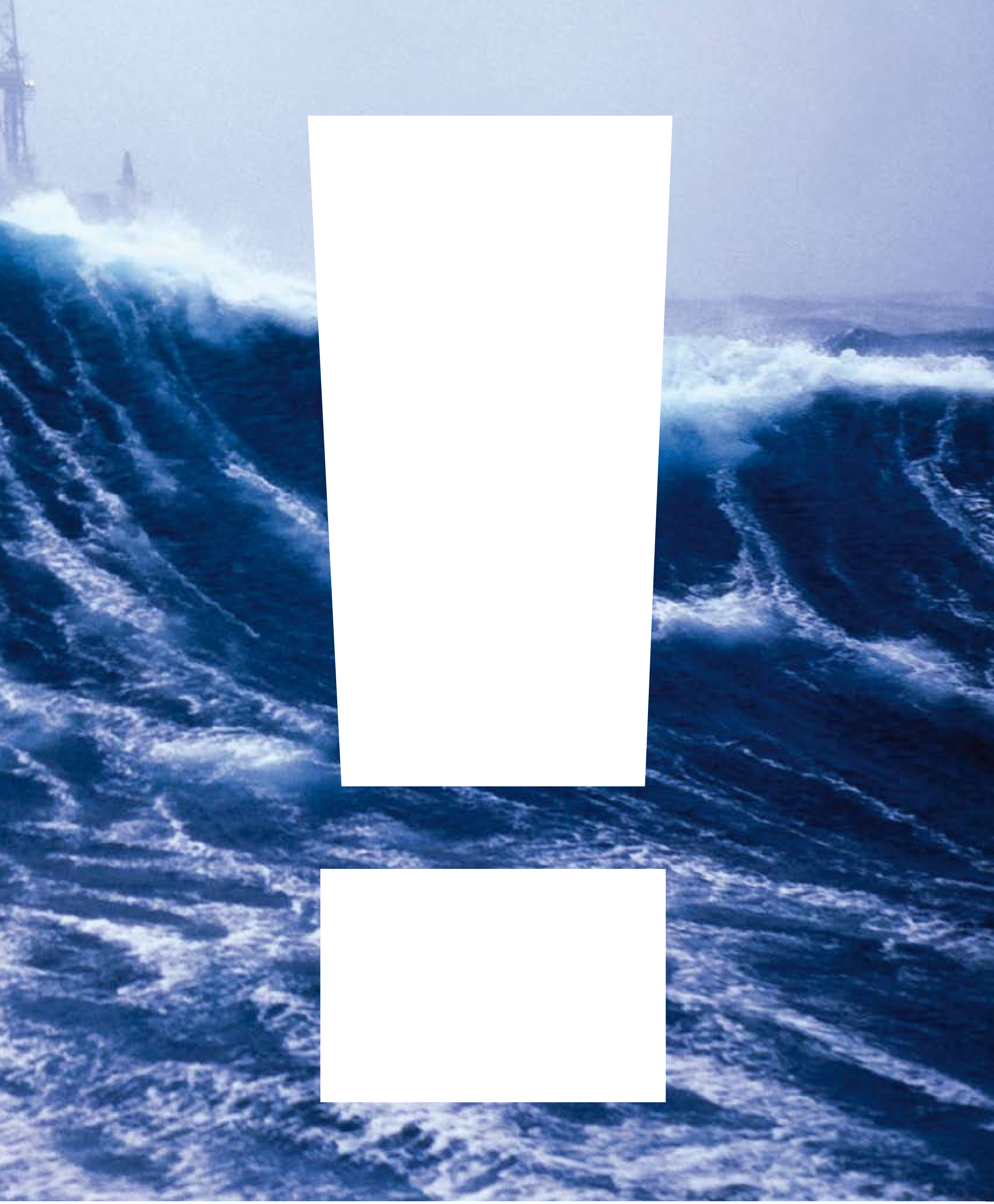


ANNUAL REPORT 2007 FOR THE SDFI AND PETORO

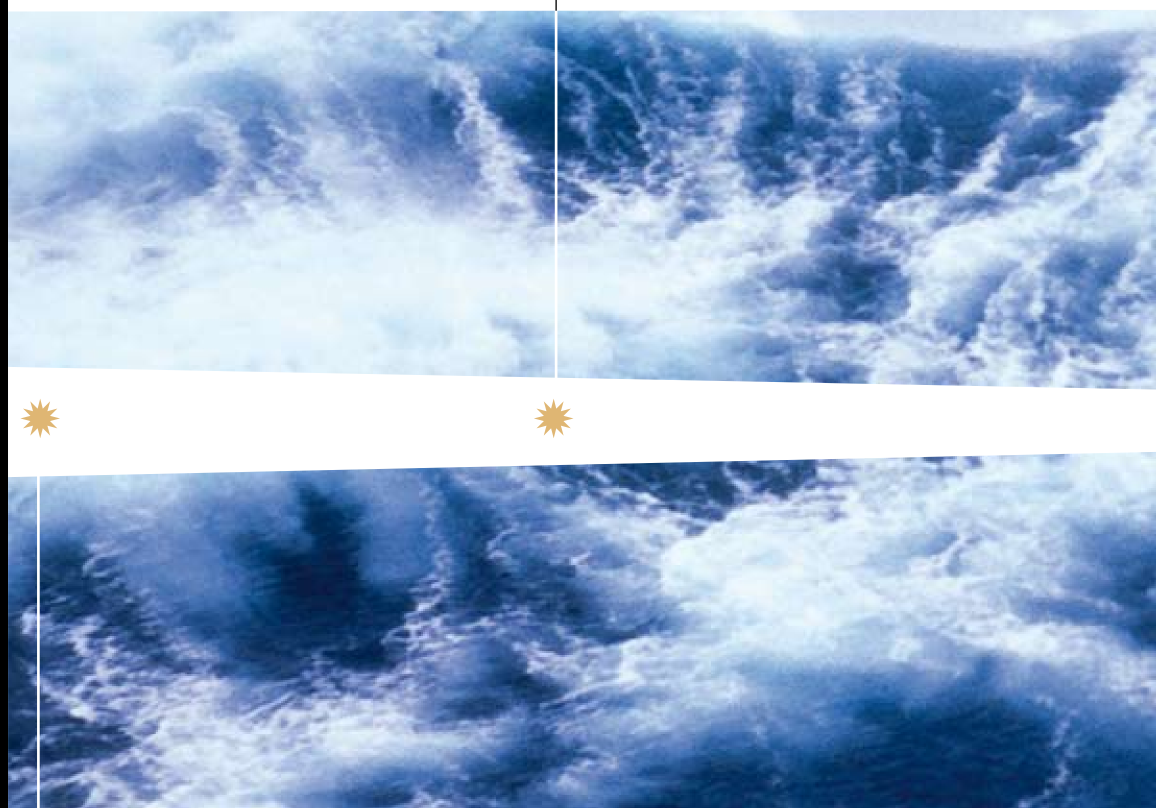
Strong forces are at work on the Norwegian continental shelf (NCS). A new one is the unified StatoilHydro, which can provide positive synergies, better project execution and stronger cost control.

At the same time, this merger represents a challenge in relation to the previous diversity. The magazine section of this report looks at developments over the past 40 years – from the time when the major international oil companies were in the driving seat, through the build-up of three Norwegian operators to the current position. Today's picture involves a single dominant operator, one major partner, big international companies playing more restricted roles than before – and a number of new and smaller participants who have arrived since the new century began.

CONTENTS

1970s

Discovering Ekofisk awakened Norway's politicians and business community to the opportunities. While the Noco group joined with Amoco and became a forerunner of Saga Petroleum, Hydro collaborated with France's Elf. The government took control through legislation, regulations, policies, the Norwegian Petroleum Directorate and Statoil. Greater balance was struck between the major international players and Norwegian companies, with the latter getting much help from the authorities.

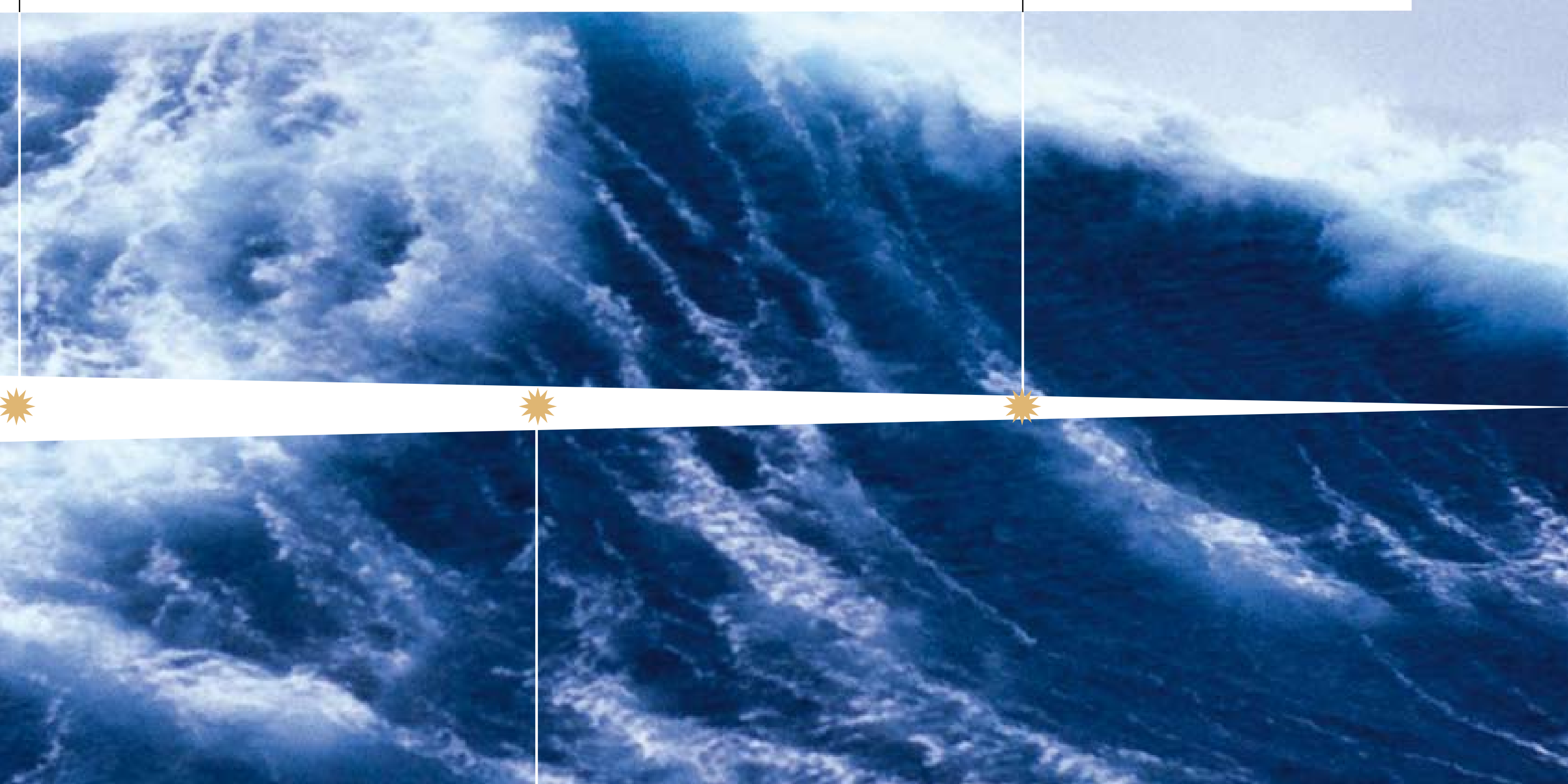


1960s

Expertise on the law of the sea secured Norway's jurisdiction over the NCS, but legislation and regulations were otherwise little developed. The Seven Sisters and a couple of their European relatives operated exploration and the first fields to come on stream. Ordinary Norwegians paid little attention to the "oil adventure".

1980s

The decade was characterised by further development of national control, both through regulation and by strengthening the three national operators. These each developed a major field – Gullfaks (Statoil), Oseberg (Hydro) and Snorre (Saga). The SDFI was created to secure a larger share of total revenues for the state and to curb Statoil. Not least as a result of the price slump in 1986, national regulations and taxes were eventually relaxed. The multinationals continued to complain – but stayed.



1990s

New parts of the world were opened to international oil and gas operations – increasing competition for Norway as a petroleum province over foreign capital and expertise but opening fresh opportunities for Norwegian companies abroad – the BP-Statoil alliance, Kværner's acquisitions and so forth. Harmonisation with the EU through the licensing and procurement directives. Fears of Norwegian dominance along with reduced diversity, expertise and capacity won Shell the production operatorship for Ormen Lange. Some new players appeared.

AFTER 2000

Global competition and internationalisation led to further commercialisation of the regulatory regime. EU demands for liberalising the gas market were accepted, Statoil was partly privatised, 21.5 per cent of the SDFI was sold to Statoil and others. Petoro and Gassco were established as SDFI manager and gas pipeline operator respectively. Many new players were prequalified. Saga was acquired by Hydro and shared with Statoil. Statoil and Hydro merged.

2007

MATURING RESERVES

Gas production rose, with total output from the NCS expected to remain at its present level for the next few years. Oil production declined, but high crude prices produced record revenues from the NCS. A combination of declining oil output and rising costs could nevertheless drive up unit costs – posing the threat that fields might have to shut earlier than otherwise necessary were prices to fall. In addition to better cost control, Petoro wants to safeguard future production by maturing resources into commercial reserves. The company's ambition is to increase reserves in the SDFI by two billion barrels of oil equivalent in 2007-15.

DIVERSITY

The NCS was developed by a number of companies with differing ideas, experience, expertise and technology. Through its 2007 merger, StatoilHydro has become operator for 80 per cent of Norwegian oil and gas production. This position makes bigger demands on other companies – including a number of new players – for independent technical and financial assessments. Petoro is gearing up to play a clearer role as a challenger.

CLIMATE

Projections by the International Energy Agency indicate that world energy consumption will expand by more than 50 per cent up to 2030 and that fossil fuels such as coal, oil and gas will maintain their dominant share of more than 80 per cent. In order to retain the legitimacy of fossil energy with the world community and contribute to progress for the world's less developed regions, the petroleum industry must help to limit the negative effects of emissions on the planetary climate.

DIVERSITY AND INTEGRATION

The State's Direct Financial Interest (SDFI) on the Norwegian continental shelf has once again contributed more than NOK 100 billion to the government pension fund – global. NOK 112 billion was transferred to the Treasury in 2007, corresponding to NOK 24 000 for every person in Norway.

Oil and gas operations are still benefiting the whole Norwegian community – and will continue to do so for a long time yet. We must take care, though, that today's high oil prices do not blind us to the need for action over the persistent decline in our oil production. Because we can actually do something about that. This is not a question of Mother Nature betraying us through a drastic reduction in the actual resource base, but of our own ability to implement plans and mature discoveries into commercial reserves and production.

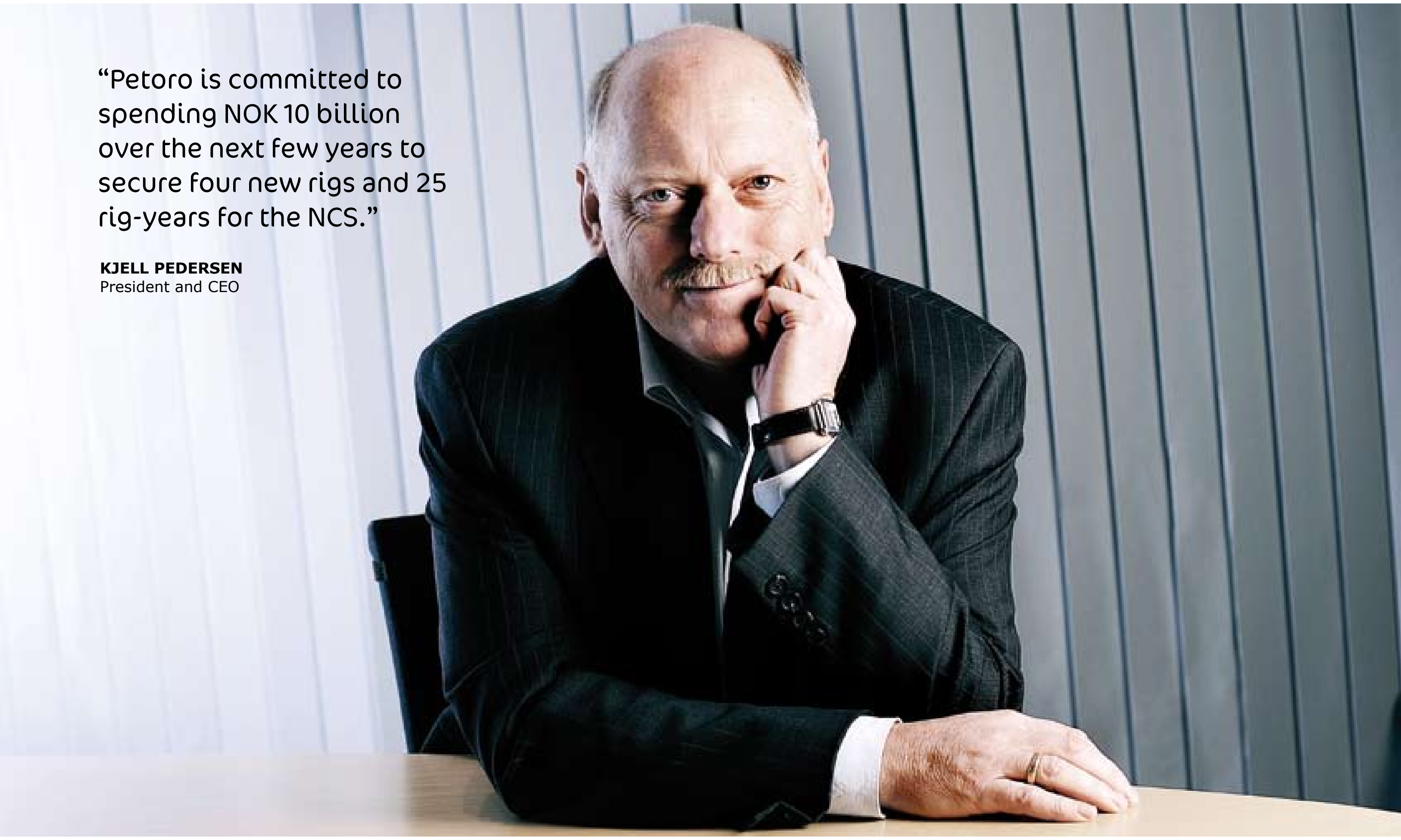
Maturing resources is a key part of Petoro's strategy for maximising the value of the SDFI. We have an ambition, for instance, to increase reserves by two billion barrels of oil equivalent over the 2007-15 period. At an overall level, two principal arenas exist for transforming resources into reserves – in the mature parts of the NCS and in its less developed regions.

