is accordingly included in the government's overall risk management. The SDFI does not have significant interest-bearing debt, and all crude oil and NGL are sold to Statoil. Instruments used to hedge gas sales relate to forwards and futures. Eliminations are made where legal rights are available to counterclaim unrealised loss and gain, or where paid and capitalised deposits/margins exist which reflect the market value of the derivatives. At 31 December 2006, the market value of the instruments was NOK 1 829 million in assets and NOK 754 million in liabilities. The comparable figures at the end of 2005 were NOK 245 million and NOK 293 million respectively. Gain/loss on these derivatives is not recorded in the income statement.

Price risk

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

Currency risk

The most significant part of the SDFI's revenue from the sale of oil and gas is billed in USD, EUR or GBP. Part of its operating expenses and investments is also billed in equivalent currencies. When converting to NOK, currency fluctuations will affect the SDFI's income statement and balance sheet. The SDFI does not make use of currency hedging in relation to future sales of the SDFI's petroleum, and its exposure in the balance sheet at 31 December 2006 related to one month's outstanding revenue.

Interest risk

The SDFI is primarily exposed to credit risk through financial leases concluded in 2006. It has no other interest-bearing debt exposed to interest rate fluctuations.

Credit risk

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

Liquidity risk

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

NOTE 15 Leases/contractual liabilities

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

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

All figures in NOK million	Leases	Transport capacity and other liabilities
2007	2 781	664
2008	2 334	709
2009	1 455	726
2010	1 171	734
2011	642	736
Beyond	840	8 801

In connection with the award of licences to explore for and produce oil and gas, licensees may be required to undertake to drill a certain number of wells. Petoro was committed at 31 December to participate in 11 wells with an expected cost to the company of NOK 739 million. Of this, NOK 517 million is expected to fall due in 2007.

The company has also accepted contractual liabilities relating to the development of new fields, represented by field development costs. These obligations total NOK 6.9 billion for 2006 and NOK 10.7 billion thereafter, a total of NOK 17.6 billion. Petoro is also committed through approved licence budgets to operating and investment expenses for 2007 which will be on a par with the 2006 figure. The above-mentioned liabilities for 2007 are included in this total.

In connection with the construction of the gas storage at Aldbrough in the UK, liabilities in the order of NOK 367 million have been accepted by the SDFI in relation to third parties. NOK 193 million of this is expected to fall due in 2007.

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 company.

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

NOTE 16 Other liabilities

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

NOTE 17 Equity

All figures in NOK million	2006	2005	2004
Accumulated earnings at 1 Jan	774 246	661 075	578 732
Net income for the year	128 467	113 172	82 343
Cash transfers to the Bank of Norway	(746 100)	(619 888)	(520 713)
Capital contribution	9 082	9 082	9 082
Accumulated transfer of interests in 2001-02	(29 922)	(29 922)	(29 874)
Implementation effect, new removal model 2004	1 044	1 044	1 044
Translation differences	(69)	(9)	(84)
Total equity	**136 748**	**134 554**	**120 530**

Accumulated earnings at 1 January represent accumulated operating income since the SDFI was established on 1 January 1985.

Cash transfers to the Bank of Norway are the net amount which the government has received from the SDFI less a capital contribution of NOK 9.1 billion. This capital contribution is the sum paid to Statoil at 1 January 1985 for the assets acquired by the SDFI from Statoil.

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 effect on equity of these sales was NOK 21.3 billion and NOK 8.8 billion respectively. Retrospective settlements with an accounting effect of NOK 235 million in 2004 and NOK 48 million in 2005 have been made with respect to the 2001 sale. The effect is recorded against equity.

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 for 2001 were 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 fixed assets in the balance sheet, 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 in NOK. The share has been converted at the exchange rate prevailing on 31 December, and possible changes to the NOK figure owing to changes in exchange rates are recorded as a translation difference in the accounts.

NOTE 18 Auditors

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

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

Deloitte's fee is expensed in the Petoro accounts.