Instruments differ between these areas. In the mature parts, we must particularly ensure that recovery from the big fields is maximised. The 10 most important fields in the SDFI portfolio currently account for 75 per cent of its oil production, and have the potential to continue supplying 60-65 per cent as far ahead as 2025.

We must not allow such a potential to slip through our fingers, but seize the opportunity offered by high prices and revenues to adopt new technology and improve our work methods in order to become even more efficient. We will and should devote these revenues to such projects as confirming seabed compression technology for the wellstream from Ormen Lange. Subsea solutions can be important for increasing commercial reserves on the NCS and maintaining field profitability for longer.

The industry has accepted that it is not delivering good enough results with production wells. That inspires us to get better. Petoro, for instance, has developed a method for planning production drilling which it believes will yield more realistic plans and more predictable wells. The Heidrun partners have agreed to adopt this method on the field.

Exploration drilling on the NCS reached a nadir a few years ago. Government counteraction has succeeded in attracting new players.



"Petoro is committed to spending NOK 10 billion over the next few years to secure four new rigs and 25 rig-years for the NCS."

KJELL PEDERSEN
President and CEO

The number of companies on the NCS has exploded. So has the number of planned exploration wells, from fewer than 10 a year in 2004-05 to an estimated 35-40 in 2008 according to the NPD. Petoro is likely to participate in more than 20 of these. Results in the form of discoveries have already been seen in early 2008.

Petoro is committed to spending NOK 10 billion over the next few years to secure four new rigs and 25 rig-years for the NCS. In addition, the company will spend billions on maintenance and modification to ensure a high level of efficiency for drilling facilities on fixed platforms.

When addressing value creation for the SDFI portfolio, it is important to keep two ideas in mind simultaneously – we must explore and we must ensure a high level of production from mature fields.

To achieve these goals, we need both integration and diversity. Somebody must see the big picture across individual licences and beyond the short-term perspective. Petoro can do that as a partner. But we also need a diversity of players who can contribute a variety of ideas, expertise and technology to challenge, see new opportunities and generate other concepts than those adopted by the traditional companies.

In everything we do, whether as new or established operators and partners, we must manage our activities in a way which does not raise questions about the industry's legitimacy in operating on the NCS.

Petoro manages the largest portfolio of oil and gas reserves on the NCS. It aims to be a competent and constructive licensee and challenger in order to ensure continued value creation for its owner – and thereby for society. To achieve that, the company must build up expertise and capacity – against tough competition – which equips it to do more independent work. On that solid professional basis, Petoro will seek collaboration with operators and with its other partners to achieve the best solutions.

Kjell Pedersen
President and CEO

Petoro in brief

The government's oil and gas portfolio embraces about a third of Norway's petroleum reserves.

The State's Direct Financial Interest (SDFI) is the largest portfolio of oil and gas reserves on the NCS. As its manager, Petoro AS has been able to transfer an annual net cash flow in the order of NOK 100 billion or more to the government. This revenue stream represents one of three principle sources for building up Norway's government pension fund – global, also known as the oil fund.

Petoro – for enhanced value creation
The SDFI was established in 1985 by splitting Statoil's overall portfolio of oil, gas and associated facilities into two parts – one retained by the company and the other owned directly by the state. After the latest awards in February 2008, the SDFI has interests in 124 production licences, including 36 producing fields.

Petoro's offices are in Stavanger. The principal arena for its work is the individual production licences and projects. Identifying opportunities for cooperation between these holdings to secure a further increase in value creation would represent a substantial contribution by Petoro.

Vision

- The best partner

Values

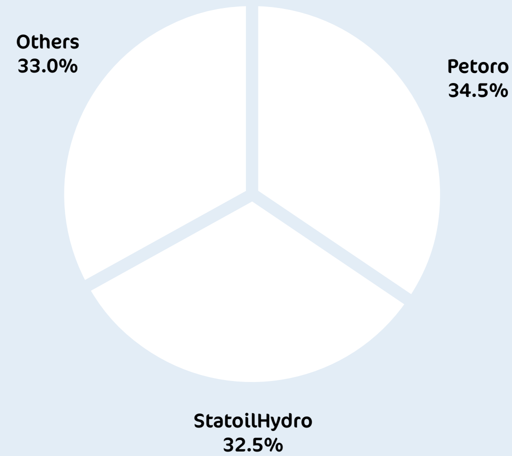
- Safeguard human life and the environment
- Boldness and innovative thinking
- Commercial orientation
- Integrity
- Collaboration

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.

Key duties

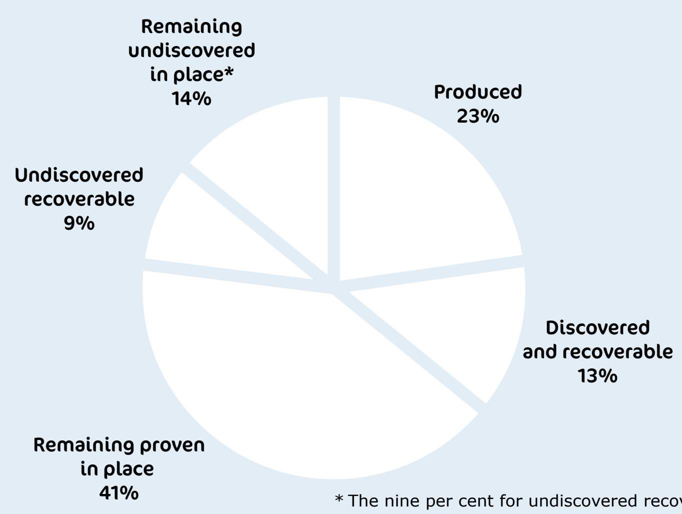
- Managing the State's Direct Financial Interest (SDFI) in those partnerships where such holdings exist at any given time.
- Monitoring StatoilHydro's sale of the petroleum produced from the SDFI, as specified in the sales and marketing instruction.
- Financial management, including accounting, for the SDFI.



Biggest reserves on the NCS

The SDFI embraced 7.7 billion barrels of oil and gas converted to oil equivalent (oe) at 31 December 2007 and is thereby still the largest portfolio of remaining petroleum reserves even after the StatoilHydro merger.

Oil still exceeds gas in the production mix, but crude output has been declining in recent years while the gas share is still climbing. Gas production will receive a further boost from Ormen Lange, Snøhvit and additional deliveries in both new and mature areas of the NCS.



* The nine per cent for undiscovered recoverable reserves assumes a recovery factor of 40 per cent.
Source: NPD, Petoro

The Norwegian continental shelf is in a mature phase, with oil production in decline while lifting costs for petroleum are rising. But substantial oil and gas resources remain off Norway. Petoro is a prime mover in boosting exploration activity, adopting new technology, making production more efficient and enhancing profitability – not least for minor discoveries.

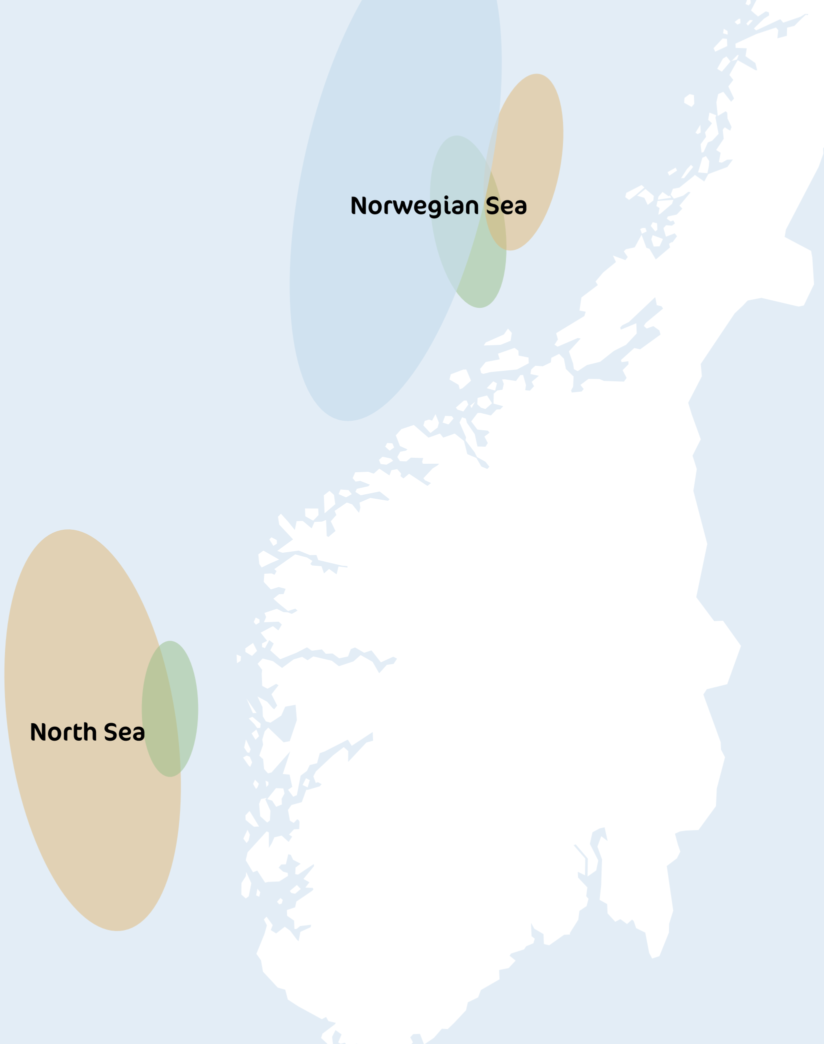
Petoro's strategy and role

Area development is Petoro's main strategy, and its broad portfolio provides good opportunities to promote integrated solutions which contribute to more efficient resource utilisation in geographical core areas. The area development approach starts from the individual field, but aims to realise synergies between a number of fields and infrastructure components. Commercial opportunities emerge through good knowledge of the individual field, infrastructure in the area and market conditions.

Two subsidiary strategies have a particular value creation potential.

- Maturing reserves involves converting resources into commercial reserves, both through new discoveries and through improving recovery from mature fields. Petoro's ambition is to increase the SDFI's reserves by two billion barrels of oil equivalent in 2007–15. At the same time, the company has established a "reserve maturation stair" of annual goals and measures which will help to fulfil this ambition. More exploration wells and enhanced efficiency in production drilling are among these measures.

- Early application of technology can add value, not least in areas dominated by production from existing fields (mature areas).



Petoro's challenger role

- Petoro has previously been partly able to discharge its licensee role in an efficient way by playing on the two large, independent and competing operators represented by Statoil and Hydro. Following their merger, the company must develop a clearer role as a challenger on the basis of more independent professional work in such areas as the sub-surface and commercial negotiations.

	Maturing reserves	**Early use of technology**
Immature areas • Deepwater parts of the Norwegian Sea • Barents Sea		
New field development • Troll area • New Halten Bank fields		
Mature areas • Tampen • Oseberg • Producing Halten Bank fields	Primarily measures to improve recovery	

KEY FIGURES SDFI

Net income for the State's Direct Financial Interest (SDFI) in 2007 came to NOK 112.6 million, compared with NOK 128.5 billion the year before. Operating revenues for 2007 totalled NOK 167.7 billion as against NOK 175 billion in 2006. The cash flow is transferred to the government and was NOK 112.3 billion, compared with NOK 126.2 billion the year before. At 1 202 000 barrels of oil equivalent, overall daily production was on a par with 2006.

FINANCIAL DATA (in NOK million)

	2007	2006	2005	2004	2003
Operating revenue	167 724	174 979	152 683	120 807	101 699
Operating income	114 493	129 833	113 069	83 653	68 621
Net income for the year	112 641	128 467	113 172	82 343	68 154
Cash flow from operating activities	132 203	146 616	119 767	98 428	85 045
Cash flow applied to investment activities	19 871	19 877	20 686	17 153	14 465
Net cash flow	112 281	126 213	99 175	81 401	69 005

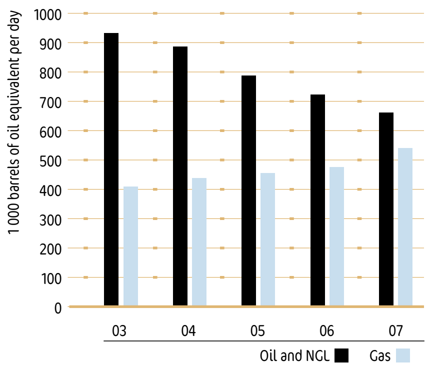
OPERATIONAL DATA

	2007	2006	2005	2004	2003
Production oil and NGL (1 000 barrels per day)	661	723	788	886	933
Production dry gas (mill standard cubic metres per day)	86	75	72	70	65
Oil, NGL and dry gas production (1 000 boe per day)	1 202	1 198	1 244	1 324	1 341
Remaining reserves (million boe)	7 736	8 083	8 422	8 773	9 095
Reserves added* (million boe)	28	26	95	88	84
Reserve replacement rate* (three-year average in per cent)	105	97	177	88	1 104
Oil price (USD per barrel)	71.44	64.50	53.03	37.57	28.76
Oil price (NOK per barrel)	418	412	344	254	203
Gas price (NOK per scm)	1.63	1.92	1.47	1.07	1.00

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

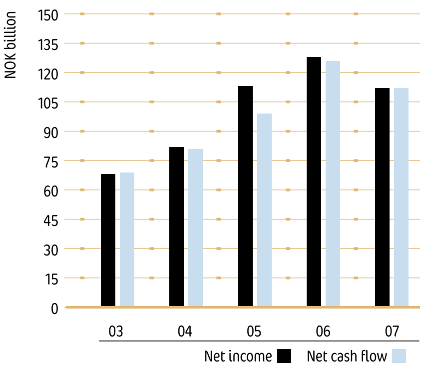
PRODUCTION

Total production was on a par with 2006. Gas output was up by 14 per cent, while production of oil and NGL fell by nine per cent. A lengthy shutdown of Kvitebjørn to ensure acceptable drilling was offset by increased volumes from Troll. The latter still accounts for more than a third of total production.



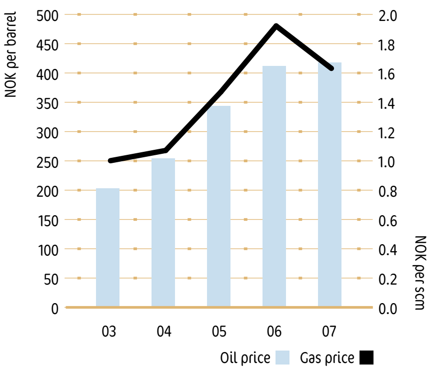
NET INCOME AND CASH FLOW

The net income of NOK 112.6 billion was NOK 15.8 billion down from 2006 because of lower oil production, higher operating costs and reduced gas prices. Cash flow, transferred in its entirety to the government, declined by NOK 13.9 billion from 2006 to NOK 112.3 billion.



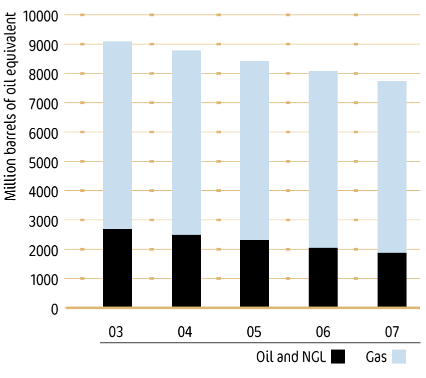
OIL AND GAS PRICES

The average price of oil from the SDFI portfolio was NOK 418 per barrel, compared with NOK 412 the year before. In US dollars, the figure was USD 71.44 – an 11 per cent rise from 2006. The average gas price was NOK 1.63 per scm, compared with NOK 1.92.