NOTE 19 Expected oil and gas reserves

	2006		2005		2004	
Oil* in mill bbl, gas in bn scm	oil	gas	oil	gas	oil	gas
Expected reserves at 1 Jan	2 311	971	2 499	997	2 689	1 018
Corrections for earlier years**	0	0	(5)	(11)	0	0
Change in estimates	(101)	(1)	(6)	2	40	2
Extensions and discoveries	63	16	3	3	24	1
Improved recovery	39	1	108	6	70	0

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Cont from page 61

Oil* in mill bbl, gas in bn scm	2006 oil	2006 gas	2005 oil	2005 gas	2004 oil	2004 gas
Purchase of reserves	0	0	0	0	0	0
Sale of reserves	0	0	0	0	0	0
Production	(264)	(28)	(288)	(26)	(324)	(24)
Expected reserves at 31 Dec	**2 048**	**959**	**2 311**	**971**	**2 499**	**997**

*Oil includes NGL and condensate.

** The increase in reserves for Åsgard in 2004 was inaccurately reported, and was corrected in 2005. In addition, historical production has been adjusted to accord with official reporting by the NPD.

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.

The table presents the total remaining reserves (basis estimate in accordance with the NPD's resource categories 1-3) without regard to the duration of licences. Information on estimated production periods and current licence durations is given in the overview of government participation interests in note 20 on SDFI overview of interests.

Reserves in production are the sum of expected 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 1 in the NPD classification. Expected reserves in production at 31 December 2006 were 1.7 billion barrels of oil, condensate and NGL, and 588 billion standard cubic metres of gas. That corresponds to a total of 5.4 billion boe. Expected reserves in resource categories 2 and 3 consists primarily of Snøhvit and Ormen Lange.

Total expected remaining reserves at 31 December 2006 were 8.1 billion boe.

NOTE 20 SDFI overview of interests

Production licence	At 31 Dec 06 Interest (%)	At 31 Dec 05 Interest (%)
018	5.0000	5.0000
018 B	5.0000	5.0000
018 C	5.0000	5.0000
028 C	30.0000	30.0000
034	40.0000	40.0000
036 BS	20.0000	20.0000
037	30.0000	30.0000
037 B	30.0000	30.0000
037 E	30.0000	30.0000
038	30.0000	30.0000
038 B	-	30.0000
038 C	30.0000	-
040	30.0000	30.0000
043	30.0000	30.0000
043 BS*	30.0000	30.0000
050	30.0000	30.0000
050 B	30.0000	30.0000
050 C	30.0000	30.0000
050 DS	30.0000	-
051	31.4000	31.4000
052	37.0000	37.0000
052 B	37.0000	37.0000

Production licence	At 31 Dec 06 Interest (%)	At 31 Dec 05 Interest (%)
053	33.6000	33.6000
053 B	13.4000	25.4000
054	40.8000	40.8000
055	13.4000	13.4000
055 B	13.4000	13.4000
055 C	33.6000	33.6000
057	30.0000	30.0000
062	19.9500	19.9500
064	30.0000	30.0000
074	19.9500	19.9500
077	30.0000	30.0000
078	30.0000	30.0000
079	33.6000	33.6000
085	62.9187	62.9187
085 B	62.9187	62.9187
085 C	56.0000	56.0000
085 D*	56.0000	56.0000
089	30.0000	30.0000
093	47.8800	47.8800
094	14.9500	14.9500
094 B	35.5000	35.5000
095	59.0000	59.0000
097	30.0000	30.0000
099	30.0000	30.0000
100	30.0000	30.0000
102	30.0000	30.0000
103 B	30.0000	30.0000
104	33.6000	33.6000
107	7.5000	7.5000
110	30.0000	30.0000
110 B	30.0000	30.0000
110 C	30.0000	-
120	16.9355	16.9355
124	27.0900	27.0900
128	24.5455	24.5455
128 B	54.0000	54.0000
128 C*	24.5455	24.5455
132	7.5000	7.5000
134	13.5500	13.5500
152	30.0000	30.0000
153	30.0000	30.0000
169	30.0000	30.0000
169 B1	37.5000	37.5000
169 B2	30.0000	30.0000
171 B	33.6000	33.6000

* The SDFI's interests in production licences approved by the King in Council on 6 January 2006, but announced by the Ministry of Petroleum and Energy on 13 December 2005.

Production licence	At 31 Dec 06 Interest (%)	At 31 Dec 05 Interest (%)
176	47.8800	47.8800
185	13.4000	13.4000
190	40.0000	40.0000
193	30.0000	30.0000
195	35.0000	35.0000
195 B*	35.0000	35.0000
199	27.0000	27.0000
208	30.0000	30.0000
209	35.0000	35.0000
237	35.5000	35.5000
248	40.0000	40.0000
248 B*	40.0000	40.0000
250	45.0000	45.0000
253	20.0000	20.0000
255	30.0000	30.0000
256	20.0000	20.0000
264	30.0000	20.0000
265	30.0000	30.0000
275	5.0000	5.0000
277	30.0000	30.0000
277 B*	30.0000	30.0000
281	20.0000	20.0000
283	20.0000	20.0000
291	-	14.2567
309	33.6000	33.6000
315	30.0000	30.0000
318	20.0000	20.0000
327	20.0000	20.0000
328	20.0000	20.0000
329	20.0000	20.0000
331	20.0000	20.0000
345	30.0000	30.0000
347	7.5000	7.5000
348	7.5000	7.5000
374 S*	20.0000	20.0000
384*	20.0000	20.0000
393	20.0000	-
394	15.0000	-
395	20.0000	-
396	20.0000	-
Net profit licences**		
027		
028		
029		
033		

* The SDFI's interests in production licences approved by the King in Council on 6 January 2006, but announced by the Ministry of Petroleum and Energy on 13 December 2005.

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

Unitised fields	At 31 Dec 06 Interest %	At 31 Dec 05 Interest %	Remaining production period	Licence term
Brage Unit	13.4000	14.2567	2020	2015
Gimle Unit	24.1863	-	2021	2016
Grane Unit	30.0000	30.0000	2026	2030
Halten Bank West (Kristin)	19.5770	18.9000	2024	2027
Heidrun Unit	58.1644	58.1644	2033	2024
Hild Unit	30.0000	-	-	2012
Huldra Unit	31.9553	31.9553	2011	2015
Jotun Unit	3.0000	3.0000	2017	2015
Njord Unit	7.5000	7.5000	2020	2021
Norne Unit	54.0000	54.0000	2021	2026
Ormen Lange Unit	36.4750	36.4750	2046	2040
Oseberg Area Unit	33.6000	33.6000	2050	2031
Ringhorne East	7.8000	7.8000	2021	2030
Snorre Unit	30.0000	30.0000	2029	2015
Snøhvit Unit	30.0000	30.0000	2038	2035
Statfjord East Unit	30.0000	30.0000	2019	2024
Sygna Unit	30.0000	30.0000	2019	2024
Tor Unit	3.6874	3.6874	2015	2028
Troll Unit	56.0000	56.0000	2057	2030
Visund Unit	30.0000	30.0000	2027	2023
Åsgard Unit	35.6900	35.5000	2029	2027
Fields				
Draugen	47.8800	47.8800	2024	2024
Ekofisk II	5.0000	5.0000	2028	2028
Eldfisk	5.0000	5.0000	2028	2028
Embla	5.0000	5.0000	2028	2028
Gullfaks	30.0000	30.0000	2029	2016
Gullfaks South	30.0000	30.0000	2023	2016
Heimdal	20.0000	20.0000	2012	2021
Kvitebjørn	30.0000	30.0000	2029	2031
Skirne	30.0000	30.0000	2012	2025
Statfjord North	30.0000	30.0000	2019	2026
Tordis	30.0000	30.0000	2019	2024
Tune	40.0000	40.0000	2014	2032
Urd	24.5455	24.5455	2021	2026
Varg	30.0000	30.0000	2020	2011
Veslefrikk	37.0000	37.0000	2018	2015
Vigdis	30.0000	30.0000	2020	2024

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

Oil pipelines	At 31 Dec 06 Interest (%)	At 31 Dec 05 Interest (%)	Licence term
Frostpipe	30.0000	30.0000	
Oseberg Transport System (OTS)	48.3838	48.3838	2028
Troll Oil Pipeline I and II	55.7681	55.7681	
Grane Oil Pipeline	43.6000	43.6000	
Kvitebjørn Oil Pipeline	30.0000	30.0000	
Norpipe Oil AS (ownership interest)	5.0000	5.0000	
Oil - land-based plants			
Mongstad Terminal DA	35.0000	35.0000	
Gas pipelines			
Gassled***	38.2450	38.6270	2028
Haltenpipe	57.8125	57.8125	2020
Langeled****	32.9548	32.9548	2035
Tampen Link	7.0000	7.0000	2032
Gas - land-based plants			
Dunkerque Terminal DA	24.8593	25.1076	
Zeepipe Terminal JV	18.7401	18.9272	
Etanor DA	62.7000	62.7000	
Vestprosess DA	41.0000	41.0000	
Kollsnes (gas processing plant)*****	38.2450	38.6270	
Snøhvit LNG plant	30.0000	30.0000	2028
Norsea Gas AS (ownership interest)	40.0060	40.0060	