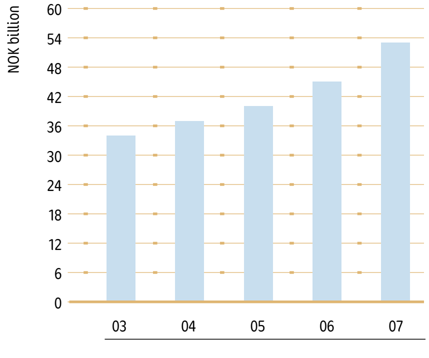
REMAINING RESERVES

The portfolio's remaining estimated oil, NGL and gas reserves at 31 December totalled 7.7 billion boe, down by 339 billion from a year earlier. Net new reserves amounted to 105 million boe, which represented a reserve replacement rate of 24 per cent compared with 22 per cent in 2006.



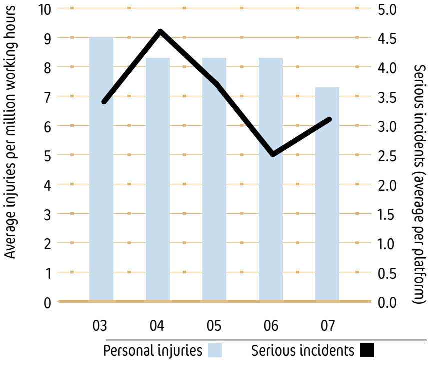
COSTS

The cost of operating fields, pipelines and land-based plants rose by 32 per cent from 2006, reflecting high activity and increased prices in the supplies sector and the start-up of new fields such as Snøhvit and Ormen Lange. Exploration costs were NOK 1.4 billion as against NOK 1.1 billion in 2006.



SAFETY

The personal injury frequency per million hours worked was 7.3, a substantial improvement from 2006. Despite fewer gas leaks, a marginal increase from 2006 was recorded for serious incidents. The HSE improvement was overshadowed by the fatal accident on *Saipem 7000*, when a man fell overboard and drowned.



HIGHLIGHTS

2007

PETORO GEARS UP FOR STATOILHYDRO MERGER

The merger between the two major domestic operators on the NCS means a significant change in the basis for this industry. With StatoilHydro responsible for 80 per cent of production from these waters, other players must do more independent work.

SNØHVIT AND ORMEN LANGE ON STREAM

Production from Snøhvit and Ormen Lange began in September. Through exports to the UK, the second of these fields contributed to the increase in gas output for 2007. The Snøhvit plant at Melkøya yielded much smaller volumes than expected because technical problems forced it to shut down and then run at lower capacity than planned.

PETORO STRENGTHENED

In order to make independent assessments of proposals from the operator and to present alternative solutions, Petoro took several steps to strengthen areas of its technical expertise and its commercial negotiating team. This work will continue in 2008 and beyond. In that context, it was very important that the government removed the ceiling on Petoro's workforce during consideration of the revised national budget in the spring of 2007.

DISCUSSION ON RESTRUCTURING COSTS

StatoilHydro has demanded that its partners help to meet part of the cost of merging Statoil and Hydro. Licence agreements specify that partners are obliged to contribute to restructuring costs if the operator can demonstrate that they will receive a financial benefit. Petoro and the other partners maintain that such benefits have yet to be proven. The issue remained unresolved when this annual report went to press.

WORKING MORE EFFICIENTLY OFFSHORE
Petoro has compared how the major operators are implementing integrated operation (IO) in order to work more efficiently on the NCS. This study identified substantial progress, particularly by the two major Norwegian operators, but the potential of IO has still not been fully realised.

NEW LICENCES AND NEW DISCOVERIES
Petoro was given interests to manage in nine new production licences. Exploration activity increased from the very low level of recent years. Petoro was involved in 16 exploration wells, which yielded nine discoveries to be assessed for further development.

TROLL PROJECT HALTED
The Troll future development project was halted by the Ministry of Petroleum and Energy because of fears that increased gas exports would be negative for oil output. This also put a stop to work on a possible new gas pipeline to Europe.

SHARP RISE IN COSTS
Operating costs for the SDFI rose by no less than 32 per cent from 2006. A high level of activity and big demand for goods and services drove prices up, not least for chartering rigs. Increased maintenance and modification work on mature fields and higher costs for bringing fields on stream also contributed to the rise.

IMPROVED DRILLING
A strategic project in Petoro reviewed important fields with a view to improvements for production drilling. As a specific result, the Heidrun partnership adopted a new and better method for well planning.

OIL OUTPUT DOWN NINE PER CENT
Production of oil and NGL declined by nine per cent, partly because of the maturation of the NCS and because Kvitebjørn was shut down for much of the year. Problems with wells on Heidrun also contributed.

GAS PRODUCTION UP 14 PER CENT
Gas output rose by 14 per cent. A number of fields produced more gas, while the start-up of Ormen Lange provided a further boost in the autumn. Revenues from gas sales nevertheless declined somewhat because of lower prices in the market.

Bjørn Vidar Lerøen, advisor on petroleum issues to the mayor of Stavanger and formerly a special advisor at Statoil, has joined forces with Sveinung Sletten, vice president external affairs for Petoro, to paint a picture of the NCS with special emphasis on the key players. Both authors worked as oil reporters for much of Norway's petroleum era.

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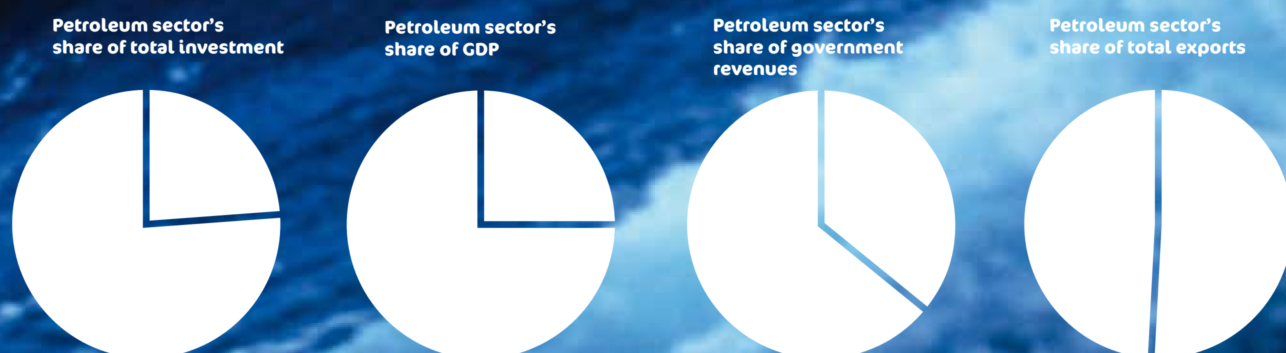


Source: NPD/Ministry of Finance

PLAYERS IN THE PETROLEUM EPOCH

Before the Ekofisk discovery was announced at Christmas 1969, few Norwegians thought their country could become the world's third largest oil exporter or that its oil and supply companies might make their mark internationally. Only a few years after Ekofisk was found, however, Norwegian politicians and civil servants moved to secure national control of and participation in the new industry. The graphs to the left illustrate their success at the level of the national economy. The player picture on the NCS has also been reversed over the past 40 years – from total foreign domination of the operator role to the current position where StatoilHydro operates 80 per cent of Norwegian production and 90 per cent of the SDFI portfolio managed by Petoro.

AN EPOCH, NOT AN EPISODE

The first policy documents written after oil had been discovered on the NCS at the end of the 1960s made it clear that Norway's "oil age" was to be an epoch rather than an episode.

A vision of the country as a young and strong-willed petroleum nation found its best expression in White Paper no 25 of 1973-74, on the place of petroleum activities in Norwegian society. This epoch-based thinking proved fundamental for Norway's approach to offshore resource management. The country wanted not only to get as much as possible out of its oil resources, but also to exercise strong national control. Unlike the Danes, who chose to give an exclusive concession for exploration and production on their continental shelf to a single company, the Norwegians opted for a diversity of players. Openness and competition became a cornerstone of their model. Initially, only the major international oil companies were qualified to participate in the demanding seas off Norway, but Norwegian oil policy came to concern itself fairly quickly with the build-up of national companies and a domestic petroleum industry.

A NEW OIL INDUSTRY TAKES SHAPE

The 20th century – justifiably dubbed "the century of oil" – was dominated for much of its course by the Seven Sisters. These companies participated in exploration and production everywhere oil could be found around the world. In 1960, however, an event occurred which came to change this picture – the formation of the Organisation of Petroleum Exporting Countries (Opec) at a meeting in Baghdad. Four of its founders were Middle Eastern nations, and the fifth was Venezuela.

Opec expanded and had 13 members at its peak, but it took time for the new oil power to become visible. During the Middle East war in October 1973, the cartel flexed its muscles and increased crude prices sharply. The world experienced its first major oil crisis, with petrol rationing and other measures. For Norwegians, a picture of their then King Olav taking the tram to go skiing during a ban on Sunday driving came to symbolise this period.

A wave of nationalisation swept over the oil-producing nations. Many of them either threw out the multinational companies or subjected them to such onerous restrictions that they had to look around for other opportunities. The world was reminded of the fact, which many found uncomfortable, that Opec held 75 per cent of overall oil reserves.

Two new oil provinces had been discovered at the time – the North Sea and Alaska. They became significant both for the supply position and for oil company activities.

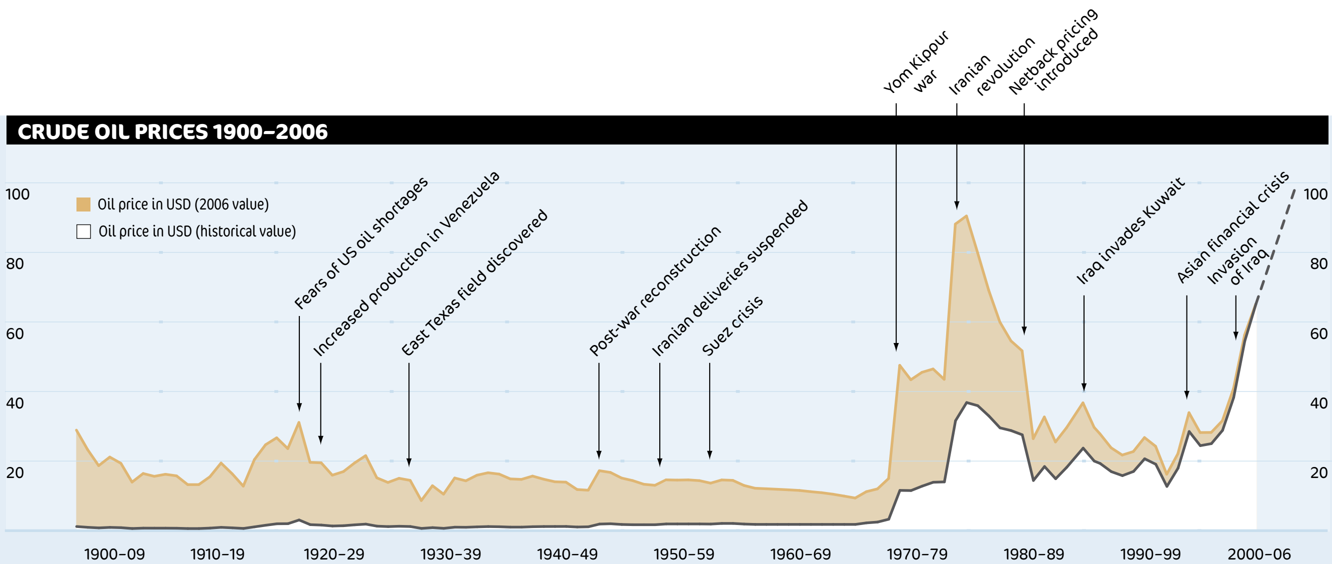
NEW OIL NATION – IN A HIGH-PRICE SCENARIO

Norway accordingly became an oil nation during one of the most dramatic episodes in the century of oil. With petroleum resources which were demanding to produce, the country unquestionably benefited from the higher crude prices. The Norwegian offshore industry's dependence on such price levels was indisputable. Another crisis accordingly occurred when the cost of oil dropped dramatically in 1986. More than a decade of high prices had seriously undermined Opec's market share. Just as the organisation had deployed the oil weapon in 1973 to get prices up, it used the same means to force them down. The difference was that Opec oil production was sharply increased in 1986, rather than being reduced as in 1973.

The slump in oil prices forced the oil companies to think along new lines, not least on the NCS. Extensive programmes were launched to develop cost-effective technology. The government made its own contribution to maintaining activity by easing its terms.

But the crisis also left deep marks on the structure of industry. This changed dramatically during the 1990s, when the concept of the Seven Sisters altered in the face of major mergers and acquisitions. New giants emerged, with ExxonMobil becoming the leading symbol of power and size. But much more happened – BP acquired Amoco and Arco, Total, Elf and Fina merged under the first of these names, Conoco and Phillips became ConocoPhillips. Nor did Norway escape this powerful surge of industrial rationali-

CRUDE OIL PRICES 1900–2006

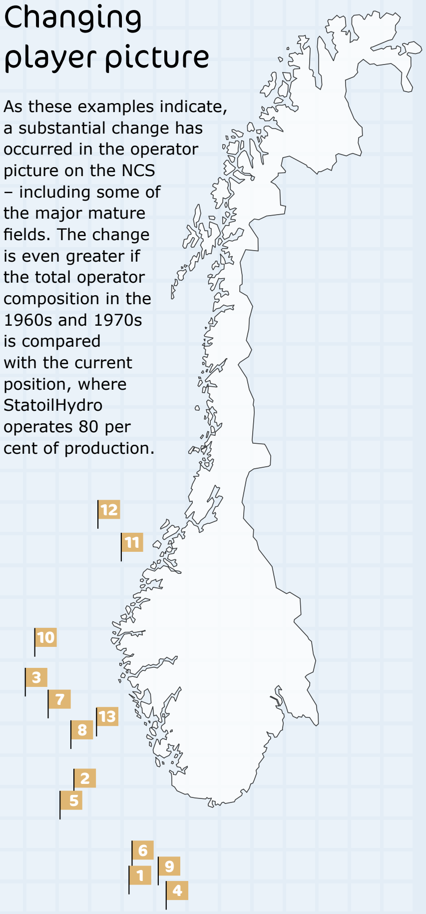


1900–1944 US Average 1945–1983 Arabian Light posted at Ras Tanura 1984–2006 Brent dated

Source: BP Statistical Review

Changing player picture

As these examples indicate, a substantial change has occurred in the operator picture on the NCS – including some of the major mature fields. The change is even greater if the total operator composition in the 1960s and 1970s is compared with the current position, where StatoilHydro operates 80 per cent of production.



1 EKOFISK

Discovered	1969
On stream	1971
Operator at start-up	Phillips
Current operator	ConocoPhillips
Total investment (est)	NOK 156.7 bn
Invested at 31.12.06	NOK 118.6 bn
Reserves	25%

2 FRIGG (ceased production)

On stream	1977
Production ceased	2004
Operator at start-up	Elf
Total gas produced	116.2 bn scm
Total condensate produced	0.5 mill scm
Reserves	0%

3 STATFJORD

Norwegian share	85.47%
British share	14.53%
Discovered	1974
On stream	1979
Operator at start-up	Mobil
Current operator	StatoilHydro
Total investment (est)	NOK 127.9 bn
Invested at 31.12.06	NOK 117.3 bn
Reserves	9%

4 VALHALL

Discovered	1975
On stream	1982
Operator at start-up	Amoco
Current operator	BP
Total investment (est)	NOK 65.4 bn
Invested at 31.12.06	NOK 47.6 bn
Reserves	34%

5 ODIN (ceased production)

On stream	1984
Production ceased	1994
Operator at start-up	Exxon
Total gas produced	27.3 bn scm
Total condensate produced	0.2 mill scm
Reserves	0%

6 ULA

Discovered	1976
On stream	1986
Operator	BP
Total investment (est)	NOK 22.1 bn
Invested at 31.12.06	NOK 21.0 bn
Reserves	14%

7 GULLFAKS

Discovered	1978
On stream	1986
Operator at start-up	Statoil
Current operator	StatoilHydro
Total investment (est)	NOK 118.7 bn
Invested at 31.12.06	NOK 109.9 bn
Reserves	7%

8 OSEBERG

Discovered	1979
On stream	1988
Operator at start-up	Norsk Hydro
Current operator	StatoilHydro
Total investment (est)	NOK 91.9 bn
Invested at 31.12.06	NOK 82.3 bn
Reserves	24%

9 GYDA

Discovered	1980
On stream	1990
Operator at start-up	BP
Current operator	Talisman Energy
Total investment (est)	NOK 15.8 bn
Investert per 31.12.06	NOK 14.7 bn
Reserves	11%

10 SNORRE

Discovered	1979
On stream	1992
Operator at start-up	Saga
Current operator	StatoilHydro
Total investment (est)	NOK 90.8 bn
Invested at 31.12.06	NOK 64.8 bn
Reserves	32%

11 DRAUGEN

Discovered	1984
On stream	1993
Operator	Shell
Totale investment (est)	NOK 27.5 bn
Invested at 31.12.06	NOK 26.5 bn
Reserves	16%

12 HEIDRUN

Discovered	1985
On stream	1995
Operator at start-up	Conoco
Current operator	StatoilHydro
Total investment (est)	NOK 72.2 bn
Invested at 31.12.06	NOK 58.9 bn
Reserves	40%

13 TROLL GAS

Discovered	1983
On stream	1996
Operator at start-up	Shell
Current operator	StatoilHydro
Total investment (est)	NOK 76.3 bn
Invested at 31.12.06	NOK 55.1 bn
Reserves	69%

All investments in NOK 2007 values

Source: Facts 2007 MPE/NPD

01 An official inauguration on Gullfaks, the first "all Norwegian" field in terms of licensees and operator for both development and production. This North Sea discovery confirmed that domestic oil companies were in the driving seat.

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sation. The first to disappear was Saga Petroleum, taken over in 1990 by Hydro and Statoil. Then Statoil merged with Hydro's oil and gas business to become StatoilHydro in 2007.

GOVERNMENT TIGHTENS GRIP

The Norwegian government utilised the results of the international negotiations on the law of the sea to establish national jurisdiction over the NCS in the early 1960s. Of necessity, big international oil companies had to be the pioneers in a small nation without a domestic petroleum industry. Before the NCS was opened for exploration in 1965, the fiscal framework had also been constructed and Norway had reached agreement with its North Sea neighbours on applying the median line principle to divide up the continental shelf.

In the early 1970s, the government took an even firmer grip on the petroleum business. Along with the epoch-not-episode thinking, management of the riches beneath the seabed was rooted in a social perspective. The Storting (parliament) defined the oil resources as communal property, making it clear that no single company or group should be favoured or enriched. According to the politicians, offshore revenues should be used to create "a qualitatively better society".

Norway's petroleum wealth has gradually been converted into financial assets. Perhaps as much as half its oil resources and a little less than that of its gas have been produced. Much of the resulting revenues have been consumed by society, but substantial funds have been put aside. The government's oil fund totalled more than NOK 2 000 billion at 31 December 2007.

In addition to its roles as legislator, licence-giver and tax collector, the Norwegian state has various instruments for a more direct involvement with petroleum activities on the NCS.

The government's "repatriation" of 51 per cent of Norsk Hydro in 1971 represented a first attempt to establish a national instrument to deal with operational and commercial activities offshore. In the following year, the Storting unanimously resolved to create Den norske stats oljeselskap a.s (Statoil) and private Norwegian capital interests joined forces to found Saga. The young oil nation had thereby acquired three domestic companies with differing ownership models, which was regarded by the politicians as an almost perfect balance: Statoil, wholly state owned, Hydro, 51 per cent state owned, and Saga Petroleum, wholly owned by private Norwegian capital.

INTERNATIONAL OPERATORS IN CHARGE

The Norwegian oil adventure was launched by foreign oil companies. In possession of the technology and experience, they became operators for exploration and development. This characterised operations on the NCS during the 1970s and far into the 1980s. From the USA, Phillips developed the Ekofisk area, Amoco had Valhall, Exxon Odin, Conoco Heidrun and not least Mobil with Statfjord. France's Elf Aquitaine found and developed Frigg. Britain's BP did the same for Ula and Gyda, while Anglo-Dutch Shell discovered Troll and developed its gas as well as finding and developing Draugen. The government regarded the involvement of such companies as a criterion of success – and still thinks that.

GOVERNMENT SEEKS SHARE OF VALUE CREATION

When the NCS was opened to exploration and it was resolved to develop Ekofisk as Norway's first producing oil field, the price of crude was USD 2 per barrel. However, it was obvious that oil and gas operations in these waters would yield a return higher than normally expected in traditional industries. So the economic rent principle was applied when formulating Norway's offshore tax regime and other conditions. The Norwegian government wanted a significant slice of the value created.

The interests of the companies also had to be safeguarded, so that

02/03 Draugen in the Norwegian Sea showed that there was still room for foreign operators after the three domestic companies had passed their test. Shell operates this field, and has also become operator for Ormen Lange. StatoilHydro is not the sole operator on the NCS today.

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they could invest with predictability in a risky industry with huge capital costs and technology requirements. They could achieve the necessary assurance both by obtaining operatorships and because voting rules in licences on the NCS gave them greater influence as partners than their percentage holding would suggest.

BUILDING UP THREE NATIONAL OPERATORS

However, it was important for the politicians to ensure that the three Norwegian players secured independent operator assignments as quickly as possible, so that they could become fully-fledged oil companies. Each in turn went through a baptism of fire in the northern North Sea – Statoil on Gullfaks, Hydro on Oseberg and Saga on Snorre.

The favouritism shown to the Norwegian companies led to significant changes in the players during the 1980s. When Statoil took over the operatorship of Statfjord in 1987, Mobil reduced its presence in Norway from more than 1 800 employees to about 100. The company's research centre in Dallas also lost its operator grip on one of the fields worldwide to which it was then devoting much of its time. Statoil's takeover of the Heidrun operatorship in the Norwegian Sea had major organisational consequences for Conoco. And the failure of Elf – later Total – to secure new operatorships after the Frigg shut-down left plenty of space at its offices in Dusavik outside Stavanger.

From today's perspective, the most significant aspect was that operator teams from the major international companies were sharply reduced in Norway whilst those in the three Norwegian players expanded greatly. These three were subsequently merged over a few years into a single company – without the international majors appearing to be willing to compensate for the loss of diversity in technical, commercial and expertise terms.

Statoil's growth fell into a special category because of its traditional privileges as a state-owned company. It received a holding in all new licences on the NCS – which went as high as 85 per cent in Gullfaks. Even before Statoil brought this first development on stream, its size and alleged power had become a political problem. The debate on this issue illustrated how difficult it can be to become large in a small nation.

CLIPPED WINGS

The principal aim of the far-reaching reform of Norwegian oil policy in 1985 was to put Statoil more on a competitive par with the other oil companies. Known as "clipping its wings", this goal was achieved by abolishing the company's special privileges and reducing its size.

A new government instrument emerged – the State's Direct Financial Interest (SDFI). The government became a direct licensee and investor on the NCS. This happened in practice by dividing Statoil's existing holdings roughly into two. Half remained with the company, with the rest transferred to the SDFI. Then the authorities reversed their position and asked wholly state-owned Statoil to continue administering the SDFI's interests and to sell the volumes of oil and gas falling directly to the state.

Creation of the SDFI marked the start of a new process. A desire emerged from within Statoil to remove the last barriers to becoming a purely commercial company by securing a stock market listing. This wish found concrete expression at a petroleum policy conference in Sandefjord south of Oslo during January 1999, when Statoil chief executive Harald Norvik said it was not a question of whether but when private capital would be incorporated through share ownership.

WORKING MORE INDEPENDENTLY

The establishment of the State's Direct Financial Interest in 1985 and the partial privatisation of Statoil in 2001 led to the creation of Petoro to manage the government's holdings. Until the StatoilHydro merger, Petoro could do an effective job through shifting alliances with the two Norwegian operators. With a single operator for 90 per cent of the SDFI portfolio, however, Petoro – like the other players – must draw to a greater extent on its own expertise and technical-financial work. The company is in the process of restructuring its organisation to this end. It also has an ambition to increase the SDFI's reserves by two billion barrels of oil equivalents in 2007-15.

Following the merger, StatoilHydro operates 80 per cent of production on the NCS – and 90 per cent of the SDFI portfolio.

PETORO – CONSTRUCTIVE CHALLENGER

Creation of the State's Direct Financial Interest (SDFI) made the Norwegian government a direct licensee on the NCS, while clipping Statoil's wings launched the process which led to partial privatisation and a stock market listing. These two developments played a key part in the creation of Petoro in 2001 as a proactive licensee on the NCS.

Statoil was listed on the Oslo and New York stock exchanges on 18 June 2001. When the Storting sanctioned this move in April of that year, new steps had to be taken for managing the SDFI portfolio. Petoro was created as a state-owned oil company on 9 May 2001 to take on that job from Statoil.

Statoil's listing also created expectations among investors that it would merge with Hydro. These were fulfilled in 2007.

PARTNER AND CHALLENGER

Petoro is StatoilHydro's largest partner, while the latter is Petoro's biggest operator and partner – responsible for 90 per cent of the Petoro/SDFI portfolio. This company is also responsible for marketing and sale of the volumes produced from the SDFI.

Petoro has great expectations that synergies and cost reductions will follow in the wake of the merger. But it also sees that expertise and capacity must be built up in-house to create a constructive challenger to StatoilHydro.

Petoro wants to see integrated thinking and a unified area approach on the NCS. The company is responsible for optimising the value of the state's petroleum assets.

Work in the individual licences is the most important platform for safeguarding value creation, but the broad range of Petoro's interests on the NCS also make it natural to look for value creation opportunities in a wider context.

AMBITION OF TWO BILLION EXTRA BARRELS

Petoro has created a strategy for area development, where maturing reserves and the use of new technology are key elements. In line with this, the company has adopted an ambition of increasing oil and gas reserves in the SDFI portfolio by two billion boe over the next seven-eight years.

The company is now working to get specific measures adopted by the licences. In 2008, it will secure new drilling targets as well as looking for opportunities to improve reservoir drainage and develop new formations.

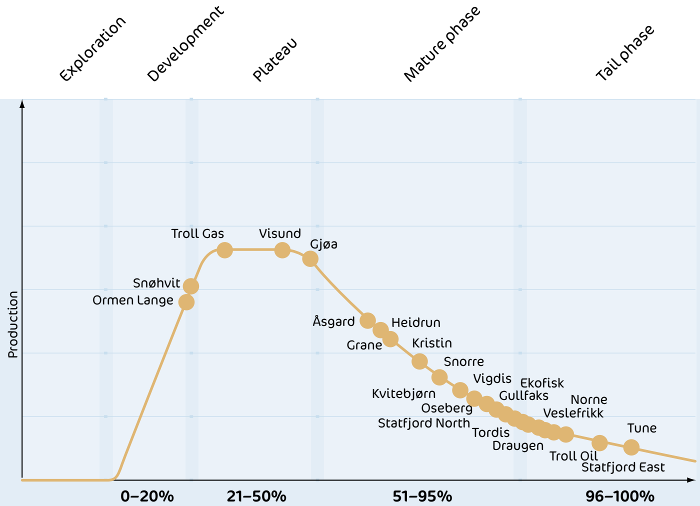
A new standard industry agreement covering governance of production licences on the NCS came into force on 1 January 2007. Petoro was a prime mover in the work of preparing this standard, which provides a good tool for improved governance of the business. The company made use of the new agreement during 2007 through such action as proposing that more production licences have long-term plans based on specific targets and measures for developing their reserves.

MORE ACTIVE OWNERSHIP

Stronger governance and a position with one dominant operator point towards a need for other licensees to be ready to undertake a greater degree of independent technical and commercial work in order to protect their equity interests in the production licences. That applies to Petoro, the major international companies and a number of new Norwegian and foreign players of varying size and with differing backgrounds, expertise and capacity.

The influx of these new companies largely reflects government efforts to boost exploration activity on the NCS after fewer than 10 wells per year had been drilled in 2003-04. The number of operators rose from 13 in 2002 to 32 at the beginning of 2007, and has continued to increase. So far, the new players have been particularly active in exploring mature areas, such as the North Sea. However, the allocation of licences in February 2008 under the latest awards in predefined areas (APA) process indicated that many of the newcomers also have ambitions in the Norwegian and Barents Seas. On the other hand, they are by and large absent from the big mature fields.

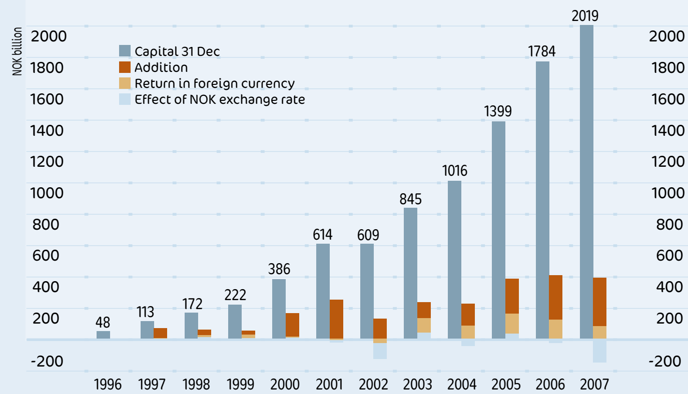
In these conditions, Petoro has initiated a shift in its organisa-



NCS IN A MATURE PHASE

Source: Petoro

Many large fields will be well into their mature phase by 2010. New discoveries are being developed, but will presumably be far smaller than the major fields found in the 1970s and 1980s.



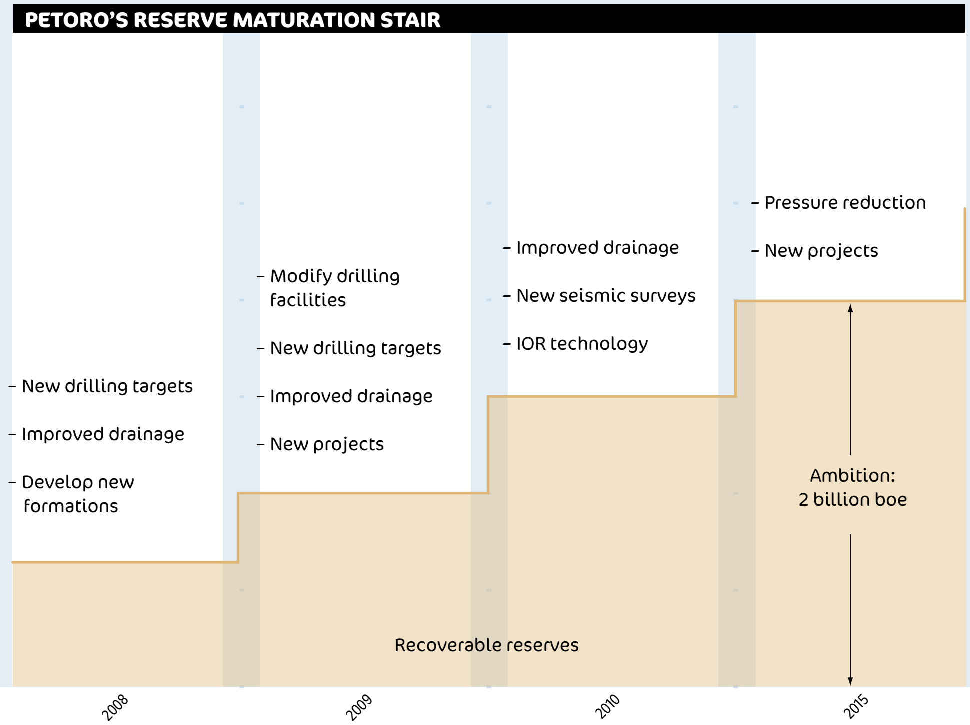
GROWTH IN GOVT PENSION FUND – GLOBAL 1996–2007

Source: Bank of Norway/NBIM

The two principal components in the annual addition (red section of the columns) to the pension fund are taxes paid by companies on the NCS and direct revenues from the SDFI. The latter accounts for 30–40 per cent of the government's total income from the petroleum sector.

tion towards the ability to do a greater amount of independent technical work – particularly with the sub-surface. But increased commercial expertise and capacity are also required in order to play a more active role in negotiations within and between the production licences.