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 39.3809%.
**** Northern leg (Nyhamna-Sleipner Riser): 37.4750%. Southern leg (Sleipner Riser-Easington): 28.3600%. Langeled operations were incorporated in Gassled from 1 September 2006.
***** The Kollsnes gas processing plant was incorporated in Gassled from 1 February 2004.

Riksrevisjonen
Office of the Auditor General of Norway

Executive officer
Dag Tvedt, 51 59 98 87

Our date	Our reference
27.02. 2007	2.3 2007/359 TAH/DDT
	Filing code 680
Your date	Your reference

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

Audit of the 2006 accounts of the State's Direct Financial Interest

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.

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 the beginning of October, 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.

Yours sincerely

Hans Conrad Hansen
Director General

Tom Arild Hanekamhaug
Deputy director general

Copy: The Ministry of Petroleum and Energy

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Petoro AS income statement

All figures in NOK 1 000	Notes	2006	2005	2004
OPERATING REVENUE				
Invoiced government contribution	1	180 000	174 320	163 710
Other revenue	1	27	189	711
Net deferred revenue recorded	2	5 292	3 377	(1 596)
Total operating revenue		**185 319**	**177 886**	**162 825**
OPERATING EXPENSES				
Payroll expenses	3,9	72 556	80 207	74 637
Depreciation and write-down	4	7 464	6 098	4 646
Administrative fees	12,15	2 301	2 714	3 760
Accounting fees	14	13 936	16 440	16 868
Office expenses	13	7 403	8 695	10 274
ICT expenses	14	12 500	6 585	12 139
Other operating expenses	11,14,15	53 780	57 185	44 374
Total operating expenses		**169 940**	**177 924**	**166 698**
Operating income/(loss)		**15 379**	**(38)**	**(3 873)**
FINANCIAL ITEMS				
Financial income		2 170	1 117	1 009
Financial expenses		(284)	(142)	(15)
Net financial result		**1 886**	**975**	**994**
Net income/(loss)		**17 265**	**937**	**(2 879)**
Transfer to other equity		17 265	937	(2 879)
Total transfers		**17 265**	**937**	**(2 879)**

Petoro AS balance sheet

All figures in NOK 1 000	Notes	2006	2005	2004
ASSETS				
Operating equipment, fixtures, etc	4	7 803	13 352	17 020
Total fixed assets		7 803	13 352	17 020
Trade debtors		34	2 445	1 200
Other debtors	5	268	388	2 820
Bank deposits	6	73 280	57 890	59 439
Total current assets		73 582	60 723	63 459
Total assets		**81 385**	**74 075**	**80 479**
EQUITY AND LIABILITIES				
Share capital (10 000 shares at NOK 1 000)	7	10 000	10 000	10 000
Other equity	8	22 918	5 653	4 716
Total equity	8	32 918	15 653	14 716
Pension liabilities	9	15 740	17 707	16 875
Deferred revenue government contribution	2	7 803	13 095	16 472
Total provisions		23 543	30 802	33 347
Trade creditors	15	10 426	10 636	5 571
Withheld taxes and social security		3 118	3 856	11 232
Other current liabilities	10	11 380	13 128	15 613
Total current liabilities		**24 924**	**27 620**	**32 416**
Total equity and liabilities		**81 385**	**74 075**	**80 479**