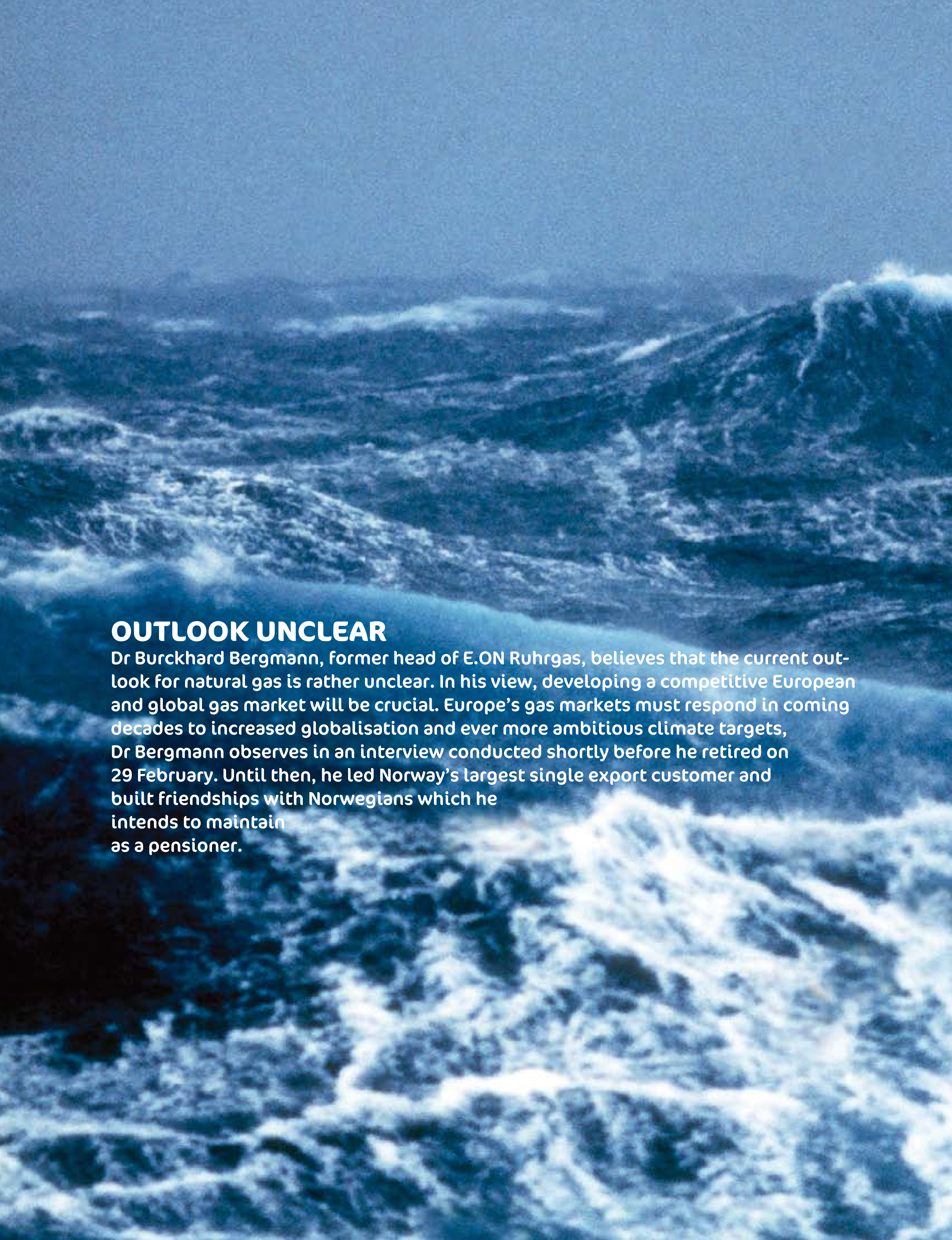
PETORO'S RESERVE MATURATION STAIR



Important to link targets in the business plan with measures and projects

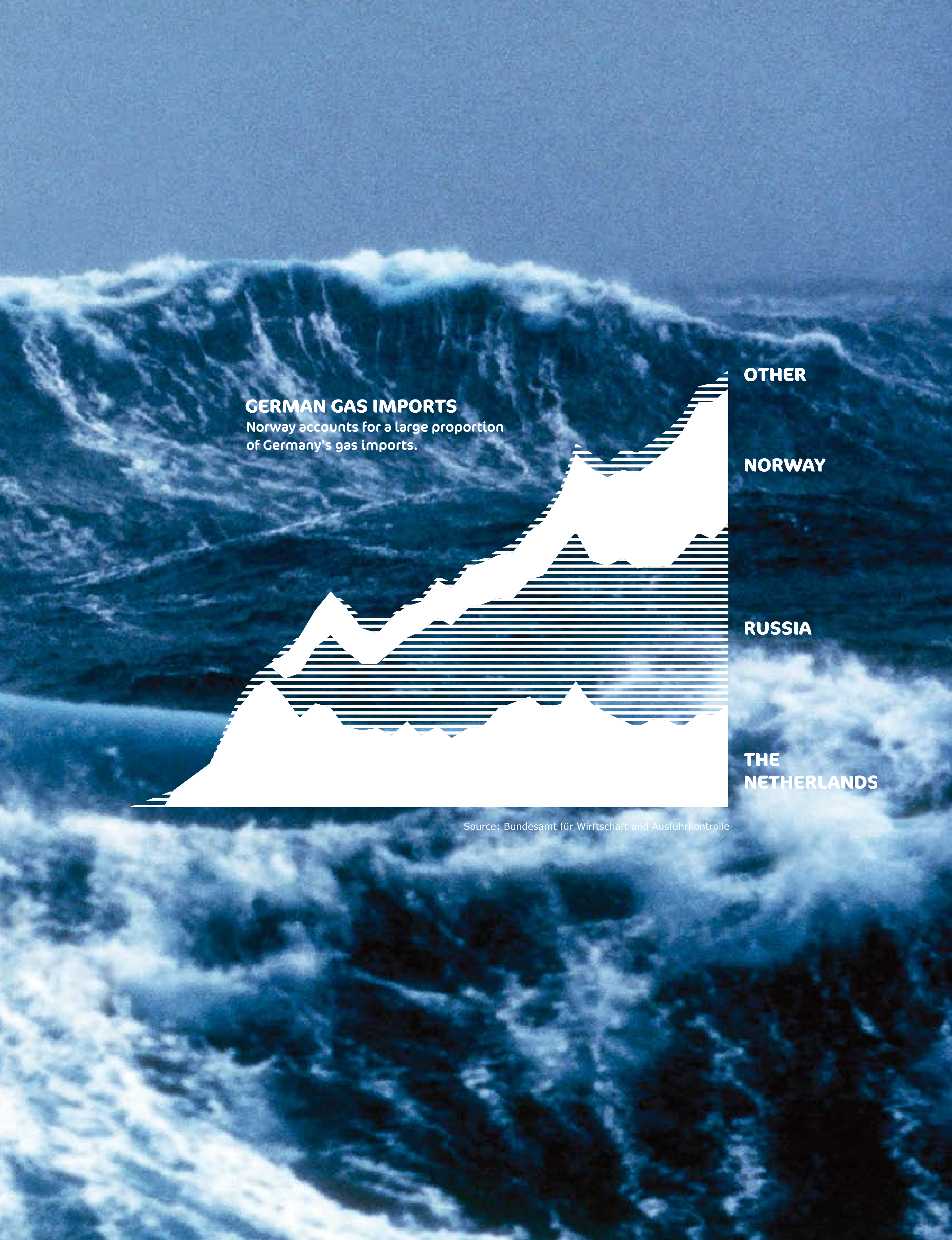
Petoro's work has contributed to more specific long-term plans in the licences

Source: Petoro



OUTLOOK UNCLEAR

Dr Burckhard Bergmann, former head of E.ON Ruhrgas, believes that the current outlook for natural gas is rather unclear. In his view, developing a competitive European and global gas market will be crucial. Europe's gas markets must respond in coming decades to increased globalisation and ever more ambitious climate targets, Dr Bergmann observes in an interview conducted shortly before he retired on 29 February. Until then, he led Norway's largest single export customer and built friendships with Norwegians which he intends to maintain as a pensioner.



Source: Bundesamt für Wirftschaft und Ausfuhrkontrolle

LEAVING OFFICE AFTER 30 YEARS AS NORWAY'S BIGGEST CUSTOMER

Burckhard Bergmann (65) has represented Norway's biggest-ever single customer over the past three decades. Under his leadership, E.ON Ruhrgas has also agreed to take Norwegian gas for the next 20 years with a value roughly estimated at NOK 500 billion using recent price levels. Such huge business commitments have been followed up by close relations on a cultural and personal level.

Although far from being as familiar to the average Norwegian as biathlon skiing stars Magdalena Neuner or Michael Greis, Dr Bergmann was nevertheless a key player in concluding gas sales agreements of historic dimensions in Norwegian foreign trade as well as in the country's petroleum business. These deals between Norwegian sellers and European buyers in the 1970s and 1980s paved the way for constructing huge gas pipelines to Europe and positioned Norway as a key supplier alongside Russia.

So Dr Bergmann is certainly a celebrity in the Norwegian gas business, and has attended numerous business, cultural and social events in Norway. He has not only been a key speaker at gas conferences and events such as Offshore Northern Seas in Stavanger and the energy policy meeting for top international players at Sanderstølen, but has also made himself available as a working member – and even chair – of the organising bodies for such events. And he has been a driver in the development of his company's cultural relationships with Norway. These include long-lasting sponsorship of the Munch Museum in Oslo, as well as the recently formed German-Norwegian Youth Forum which E.ON Ruhrgas supports together with StatoilHydro and the Norwegian Ministry of Foreign Affairs.

Meanwhile, he has also been paying careful attention to Russia – his other big gas supplier. E.ON Ruhrgas was the first foreign investor in Gazprom – one of the world's biggest companies – and Dr Bergmann became the first non-Russian member of its board of directors in 2000.

THE GLOBAL ENERGY SUPPLY AND DEMAND PICTURE

– How do you see the development of the energy supply and demand picture over the next 25 years, and what role do you envisage for natural gas in particular?

– The prospects for natural gas are currently shrouded in semi-darkness like a Rembrandt picture, and it is therefore difficult to make long-term forecasts. One important aspect will no doubt be the momentum with which a European and, in the medium term, a global competitive market evolves. LNG will play a significant role in this respect, even though development will not progress quite as rapidly as predicted by many people in recent years.

When securing gas supplies for European markets, one will face the strategic challenge of having to prevail over demand from other regions. What is more, European gas markets in the years ahead will not only have to cope with increasing globalisation, but also be confronted with ambitious climate protection targets. Increased use of renewable energies and intensified energy efficiency measures will tend to contract the heating market which is accessible to fossil fuels in the long run.

On the other hand, opportunities are increasing in power generation. On the whole, the basic position of gas as an integral part of the future energy mix is sound. Gas is the cleanest fossil energy, its transmission is environmentally compatible, and the technologies for its use are forward-looking.

THE INFLUENCE OF CLIMATE CHANGE

– Do you see the current scientific and political thinking in the Intergovernmental Panel on Climate Change (IPCC) concerning the effects of human-created carbon emissions as the long-term foundation on which the energy industry must develop its future business? And if so, what is going to be the main impact on suppliers and consumers?

– Even though not all questions concerning climate change can be answered with scientific certainty at present, we cannot wait until we have that final certainty. The European Union is therefore rightly setting ambitious climate protection targets and playing a certain pioneering role in this respect.

We must, above all, gain the support of the United States and

01 Important negotiations with Norwegian gas sellers. Dr Bergmann is third from the right, with his then boss, Dr Klaus Liesen, to his right. Statoil's Jacob Øxnevad can be seen in the centre on the opposite side of the table.

Japan for those targets and also incorporate China, India and South America in the long run.

Energy efficiency, energy conservation, renewable energies and nuclear power are key issues for climate protection, which can only develop its full impact if all market sectors are covered. Ultimately, this will have considerable consequences for the future energy mix.

– In its 2007 reference scenario, the International Energy Agency (IEA) forecast a rise of more than 50 per cent in global energy consumption over the 2005-2030 period, and reckons with a stable fossil fuel share of more than 80 per cent. Can you see any opportunities within the IEA time frame for significantly altering the composition of the world's energy consumption?

– Newly industrialising countries account for the main part of the increase in energy consumption. I therefore feel there is little chance of significantly reducing the steep rise in energy consumption anticipated by the IEA. However, greater use of nuclear energy might curb the development of carbon emissions.

SECURITY OF SUPPLY

– I don't expect you to be more receptive today than you were in the early 1980s to the idea of paying a premium for the security of Norwegian gas supply. But will geopolitical events and issues affect consuming companies and governments in terms of choosing their sources of supply in the future?

– E.ON Ruhrgas sets standards for security of supply with its broadly diversified gas deliveries from six countries. Not least in view of any future geopolitical tension or upheaval, our diversified supply portfolio will continue to provide maximum security – with Norway as one of the most important cornerstones. What's more, all major suppliers have delivered gas absolutely reliably for over 30 years now.

– For many years, Ruhrgas stepped down from advertising hoardings to allow "Erdgas" to be in the forefront as a product. And the message was secure supply for the long term. Are Germans more concerned about the risks associated with supplies than most other consumers – and do you consider this a challenge for natural gas as a prime energy source in the future?

– The occurrences between Russia and Ukraine in early 2006 again focused attention on security of gas supplies. They did not involve contractual ties between Russia and its European customers, which are not called into question by Gazprom, but were a bilateral transit problem stemming from the dissolution of the Soviet Union, whose consequences have still not been completely overcome. However, in the political and public domains, attention again concentrated on security of supply.

Another subject was the steep rise in gas prices. In this context, oil price pegging was questioned on the grounds that the factors triggering the oil price increase did not exist as such for gas.

Russia will expand its gas exports further. However, this requires investments in production and infrastructure to be stepped up considerably. I also assume that Russia will diversify its exports – in other words, develop markets other than Europe. To my mind, this includes LNG and pipeline gas deliveries to the Far East.

– You were recently elected "director of the year" in Moscow, after more than seven years of service on the board of directors of Gazprom. In your view, what will be the future role of Russian gas in light of anticipated demand growth and in light of the development of business and politics in Russia?

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02 Dr Bergmann with HM Queen Sonja of Norway.

– I assume that Russia will manage to provide incentives for saving energy and making increased use of coal in the longer term by significantly increasing domestic gas prices. Furthermore, the non-Gazprom producers will gain in importance. All in all, I certainly feel that there is a possibility of a further increase in gas exports from Russia. The art will be to properly coordinate the aforementioned processes in terms of their timing with the development of production.

STRUCTURAL CHANGES IN EUROPE

– The last couple of decades have seen widespread restructuring of the energy business – upstream, midstream and downstream. E.ON Ruhrgas is itself an example of the latter. What were the key drivers behind this development – and how do you see the future of the energy business in this particular perspective?

– Liberalisation of the European gas market was largely promoted by the European Union, not least through regulating gas networks. We still do not have a fully integrated European market for gas, but are making good progress in this direction. I am worried that increasingly nationalistic measures taken of late will impair future European integration. E.ON is in favour of a fully integrated, competitive European gas market and has already launched a number of initiatives for this purpose. That is not merely lip service, but the very bedrock of our action.

European integration is increasingly being overlapped by globalisation of the gas procurement market. The world's consuming regions are being linked more and more by LNG. Although the share of LNG will be relatively small in volume terms for the time being, arbitrage may cause a significant convergence of price levels.

As a large aggregator transforming relatively rigid international terms of supply into highly flexible terms to meet consumer needs, E.ON Ruhrgas will gain further weight through the expansion of its business across Europe.

NORWAY AS A SUPPLIER OF ENERGY

– How would you describe the future of Norway as a supplier of energy – and of natural gas in particular?

– Alongside Russia, Norway is western Europe's largest gas supplier. E.ON Ruhrgas is the biggest customer for its gas and has already contracted a total of about 300 billion cubic metres up to 2028. The business strategy of E.ON Ruhrgas aims at diversified supplies. It is therefore interested in increasing its deliveries from Norway in order to supply not only Germany but also other markets in Europe in which the E.ON group operates.

We are somewhat irritated by the frequently changing statements made of late concerning the medium-term development of Norwegian gas exports. We have to plan on a long-term basis. It is therefore essential for us to receive signs which are as reliable as possible. On this subject, we are in discussions with our Norwegian partners. I assume we will get more clarity in this respect in the foreseeable future.

E.ON Ruhrgas has now also become a gas producer. We are involved on the Norwegian continental shelf and interested in expanding our position there. In the long run, however, we will continue to procure most of our gas from other producers operating on the NCS.

– How do you view the possibility of the Arctic becoming a much more significant source of energy supplies in the future?

– I am not an expert on prospects in the Norwegian part of the Arctic, but very much hope that substantial additional reserves can still be tapped. Gas prices in the market are now sufficiently


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03 Dr Bergmann speaking in the autumn of 2007 at the 30th anniversary celebrations for the first Ekofisk gas contract.

high to make the development of such resources basically an economically viable proposition.

– Being so closely associated with both the Norwegian and the Russian gas businesses, do you see scope for a particular Russian-Norwegian collaboration in the Arctic, or should the two remain competitors – in the interest of European consumers?

– Cooperation between Norway and Russia in the Arctic suggests itself. Synergies can be leveraged in the use of both Norwegian technology and infrastructure.

– Should Norwegian gas sellers fear the Nord Stream pipeline from Russia across the Baltic to Germany, in which you are involved?

– Norway need not fear Russian gas. The country has proved to be very competitive in the marketplace until now. That will also be the case in the future.

GERMAN – NORWEGIAN RELATIONS

– Looking back on the gas sales agreements which paved the way for huge pipelines and decades of gas trade between Norwegian sellers and continental European buyers, which events or people do you remember particularly well?

– Ekofisk was a pioneering project, in which both sides displayed great courage. The success achieved there encouraged further action. All of this has resulted in a network of personal ties and genuine friendships.

– "Commitment" is a word that comes to mind as a description of these arrangements, but also as a description of the way key players have defended the deals over many years. As I understand it, you yourself have kept an eye on these arrangements, even as you were rising above gas purchasing to the top of Ruhrgas and then to the main executive board of E.ON Ruhrgas. What place have these gas arrangements had in your personal career and life – and what kind of feelings are evoked when you look back today on your own role in this context?

– Relations with Norway were and remain very important for me, even close to my heart. We have achieved a great deal together. Even when I was no longer directly responsible for gas procurement at E.ON Ruhrgas, I devoted particular attention to these relationships and cultivated the personal contacts and friendships further. We are involved not only in long-term business but also in long-term relationships. For me these will continue even after I retire.

– Do you have any views on what is often referred to as the "Norwegian model" of managing its oil and gas business – for example, the combination of private enterprise with government regulation and business ownership?

– Placing profits from oil and gas production in a public pension fund is a groundbreaking element of a sustainable policy. This is supplemented by prudent and ecologically exemplary resource management. As regards state involvement in production and the tax system, I prefer to be careful and not say anything.

– You have had business relations with Norwegians over a period of 25-30 years. Have "super-nationality" and globalisation wiped out most of what used to be national characteristics, or do you still see distinctive German and Norwegian approaches to business?

– The E.ON group will continue to steer this supranational gas business via E.ON Ruhrgas in Germany. Consequently, the distinctive bilateral relations between Germans and Norwegians retain

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04 Dr Bergmann has developed a network of personal friends in Norway during 30 years of doing business with Norwegian gas sellers.

their particular significance. We have a great affinity in cultural and mental terms. This is an excellent basis for good human interaction.

– Your company has been a significant sponsor of Norwegian culture – such as the Munch Museum. How important is this kind of engagement as part of the gas deals we have been discussing?

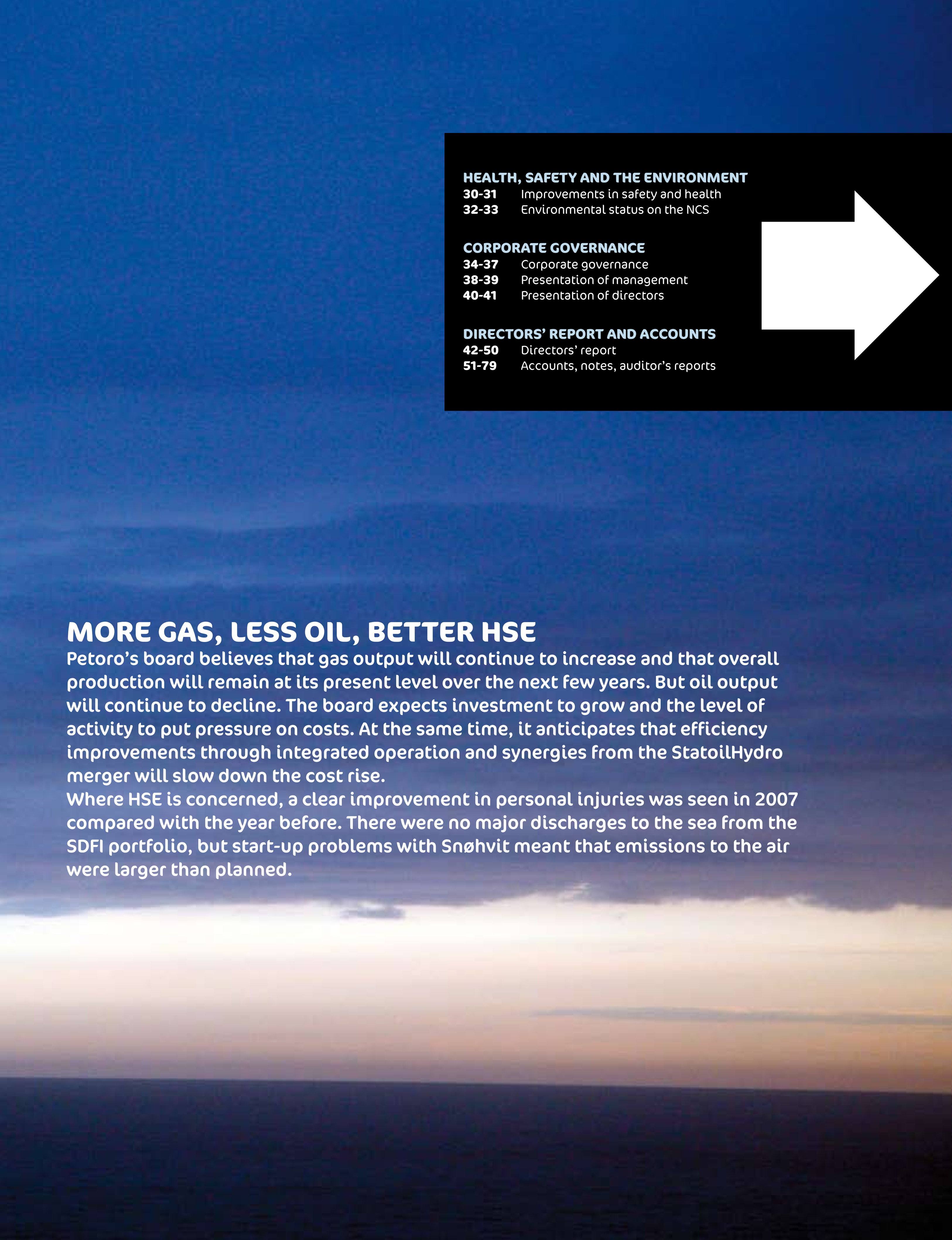
– We back up our energy partnership with cultural partnership. Anyone who works together closely in the economic sphere should also promote mutual cultural understanding. For this purpose, we sponsor art exhibitions and musical events. Our most recent project is the German-Norwegian Youth Forum, which we launched in 2007 together with StatoilHydro and the Norwegian foreign ministry. It brings together 100 young people from Germany and Norway every year so that they can jointly discuss current issues.

Academic exchange is also of particular importance. To stimulate it, we set up a foundation of our own 25 years ago. This E.ON Ruhrgas Scholarship Fund is the institutional platform for the award of scholarships to students and young academics so that they can round off their academic training in Germany or Norway.

– What would you like to say to Ole Einar Bjørndalen for having won the E.ON Ruhrgas-sponsored biathlon event at Schalke four times running, before taking the silver medal at the same event this winter?

– We support the biathlon. It is the most popular winter sport in Germany, and also links Norway and Germany through fair competitions. Ole Einar Bjørndalen is an exceptional athlete who is also very popular in Germany because of his fairness and professionalism.

Interviewer: Sveinung Sletten



MORE GAS, LESS OIL, BETTER HSE

Petoro's board believes that gas output will continue to increase and that overall production will remain at its present level over the next few years. But oil output will continue to decline. The board expects investment to grow and the level of activity to put pressure on costs. At the same time, it anticipates that efficiency improvements through integrated operation and synergies from the StatoilHydro merger will slow down the cost rise.

Where HSE is concerned, a clear improvement in personal injuries was seen in 2007 compared with the year before. There were no major discharges to the sea from the SDFI portfolio, but start-up problems with Snøhvit meant that emissions to the air were larger than planned.

IMPROVEMENTS IN SAFETY AND HEALTH

Worker safety and health have the top priority on the NCS. A determined and long-term commitment is needed to reduce injuries and undesirable incidents.

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

ACROSS AREAS AND LICENCES

The company's management system takes account of this objective. Health and safety are a line responsibility, which is followed up in the management committees of the licences. To disseminate experience and share expertise between its own staff, safety and health are in focus at regular management-level meetings and among Petoro's area teams. In addition, the senior management conducts regular bilateral meetings with the biggest operators where HSE is a key topic.

Petoro's HSE manager is also a driving force and resource in cross-licence work on following up results and measures. Statistics from the various installations clarify good and less positive results, and make it possible to identify lessons which can be transferred to other installations and licences. These results also lay the basis for Petoro's decisions on follow-up and action. As in earlier years, the company participated in seven inspections on fields and installations in 2007 as part of the exercise of its supervisory duty and role as a visible and demanding partner with a focus on safety work.

FEWER LEAKS

The number of gas leaks on the NCS has shown a positive and declining trend. Such leaks represent a major risk to people and material assets, and their number has been substantially reduced through greater management attention and a focus on human behaviour.

It is now important to give higher priority to combating dropped objects, which seem to be the dominant reason for personal injuries and serious conditions on the NCS. Such incidents largely involve accidents while working at a height and during lifting operations. Preventing events of this kind is largely a matter of developing the right attitudes among employees, so that they contribute to protecting themselves and their colleagues and look after their tools while doing a job.

HSE IN A TIGHT MARKET

Petoro has also made a stronger commitment from time to time to health and safety in major development projects where it is one of the licensees. Snøhvit is a case in point. The tight labour market and the many different contractors involved brought a variety of nationalities and cultures together in this development. Combined with a very high level of activity, these factors made it necessary to establish a common safety culture and to monitor the project closely.

STILL TOO MANY INJURIES

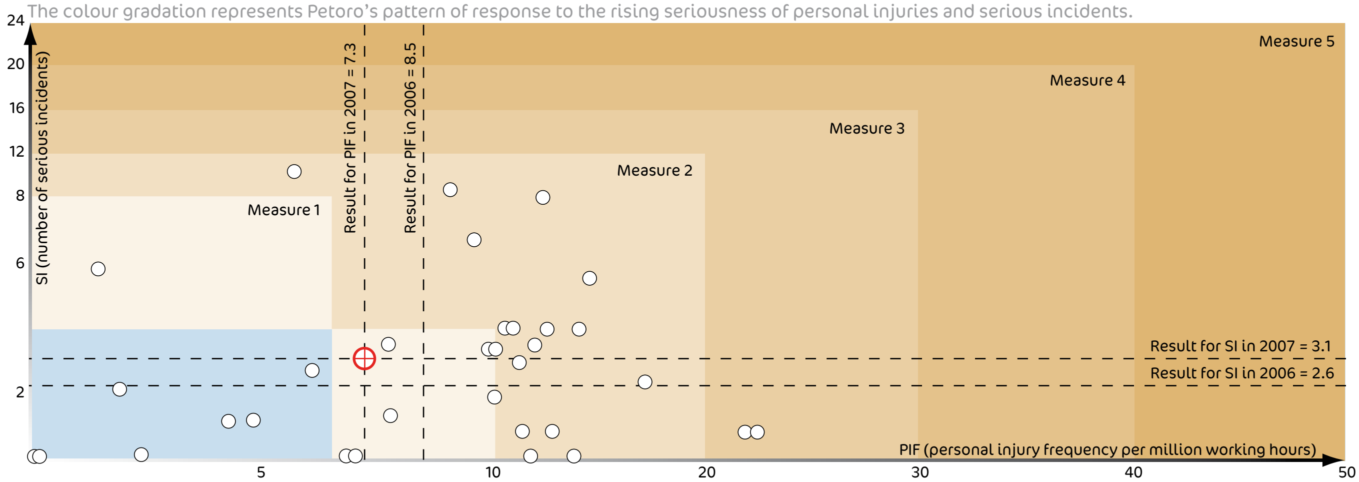
Figures for 2007 show that the personal injury frequency – number of injuries per million working hours – was 7.3, compared with 8.5 in 2006. This improvement was overshadowed by the regrettable fatality on *Saipem 7000*, when a person fell overboard and drowned during installation of a subsea production facility.

Petoro aims to strengthen the attention it pays to the most serious conditions, and will therefore replace personal injury frequency with serious incidents as its principal indicator for safety work from 2008. The number of serious incidents averaged 3.1 per installation in 2007, up slightly from 2.6 the year before.

STEADILY POSITIVE TREND

Results for personal injuries are a little disappointing, given the big commitment to raising awareness and changing attitudes being shown by players on the NCS. It is important to note in

The colour gradation represents Petoro's pattern of response to the rising seriousness of personal injuries and serious incidents.



SERIOUS INCIDENTS AND PERSONAL INJURY FREQUENCY

○ Installations in the SDFI portfolio

– – – Results for personal injuries and serious incidents

⊕ Average for 2007

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

this context that work on building attitudes take time, and is therefore expected to yield better safety in a longer perspective. Figures from the Petroleum Safety Authority Norway (PSA) reinforce this optimistic view – after rising in the late 1990s, the number of personal and serious injuries has shown a clear decline since 2000.

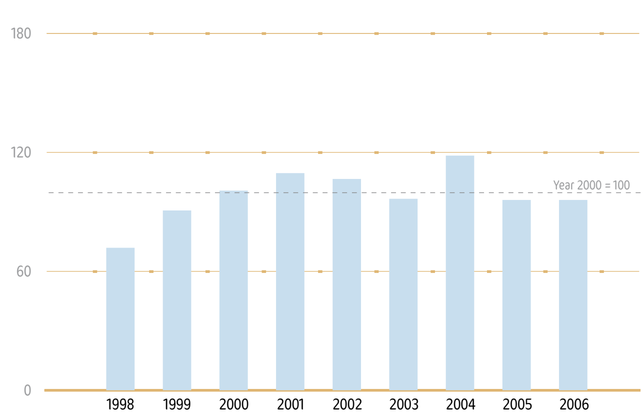
DEVELOPMENTS ON THE NCS

The number of serious injuries on the NCS rose in the last half of the 1990s. After a peak in 2000, however, the serious injury frequency declined until 2006. Although the figure is confined to production installations, the trend has also been positive for mobile units and for personal injuries in general.

With the risk of major accidents remaining stable, concentrating on serious conditions is an important element in improving safety on the NCS. See the graph below.

The figures are derived from the trends on risk level project headed by the PSA. This aims to secure a realistic picture of risk and HSE challenges in the petroleum sector in order to improve prioritisation both in the industry and by the authorities. That makes it very useful for Petoro's work on safety.

RISK INDICATOR FOR MAJOR ACCIDENTS



Total indicator, production installations, normalised against working hours, three-year rolling average. (The value is set to 100 for year 2000) Source: PSA

EMISSIONS ARE THE BIGGEST ENVIRONMENTAL CHALLENGES

The efficiency of operations on the NCS in terms of protecting the environment is high compared with other oil-producing nations. Emissions to the air present the biggest challenges.

Environmental challenges on the NCS are more prominent than ever in the debate about the continued development of Norway's petroleum industry. The impact of its operations on the environment represents an industry challenge, both over the way production is pursued today and when deciding which areas and fields should be opened in the future. Powerful forces are arrayed both for and against the development of promising regions in the Barents Sea and off the Lofoten islands.

PETORO'S STRATEGY

Petoro intends to assess its environmental strategy and role on the NCS as part of the company's current revision of its overall approach to managing the SDFI portfolio. In this context, Petoro is concerned to exploit its special position on the NCS. Its broad portfolio opens opportunities to tackle environmental challenges across licences, fields and operators. Future technological progress will also be important, in line with Petoro's existing substrategy of being an early applier of technology.

DEVELOPMENTS IN THE SDFI PORTFOLIO

The large share of mature fields poses new environmental challenges for the NCS and the SDFI portfolio. Although total emissions/discharges are decreasing in many areas, the declining level of production means that the environmental burden per unit produced is rising for a number of emission/discharge categories. That includes both produced water and carbon dioxide.

Petoro has had a particular focus on discharges to the sea, and these are approaching zero in the SDFI portfolio for the most environmentally harmful chemicals. That applies to substances categorised by the Norwegian authorities as "black" – which cannot be discharged – or "red". The latter are hazardous chemicals which need to be replaced and phased out. Releases of black and red chemicals were cut by 96 and 95 per cent respectively from 2001 to 2006, in line with the industry's philosophy of zero harmful discharges. The volume of oil being discharged to the sea has also been markedly reduced in recent years.

Nitrogen oxide emissions rose in 2002-06 as a result of increased drilling activity on mobile rigs. These units use diesel engines which release larger volumes of nitrogen oxides than the gas turbines usually found on permanent production installations. Emissions of volatile organic compounds declined throughout the 2002-06 period.

No large discharges to the sea occurred in the SDFI portfolio during 2007. However, start-up problems at the Snøhvit facility on Melkøya led to far higher emissions to the air than expected or desired. These were caused by technical challenges with the gas liquefaction plant.

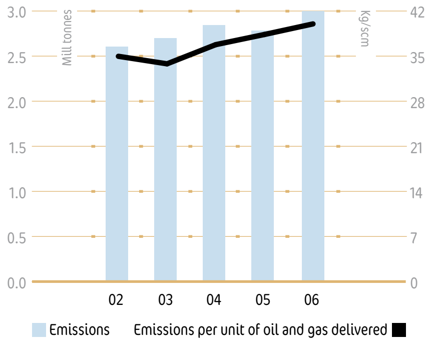
NITROGEN OXIDE TAX BECOMES FUND

A Norwegian nitrogen oxide tax was introduced at the beginning of 2007. Under the Gothenburg protocol, Norway has undertaken to reduce annual emissions of these gases from about 200 000 tonnes to 156 000 tonnes.

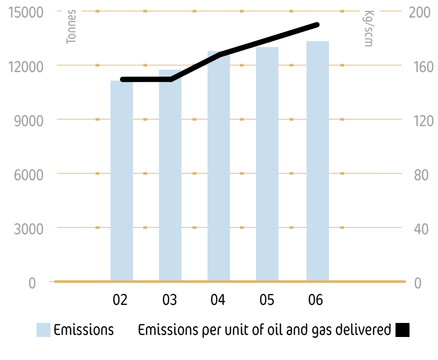
Calculations by the Norwegian Pollution Control Authority (SFT) suggested that a tax rate of NOK 15 per kilogram released could cut emissions by up to 25 000 tonnes.

The Norwegian Oil Industry Association (OLF) and 13 other industry organisations have collaborated to secure the creation of a fund which can direct funds to the cheapest and most effective measures for reducing Norway's nitrogen oxide emissions. The organisations have reached agreement with the Ministry of the Environment on the framework for such a fund, but the future of this deal depends on the support of a sufficient number of enterprises.