Stavanger, 22 February 2007

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Hilde Myrberg
Director

Nils-Henrik M von der Fehr
Director

Per-Christian Endsjø
Director

Ove Skretting
Director*

Britt Bjelland
Director*

Kjell Pedersen
President and CEO

** Elected by the employees.*

Petoro AS cash flow statement

All figures in NOK 1 000	**2006**	**2005**	**2004**
LIQUID ASSETS PROVIDED BY/USED IN OPERATING			
Provided by operations for the year*	24 729	7 035	1 767
Change in debtors	2 411	(1 245)	(665)
Change in trade creditors	(210)	5 065	(8 449)
Change in accrued items	(9 625)	(9 975)	(1 154)
Net change in liquidity from operating activities	**17 305**	**880**	**(8 501)**
LIQUID ASSETS PROVIDED BY/USED IN INVESTING			
Invested in tangible fixed assets	(1 915)	(2 429)	(5 875)
Net change in liquidity from investing activities	**(1 915)**	**(2 429)**	**(5 875)**
LIQUID ASSETS PROVIDED BY/USED IN FINANCING			
Proceeds from share issue	0	0	0
Net change in liquidity from financing activities	**0**	**0**	**0**
Net changes in liquid assets	15 390	(1 549)	(14 376)
Cash and cash equivalents at 1 Jan	57 890	59 439	73 815
Cash and cash equivalents at 31 Dec	**73 280**	**57 890**	**59 439**
*This figure is obtained as follows:			
Net income/(loss)	17 265	937	(2 879)
Ordinary depreciation	7 464	6 098	4 646
Provided by operations for the year	24 729	7 035	1 767

Petoro AS notes

Accounting principles

Description of the company's business

Petoro AS was established by the Ministry of Petroleum and Energy on behalf of the Norwegian government on 9 May 2001. The company's object is to be responsible, on behalf of the government, for managing the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum activities on the Norwegian continental shelf, and activities related hereto.

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

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

Classification of assets and liabilities

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

Fixed assets

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

Debtors

Trade debtors and other debtors are carried at face value.

Bank deposits

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

Pensions

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

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

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

Current liabilities

Current liabilities are assessed at their face value.

Income taxes

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

Operating revenue

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

NOTE 1 Government contribution

The company received an operating contribution from the Norwegian government totalling NOK 180 million excluding VAT in 2006. Net income after financial items was NOK 17.3 million, which is proposed transferred to other equity. Other revenue primarily relates to invoicing of services provided to operators of joint ventures.

NOTE 2 Deferred revenue

The change in deferred revenue recorded in the income statement comprises deferred revenue related to NOK 1.9 million in investment made during the year as well as NOK 7.2 million in depreciation and write-down of investment in earlier years.

NOTE 3 Payroll expenses, number of employees, benefits, etc

Payroll expenses All figures in NOK 1 000	**2006**	**2005**	**2004**
Pay	49 979	50 647	44 902
Payroll taxes	7 198	10 142	8 875
Pensions (note 9)	15 094	17 077	16 477
Other benefits	285	2 341	4 383
Total	**72 556**	**80 207**	**74 637**

Employees at 31 Dec	53	53	59
Employees with a signed contract who had not started work at 31 Dec	5	4	0
Average number of work-years employed	53	57	57

Remuneration of senior executives All figures in NOK 1 000	**Pay**	**Recorded pension**	**Other benefits**
President and CEO	2 883	1 754	130
Management team (eight people)	9 544	3 533	778

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

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

Directors' fees

Fees paid in 2006 totalled NOK 270 000 for the chair and NOK 980 000 for the other directors combined.

NOTE 4 Tangible fixed assets

All figures in NOK 1 000	**Fixed fittings**	**Equipment, etc**	**ICT**	**Total**
Purchase cost 1 Jan 06	3 075	6 787	15 485	25 347
Additions	488	240	1 187	1 915
Purchase cost at 31 Dec 06	3 563	7 027	16 672	27 262
Accumulated depreciation 1 Jan 06	629	3 953	7 414	11 996
Depreciation and write-downs for the year	329	1 454	5 680	7 463
Accumulated depreciation 31 Dec 06	958	5 407	13 094	19 459
Book value at 31 Dec 06	**2 605**	**1 620**	**3 578**	**7 803**

Economic life	11 years	3/5 years	3 years	
Depreciation plan	Linear	Linear	Linear	
Operational lease charges	**0**	**461**	**0**	

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

NOTE 5 Other debtors

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

NOTE 6 Bank deposits

Bank deposits comprise NOK 16.2 million in withheld tax and pension plan assets. Pension plan assets were included in net pension obligation in the 2005 accounts. Relevant comparable figures in the accounts for the year have been adjusted accordingly.

NOTE 7 Share capital and shareholder information

The share capital of the company at 31 December 2006 comprised 10 000 shares with a nominal value of NOK 1 000 each. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government, and all have the same rights.

NOTE 8 Equity

All figures in NOK 1 000	**Share capital**	**Other equity**	**Total**
Equity at 1 Jan 06	10 000	5 653	15 653
Net income	0	17 265	17 265
Equity at 31 Dec 06	10 000	22 918	32 918

NOTE 9 Pension costs, assets and liabilities

The company has a pension plan covering all its employees, which 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.

Net pension cost All figures in NOK 1 000	**2006**	**2005**	**2004**
Present value of benefits earned during the year	12 944	12 027	11 429
Interest expense on pension obligation	3 880	3 598	2 552
Return on pension plan assets	(3 821)	(3 180)	(2 447)
Recorded change in estimates	84	4 305	3 814
Payroll tax	2 007	2 362	2 164
Net pension cost	**15 094**	**19 112**	**17 512**

Net pension obligation	**2 006**	**2 005**	**2 004**
Estimated pension obligation at 31 Dec	94 420	75 581	56 518
Pension plan assets (market value)	(74 977)	(56 612)	(41 729)
Capitalised pension obligations before payroll tax	19 443	18 969	14 789
Unrecorded change in estimates	(5 790)	(3 450)	0
Payroll tax	2 087	2 188	2 086
Net pension obligation	**15 740**	**17 707**	**16 875**

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

	2006	2005	2004
Discount rate	5.0%	6.0%	6.0%
Expected return on plan assets	6.0%	7.0%	7.0%
Expected increase in pay/NI base rate	4.0%	3.0%	3.0%
Expected increase in pensions	1.6%	2.5%	2.5%

NOTE 10 Other current liabilities

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

NOTE 11 Auditor's fees

Erga Revisjon AS is the elected auditor of Petoro AS. Fees charged by Erga Revisjon to Petoro for external auditing in 2006 totalled NOK 0.2 million.

In accordance with the Act on Government Auditing of 7 May 2004, the Auditor General is the external auditor for the SDFI. Deloitte AS has also been engaged to conduct a financial audit of the SDFI as part of the company's internal audit function. Deloitte charged NOK 1.7 million for this service in 2006. Deloitte has also performed services relating to partner audits totalling NOK 2.2 million.

NOTE 12 Business management agreements

To ensure efficient resource utilisation with an organisation of 60 employees, Petoro sets priorities for its work commitments in and between the interests it manages in the various joint ventures. This prioritisation reflects the significance of each joint venture to the overall value of the portfolio and risk assessments related to the various phases in a joint venture (exploration, development and production). To permit such prioritisation, Petoro has concluded business management agreements with licence partners such as Statoil, ConocoPhillips, Lundin, TOTAL E&P and E.ON Ruhrgas. These agreements delegate daily administrative supervision of selected production licences in the portfolio. Petoro nevertheless retains the formal responsibility, including responsibility for on-going financial management of the interest in the production licence.

NOTE 13 Leases

The company has leased office premises from Smedvig Eiendom AS. This lease runs for 11 years from the date of occupation in the autumn of 2003. Rent for the year was NOK 5.6 million.

NOTE 14 Significant contracts

Petoro has concluded an agreement with Accenture covering accounting-related voucher management, 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. The recorded accounting fee in 2006 was NOK 13.9 million. Other purchased services totalled NOK 1.7 million, of which NOK 1.2 million was capitalised as investment.

Petoro has opted not to exercise the option with Accenture with regard to accounting for Petoro AS. An agreement was accordingly concluded in late 2006 with Visma Services Norge on accounting services for Petoro AS with effect from 1 January 2007. This agreement runs for three years, with an option for a two-year extension.

NOTE 15 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 2006 relating to business management agreements, cost sharing for the audit of licence accounts, insurance services for the Government Petroleum Insurance Fund and other minor services. NOK 2.7 million was recorded in 2006 for the purchase of services from Statoil. These were purchased at market price on the basis of hours worked. At 31 December 2006, Petoro owed NOK 0.6 million 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 2006

We have audited the annual financial statements of the PETORO AS as of 31 December 2006, showing a profit of NOK 17 265 000. 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 allocation of the profit. The annual financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to produce the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of December 31, 2006, 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 bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Stavanger, 22 February 2007.
Erga Revisjon as

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

PETORO'S FINANCIAL CALENDAR 2007:

Thursday 3 May:	Results for first quarter 2007
Tuesday 31 Jul:	Results for second quarter 2007
Tuesday 30 Oct:	Results for third quarter 2007

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