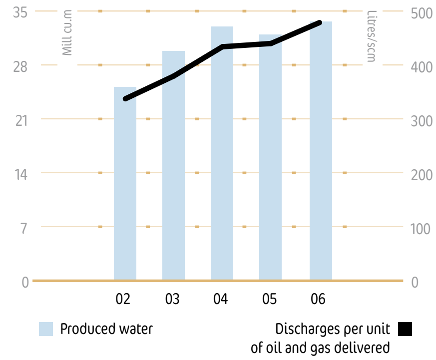
CARBON DIOXIDE EMISSIONS



NITROGEN OXIDE EMISSIONS



PRODUCED WATER



ENVIRONMENTAL REPORTING BY PETORO

Petoro receives and collates environmental data from the whole SDFI portfolio in annual environmental reports. Its final environmental accounting will not be ready until May/June 2008. The annual report accordingly presents the main features of environmental work in 2007 as well as development trends related to emissions/discharges from the NCS and the SDFI portfolio in recent years. Petoro's annual report on the natural environment for 2007 will be published on **www.petoro.no**

EMISSION ALLOWANCES FROM 2008

Work was also pursued in 2007 to prepare for the introduction of carbon emission allowances. This system came into force on 1 January 2008. Applications for allowances must come from the installations, and the industry has accordingly worked to establish technical and organisational solutions for handling the allowance system.

POWER TRANSMISSION ON HOLD

A study published in January 2008 has called a temporary halt to the discussion on possible transmission of electricity from land to existing offshore installations. Produced by the Norwegian Petroleum Directorate (NPD), the Norwegian Water Resources and Energy Directorate (NVE), the SFT and the Petroleum Safety Authority Norway (PSA), this study found that the cost of such transmission would be higher than earlier estimated. Shorter economic lives and declining production help to make the additional expense of using power from land very high for existing installations.

The petroleum sector accounts for about 25 per cent of Norway's greenhouse gas emissions because installations on the NCS use natural gas and diesel oil to generate electricity and drive equipment. A number of environmental organisations have accordingly pressed actively for alternative solutions, such as land-based power or the use of alternative energy sources offshore.

CORPORATE GOVERNANCE

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

Petoro manages substantial assets on behalf of the Norwegian state, and is the largest licensee for most of the major fields and for the infrastructure on the NCS. The SDFI comprises the largest portfolio of oil, gas and installations on the NCS, and represents more than a third of Norway's petroleum reserves. Such a position makes stringent demands on integrity in corporate governance.

Trust between the company's owner, management and employees is crucial if Petoro, through its strategy and plans, is to achieve its principal object of creating the highest possible financial value from the SDFI portfolio.

The company's governance principles build on and are intended to support a healthy corporate culture with sound attitudes to value creation in the short and long term. Petoro has clear guidelines on commercial ethics which govern its business operations and employee behaviour. All its employees sign an annual confirmation that they have studied and accepted these guidelines. Rules on commercial ethics also form part of all standard contracts with the company's suppliers.

Petoro's values form an integrated part of its commercial activities, and provide a common foundation for attitudes and behaviour in the company.

- *Safeguard human life and the environment*
  - the business is organised to avoid ill health for or injury to people
  - Petoro protects the environment wherever it conducts its business
- *Boldness and innovative thinking*
  - employees think along innovative lines and are adaptable
  - boldness and stamina are important for securing improvement
- *Commercial orientation*
  - Petoro seeks in all its activities to increase the financial value of the portfolio by acting as an orderly and constructive partner and by striking a balance between immediate and long-term business goals
- *Integrity*
  - employee behaviour meets the highest ethical standards
- *Collaboration*
  - employees collaborate to improve results, and value the expertise and experience of other people

THE BUSINESS

Petoro is a limited company owned by the Norwegian state, represented by the Ministry of Petroleum and Energy. Its mandate from the Storting (parliament) is, on behalf of the state and at the expense and risk of the state, to hold the responsibility for and attend to the commercial aspects related to the state's direct involvement in petroleum activities on the NCS, and business associated herewith.

The company's three principal duties have been defined by the Ministry of Petroleum and Energy:

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

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

01 Petoro's highest authority is the general meeting, in the person of the minister of petroleum and energy. Minister Åslaug Haga is greeted on a visit to the company by chief executive Kjell Pedersen.

The company is a licensee – with the same rights and obligations as the other licensees – in 114 production licences, of which 36 contain producing fields, as well as in 14 joint ventures and companies relating to pipelines and terminals. Through its broad portfolio, Petoro is well placed to promote integrated solutions and efficient resource utilisation in geographic core areas. The company's principal strategy is defined as area development.

Marketing and sale of the government's petroleum is undertaken by StatoilHydro on the basis of a special instruction adopted by Statoil's general meeting. Petoro is responsible for monitoring that the government's petroleum is marketed and sold in accordance with this instruction. This arrangement is possible because the government is the majority shareholder in StatoilHydro and the sole owner of Petoro, and can thereby pursue a common ownership strategy for the companies. In this connection, in-house guidelines have been established by Petoro 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. These form part of the government's accounts and are audited by the Auditor General of Norway. Cash flows generated from the portfolio are transferred to the government's own accounts with the Bank of Norway. Petoro's operating expenses are covered by annual appropriations over the central government budget, which are presented as operating revenues in the accounts of the limited company.

GENERAL MEETING

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

- plans for the coming year with perspectives for the medium term
- plans for projects with substantial significance for the state's participation in the industry pursuant to the Petroleum Activities Act
- the principal features of the budget for the coming year
- principles for the engagement of business managers
- the annual report and accounts for the state's participatory interests
- all matters considered to involve issues of principle or significant political aspects, or which could have substantial socio-economic or social effects.

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 apart from the directors' fees established by the general meeting and contracts of employment for the worker directors.

The board has overall responsibility for the management of Petoro, 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. It conducts an annual review of Petoro's most important areas of risk and internal control arrangements. The work of the board is based on rules of procedure which describe its responsibilities and mode of working.

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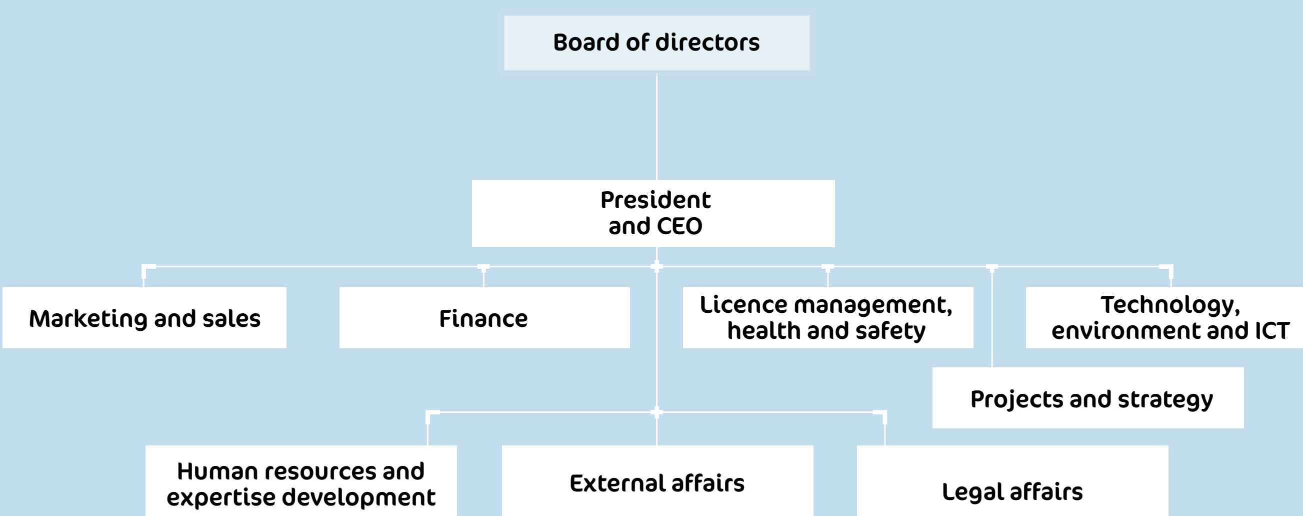
The board has appointed a compensation committee to submit proposals and recommendations to the board concerning the company's overall compensation policy and the chief executive's remuneration. An annual self-assessment is conducted by the board, embracing an evaluation of its own work and mode of working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

RISK MANAGEMENT AND INTERNAL CONTROL

The government's financial regulations contain provisions which specify that management, supervision, controls and administration must be tailored to the character of the activity as well as to risk and materiality. Risk management in Petoro supports the company's strategic development and attainment of goals.

Petoro has adopted principles for risk management and an overall risk strategy which build on the Coso framework for integrated risk management and internal control. Risk assessment is an integrated part of Petoro's strategy and business processes. Its risk management embraces assessments of conditions and incidents which could affect the company's ability to reach specified targets and implement chosen strategies, as well as continuous

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02/05 Risk assessment and management form an integrated part of Petoro's activities. Departments and employees identify various risks as part of strategic and commercial processes. Particular attention is paid to the risk that the company's ability to reach its goals might be weakened.

follow-up of identified risks where the need for further measures has been established. Risk management also focuses on factors which could affect trust in the company.

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 the management systems are effective.

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

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

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

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

REMUNERATION OF THE BOARD AND SENIOR EMPLOYEES

The general meeting determines the remuneration of directors. The board determines the remuneration of the president and CEO. The chief executive determines the remuneration of the other members of the company's senior management. Details of the actual remuneration paid in 2007 to directors, to the president and CEO, and to the management team as a whole are provided in the notes to the annual accounts.

INFORMATION AND COMMUNICATION

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

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

AUDITOR

The Auditor General is the external auditor for the SDFI portfolio and submits its report in a final auditor's letter. It conducts its audit in accordance with three types of audits:

- financial auditing, which checks that the accounts for the SDFI portfolio contain no significant errors or deficiencies
- performance auditing, which investigates decision-making processes
- corporate control.

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. MARION SVIHUS (1956)
CHIEF FINANCIAL OFFICER
Education: MSc in business economics, Norwegian School of Economics and Business Administration, Bergen.
Career: Long experience from Statoil, where she held a number of senior management position in the fields of economics, analysis, finance and strategy. Also eight years of experience from the banking and financial sector.

2. KJELL PEDERSEN (1952)
PRESIDENT AND CEO
Education: MSc petroleum technology, Norwegian Institute of Technology (NTH).
Career: Has had a long international career, holding a number of leading posts both upstream and downstream in Exxon and ExxonMobil. President of ExxonMobil Norway before joining Petoro.

3. GRETE WILLUMSEN (1962)
VICE PRESIDENT HUMAN RESOURCES
Education: Community economics degree, University of Bergen.
Career: Background includes senior adviser in Petoro's licence management department and various posts with the Norwegian Petroleum Directorate and the Ministry of Transport and Communications.

4. SVEINUNG SLETTEN (1953)
VICE PRESIDENT EXTERNAL AFFAIRS
Career: Broad experience from both oil companies and the media. Has been manager public affairs for BP and Amoco, editor-in-chief, Statoil and Noroil Publishing House, and journalist with *Stavanger Aftenblad* and others.

5. OLAV BOYE SIVERTSEN (1951)
VICE PRESIDENT LEGAL AFFAIRS
Education: Law degree.
Career: Came from the job of legal affairs officer at ExxonMobil, and prior to that was 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. TOR RASMUS SKJÆRPE (1950)
VICE PRESIDENT LICENCE MANAGEMENT
Education: MSc engineering, Norwegian Institute of Technology (NTH).
Career: Long experience of Norwegian oil and gas operations, most recently as head of Petoro's technology department and before that as head of Norsk Hydro's operations in the Tampen area of the North Sea.

7. ROY RUSÅ (1956)
VICE PRESIDENT TECHNOLOGY AND ICT
Education: BSc petroleum, Rogaland Regional College.
Career: Long experience of the Norwegian oil and gas business from Statoil and Baker Hughes Inteq.

8. JAN ROSNES (1965)
VICE PRESIDENT PROJECTS AND STRATEGY
Education: MSc petroleum engineering, Stavanger University College.
Career: Broad experience from project and strategy work with Shell in Norway and the UK and with Statoil, among others. Has been asset manager at Petoro for the Tampen and Oseberg areas of the North Sea.

9. LAURITS HAGA (1954)
VICE PRESIDENT MARKETING AND SALES
Education: Economics degree.
Career: Long experience from the Norwegian and international oil and gas business. Held a number of management posts with Mobil and was head of the gas division in ExxonMobil Norway before joining Petoro.


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BOARD OF DIRECTORS OF PETORO

1. GUNNAR BERGE (1940)
CHAIR
Years of election/re-election: 2007/2009.
Other directorships: Stavanger Boligbyggelag, University of Stavanger, Western Norway Regional Health Authority, Norwegian Petroleum Museum.
Education: Technical college, 1957-58, Trade union college, 1966, and various courses. Skilled plate worker.
Career: Director-general, Norwegian Petroleum Directorate, 1997-2007, minister of local government, 1992-96, minister of finance, 1986-89, member of the Storting (parliament) for Rogaland, delegate to the UN general assembly, a number of important posts in the Norwegian Labour Party, including parliamentary leader and key committee posts in the Storting and party organisation, industrial worker in the 1950s and 1960s.

2. HILDE MYRBERG (1957)
DEPUTY CHAIR
Years of election/re-election: 2006/2009.
Occupation: Executive vice president, Orkla.
Other directorships: Kongsberg Automotive.
Education: Law degree, MBA from Insead.
Career: Head, market sector, Hydro Oil & Energy 2002-06, and otherwise held a number of posts in Hydro, including business development for Hydro Energy, head of marketing activities in the power area, corporate legal executive and board secretary.

3. PER A SCHØYEN (1947)
DIRECTOR
Years of election/re-election: 2007/2009.
Occupation: Partner, Kluge Advokatfirma DA, Stavanger.
Education: Law degree, various management programmes.
Career: Partner at Kluge since 2005. With Esso/ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also deputy judge and assistant police attorney.

4. NILS-HENRIK M VON DER FEHR (1960)
DIRECTOR
Years of election/re-election: 2005/2009.
Occupation: Professor of community economics, University of Oslo.
Education: Economics degree.
Career: Has held a number of academic posts at the University of Oslo, and also lectured at the Universities of Heidelberg and Oxford. In addition, he has held a number of public and private posts, including member/chair of several official committees.

5. MARI THJØMØE (1962)
DIRECTOR
Years of election/re-election: 2007/2009.
Occupation: Executive vice president, KLP Forsikring.
Other directorships: Oslo Børs VPS Holding og VPS Clearing AS, KLP Eiendom AS, Oslo Børs ASA, KLP Skadeforsikring AS, Seilsport Maritime Forlag (chair), AksjeNorge foundation.
Education: MBE, Norwegian School of Management, authorised financial analyst, Norwegian School of Economics and Business Administration.
Career: Senior vice president investor relations, Statoil 2000-2005, Norsk Hydro 1988-2000. Responsibilities in Hydro included financial management and control as well as financial markets and information.

6. OVE SKRETTING (1953)
DIRECTOR*
Years of election/re-election: 2006/2008.
Occupation: Senior adviser, market, Petoro AS.
Education: Economics degree.
Career: Previously an adviser with ExxonMobil's gas department. Has held a number of committee appointments and negotiator roles with transport, tie-in and process agreements.

7. BRITT BJELLAND (1967)
DIRECTOR*
Years of election/re-election: 2006/2008.
Occupation: Adviser, technology, Petoro ASA.
Education: MSc engineering.
Career: A number of years of experience in offshore modification projects at Kvaerner Oil & Gas in Stavanger and Aker Offshore Partner.

* Elected by the employees.

DIRECTORS' REPORT 2007

Petoro manages the State's Direct Financial Interest (SDFI) – the largest portfolio on the Norwegian continental shelf, representing a third of Norway's total oil and gas reserves. Petoro's principal object is to create the highest possible financial value from this portfolio.

Net income for the portfolio in 2007[1] came to NOK 112.6 billion, compared with NOK 128.5 billion the year before. Total operating revenue was NOK 167.7 billion, compared with NOK 175 billion in 2006. The cash flow is transferred to the government, and amounted to NOK 112.3 billion in 2007 as against NOK 126.2 billion the year before. Production totalled 1 202 000 barrels of oil equivalent (boe), on a par with 2006.

INCOME, COSTS AND RESERVES

The decrease of NOK 15.8 billion in net profit from 2006 primarily reflects reduced oil production, higher operating costs and lower gas prices. Overall oil and gas sales for the year averaged 1 251 000 boe per day compared with 1 234 000 boe per day in 2006[2]. A general maturation of the portfolio is reducing oil production, but this has been offset by higher gas sales. Development of the portfolio is expected to follow a similar course over the next few years, with increased gas sales compensating for declining oil production.

Income before financial items came to NOK 114.5 billion. Net financial expenses of NOK 1.9 billion comprised net realised and unrealised currency gain related to a weakening of the USD and higher calculated interest costs related to removal liabilities.

Revenue for the year from dry gas sales totalled NOK 57.8 billion as against NOK 59.4 billion in 2006. Several fields increased their gas production during 2007. The volume of equity gas sold was 31.4 billion standard cubic metres (scm) or 541 000 boe per day as against 475 000 in 2006. Troll Gas alone accounted for 57 per cent of total gas revenue. The average gas price for the year was NOK 1.63 per scm as against NOK 1.92 in 2006.

Total revenue for the year from oil and natural gas liquids (NGL) was NOK 98.5 billion, compared with NOK 104.9 billion the year before. The sales volume was 241 million barrels or a daily average of 661 000 barrels. Production of oil and NGL fell by nine per cent from 2006. This reflected an expected decline in output from the mature oil fields, the shut-down of Kvitebjørn for much of the year because of technical drilling challenges, and problems with wells on Heidrun. The average oil price for the year for the SDFI portfolio was NOK 418 per barrel, compared with NOK 412 the year before. The oil price in US dollars was 71.4 per barrel.

Total investment in 2007 was NOK 20.5 billion as against NOK 22 billion the year before, with the biggest spending related to Ormen Lange, Troll Oil and Snøhvit. The decline in investment from 2006 reflected the completion of the Snøhvit and Ormen Lange development projects.

The cost of operating fields, pipelines and land-based facilities was 32 per cent higher than in 2006 as a consequence of a high level of activity and increased prices in the supplies market as well as greater maintenance and modification work on mature fields. In addition came higher costs related to readying and starting up new fields and facilities, and restructuring expenses in the wake of the merger between Statoil and Hydro's oil and gas business.

Exploration-related costs amounted to NOK 1.4 billion, of which NOK 740 million was capitalised as investment and NOK 621 million expensed in the income statement. Correspondingly, exploration expenses totalled NOK 1.1 billion in 2006. A total of 15 exploration wells were completed during the year, compared with 12 in 2006. Twelve of these wells yielded discoveries, whilst three were dry. One exploration well remained uncompleted at 31 December. The most interesting of the discoveries was Nucula, in production licence 393.

At 31 December, the portfolio's expected remaining oil, condensate, NGL and gas reserves comprised 7.7 billion boe – a decrease of 339 million boe from the year before. Petoro reports the portfolio's expected reserves on the basis of categories 1-3 in the Norwegian Petroleum Directorate's classification system[3].

[1] All figures are based on the accounts compiled in accordance with the Norwegian Accounting Act. For figures on a cash basis, see chapter 2.

[2] Sales of entitlement oil, NGL and gas in 2007 totalled 1 201 000 boe per day compared with 1 205 000 boe the year before.

[3] These are defined as remaining recoverable petroleum resources in deposits with an approved plan for development and operation, and reserves which the licensees have resolved to develop.

The portfolio's gross addition of expected reserves in 2007 came to 138 million boe. Improved recovery from Troll, Oseberg and Heidrun made the most important contributions to this increase.

However, a number of reserve downgradings totalling 33 million boe were made on producing fields. The net addition of reserves was 105 million boe, with a reserve replacement rate of 24 per cent for 2007 as against 22 per cent the year before. An average replacement rate of 28 per cent was achieved by the portfolio over the past three years. The corresponding percentage for 2004-06 was 26 per cent.

BOOK ASSETS AND EQUITY

The book value of assets totalled NOK 184.1 billion at 31 December 2007. These assets primarily comprise operating facilities related to field installations, pipelines and land-based plants, as well as current debtors.

Equity at 31 December amounted to NOK 137 billion. Long-term liabilities totalled NOK 29.1 billion, of which NOK 27.5 billion related to future removal liabilities. These liabilities are calculated in accordance with an established industry standard based on existing technology. Great uncertainty exists both over the removal estimates and over the timing of removals. Current liabilities, which comprise provision for costs incurred but not paid, were NOK 18.2 billion at 31 December.

Petoro served at 31 December as the licensee for the government's interests in 114 production licences and 14 joint ventures covering pipelines and terminals, including the interests in Mongstad Terminal DA, Etanor DA and Vestprosess DA. It also managed the shares in Norsea Gas AS and Norpipe Oil AS.

STRATEGY FOR PETORO

Area development is the company's principal strategy. Its broad portfolio gives Petoro good opportunities to promote unified solutions and efficient resource management in geographic core areas. Area development rests on individual fields, but aims to secure synergies between a number of fields and infrastructure investments. Business opportunities arise through good knowledge of each field, the area infrastructure and market conditions.

Two sub-strategies form the basis for the principal strategy of being an area developer, and activities under these umbrellas have a particularly high value-creation potential.

- Maturing reserves can add value to the immature areas of the Norwegian continental shelf (NCS) and in those regions with the greatest potential for new field developments. A great potential also exists for adding more value through measures for improved oil recovery in mature areas.
- Early application of technology can add value in areas where production from existing fields dominates (mature areas), and where major investments are expected through new field developments.

DEVELOPMENT OF THE SDFI PORTFOLIO

Management of the SDFI portfolio is organised in three core areas, as well as pipelines and land-based plants.

The Troll area

This embraces the producing Troll Oil, Troll Gas and Kvitebjørn developments and the pipelines tying them to the Mongstad and Kollsnes terminals, as well as the Vega and Gjøa developments and a number of production licences in the exploration phase.

Troll is the most important component in the portfolio and alone accounts for roughly 36 per cent of its value. This field is expected to remain on stream beyond 2050.

Total production from the area remains high, but declined in 2007 from the year before. Troll Gas produced more than expected because of the replacement of lost volumes related to the Kvitebjørn shutdown. Production from the latter field has been reduced since December 2006 to ensure acceptable drilling of remaining wells, and was shut down completely for safety reasons in May 2007. Damage was also discovered to the gas pipeline, presumably caused by a ship's anchor. Repairs to this line will also mean lower output from Kvitebjørn and Visund in 2008.

Operating expenses for the area rose in 2006 after remaining stable for a number of years. This trend strengthened in 2007, and reflects increased maintenance costs and well workovers. However, unit expenses for the area remain relatively low because of its high production, particularly from Troll.

Capital spending in the Troll area was higher than in 2006, primarily because the Gjøa and Vega development projects kicked off. The investment programme was postponed somewhat in relation to the original plans as a result of drilling progress on Troll Oil and delays with the Gjøa contracts. Costs for Vega increased because of pressure on prices in the market for subsea equipment.

The Troll partnership assessed the opportunities for further development of its reserves, including a possible increase in gas offtake from the field. A decision was taken in October 2007 to halt the Troll further development project because the government was concerned that this solution could result in sub-optimal utilisation of Troll's oil reserves. The partnership is now working on a long-term plan to extend oil production from the field. A number of measures are under consideration, and could form the basis for a possible investment decision in 2008.

The net addition of reserves in the Troll area was moderate during 2007. New wells on the actual Troll field yielded a substantial expansion in reserves, but estimates for other fields were downgraded.

No exploration wells were completed in the area during 2007.

Petoro is concerned to ensure optimum value creation from Troll through continued work on securing long-term oil output. The contribution of this area to production in the future depends on the realisation of the Gjøa and Vega projects as well as successful further development of the Troll oil reserves. Access to rig capacity and efficient drilling are essential if this potential is to be realised. The Troll partnership therefore awarded two long-term rig charters in 2007 for continued drilling on Troll Oil, using two newbuildings due to begin work in 2010.

Tampen/Oseberg area

Activities in the Tampen/Oseberg area are largely focused on meeting challenges associated with the maturing of producing fields. The largest producing fields in this area are Oseberg, Gullfaks, Snorre and Grane. In addition come a number of smaller fields which are also in a mature phase. Efforts to increase remaining reserves in producing fields are paralleled by the great attention being paid to a substantial resource potential elsewhere in the area. The main jobs are therefore to identify measures for improved recovery, facilitate cost-effective operation, identify resources close to infrastructure and ensure their timely phasing-in, and adapt aging installations for an extended economic life.

Total production from the area in 2007 was a par with the year before, with oil accounting for 80 per cent. Gas offtake was rather lower than planned. The level of gas offtake from Gullfaks and Oseberg is governed primarily by the value potential represented by gas injection in relation to the potential for improved oil recovery (IOR).

Since operating expenses in the area have been rising slowly over a number of years, improving operational efficiency has a high priority. Many older installations, combined with great activity and thereby heavy pressure on prices in the supplies market, make achieving cost reductions a demanding business. The increase in costs for basic operation and maintenance is the biggest matter of concern.

Capital spending remains high and increased again in 2007. The biggest investments related to drilling, development of Oseberg Delta and Skinfaks/Rimfaks, modifications on Snorre, and development and modifications for low-pressure production and subsea separation on Tordis.

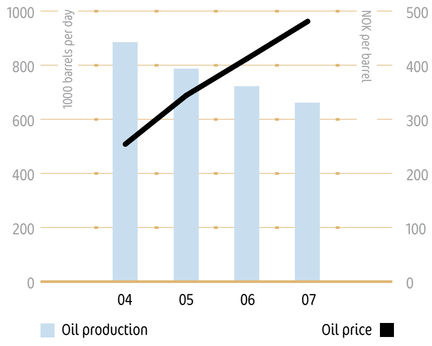
Several projects sanctioned in 2007 contributed to the growth in reserves. The largest of these are improved recovery and water injection on Snorre and Vigdis, low-pressure production from Oseberg and Tune, and the development of the Gamma Main discovery in the Oseberg area. However, a downgrading on Snorre meant that the overall increase in reserves for the area was moderate in 2007.

Six exploration wells were completed in the Tampen/Oseberg area during 2007, with hydrocarbons proven in them all. The two largest discoveries are related to chalk formations: Shetland on Oseberg and Ragnarrock in production licence 265.

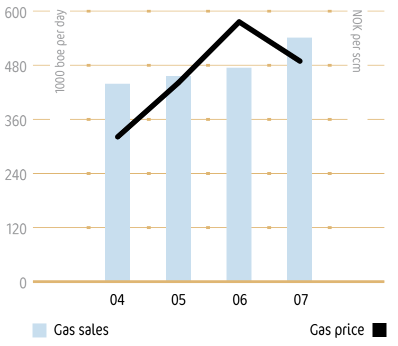
Work to ensure and further develop good governance in the joint ventures was again given priority in 2007. Good practice has been established and provides a solid foundation for purposeful further development, good decision-making processes and risk management in the production licences.

Petoro also focused attention on projects such as Snorre further development, Gullfaks 2030 and upgrading of drilling facilities, as well as on issues such as rig availability, integrated operation and measures to improve oil recovery. Assessments related to

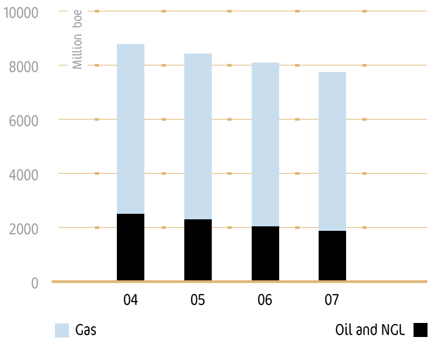
OIL PRODUCTION/PRICE



GAS SALES/PRICE



REMAINING RESERVES



low-pressure production, the potential of increased water and gas injection, and capacity have played a key role in identifying measures for IOR.

Norwegian and Barents Seas
This area embraces 11 producing fields on the Halten Bank and one in the Barents Sea, plus seven discoveries under evaluation. Exploration activity is substantial, with the focus on maturing reserves and proving new fields – particularly in the deepwater parts of these two sea areas.

Production in 2007 derived primarily from the Åsgard, Heidrun, Norne, Draugen and Kristin fields. Snøhvit and Ormen Lange came on stream in the autumn. Total output from the area was lower than expected in 2007 – mainly because of reduced well potential and technology problems in the Heidrun process facilities, and faster pressure decline in the Kristin reservoir and drilling delays on this field.

About 62 per cent of the area's output in 2007 derived from the oil producers. Gas production is rising rapidly and should account for more than half the area total from 2010, primarily as a result of growing output from Ormen Lange and Snøhvit.

While start-up of the field installations, pipelines and land-based processing plant for Ormen Lange was implemented as planned, the Snøhvit operator ran into unexpected problems when bringing the gas liquefaction plant on Melkøya into operation. That resulted in a number of shut-downs and lower production than planned as well as a number of unfortunate environmental emissions. Equipment problems exposed during December were so substantial that gas liquefaction had to be halted. The total scope of modifications and equipment restrictions for 2008 remained unclarified at 1 January. The timetable is governed by the need to confirm that identified measures will yield the intended effect and by long delivery schedules for equipment.

Operating costs in the area rose from 2006 as a result of starting up new projects and repair work on Åsgard, as well as increased well workovers on Norne. This was countered to some extent by lower activity related to the Draugen further development project. Petoro again sought in 2007 to influence operators to maintain existing efforts and introduce new measures to combat higher unit costs for the portfolio.

Capital spending was higher than planned in 2007, primarily because of more extensive activities related to completion of the gas liquefaction facility on Melkøya and the land-based plant for Ormen Lange. In addition came increased drilling costs on Snøhvit.

Reserve growth in the area remained substantial in 2007, but was rather lower than the year before. This primarily reflected measures aimed at improving oil recovery from producing fields.

Nine wells were completed in the area during 2007, with four yielding discoveries. The appraisal well on Onyx South West confirmed a probably commercial discovery, and an interesting oil and gas discovery was made on Nucula. Two discoveries, Yttergryta and Njord north-west flank, are considered by the partnerships to be probably commercial. Plans for development and operation of these fields are due to be submitted during 2008.

The Draugen partnership continued work in 2007 on assessing opportunities for improving oil recovery with the aid of carbon injection. This study showed that such injection is not commercial on Draugen, and the project has now been terminated.

Pipelines and land-based plants
Gassled is a joint venture comprising gas infrastructure and terminals on or in association with the NCS. The SDFI's revenues from Gassled in 2007 were NOK 9.8 billion. Attention at Gassled is focused on regularity and plant integrity in order to ensure

stable gas deliveries to customers in continental Europe and the UK. Regularity at Gassled's export points to the markets was 99.6 per cent in 2007. A NOK 6.5 billion modification and upgrading project at the Kårstø complex was sanctioned in 2007. This work will ensure the future integrity of the plant.

MARKETING AND SALE OF THE PRODUCTS

All oil and NGL from the SDFI portfolio is sold to StatoilHydro, which is also responsible for marketing all the natural gas together with its own gas as a single portfolio. The bulk of the portfolio's gas is sold under long-term contracts with contractually specified opportunities for price redeterminations. Petoro is responsible for monitoring that StatoilHydro's sales of the SDFI's petroleum achieve the highest possible overall value, and for ensuring an equitable division of total value creation and expenses. Petoro concentrates in this work on StatoilHydro's marketing and sales strategy and risks, and assesses issues which have great significance in value terms as well as matters of principle and questions relating to incentives.

A substantial rise in gas sales characterised 2007, with the start-up of new fields such as Ormen Lange and Snøhvit. Production from the latter means that Petoro and the SDFI have become involved in a new value chain through the production of liquefied natural gas (LNG), its transport by ship and sale in new markets for Norwegian gas. Existing contractual obligations related to the sale of LNG from Snøhvit are being fulfilled through third-party LNG supplies until the field comes into full production. The SDFI has secured long-term capacity rights at the Cove Point terminal in the USA through the marketing and sales instruction.

Petoro has been concerned to maintain the value of its long-term gas contracts and to sell available gas in the market which yields the highest value. This is done within the framework of available production and transport capacity. The company worked during 2007 to identify the best sales opportunities for new volumes related to further development of Troll, an expansion in export capacity rooted in the same field, and possible new volumes from the Norwegian Sea. Petoro has also been concerned to ensure that petroleum sales to StatoilHydro's own facilities are made at their market-based value. In addition, checks have been made to see that the SDFI is being charged an equitable share of costs and receives its equitable share of revenues both before and after the merger between Statoil and Hydro's oil and gas business.

The price of dated Brent Blend crude rose sharply in 2007 from a low of USD 50.7 per barrel in mid-January to a peak of USD 96 on 28 December, the last trading day of the year. The annual average price[4] was USD 72.4 per barrel, or NOK 424, compared with USD 65.1 or NOK 415 in 2006. Low prices in early 2007 largely reflected a high level of stocks and good supplies. Production cuts by Opec in February produced a tighter balance between supply and demand.

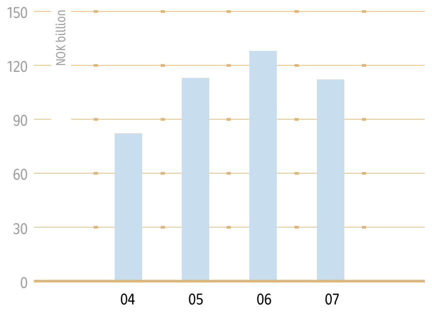
A number of refining problems helped to reduce product stocks, which generated uncertainty concerning such considerations as the supply of petrol to US consumers during the summer season. General unrest in financial markets led to a brief fall in prices during August, to be followed by a fresh rapid rise after key financial players increased their investment in the commodity markets. The exchange rate of the USD weakened during the year and ended at NOK 5.41.

Global demand is estimated to have grown by about 1.2 per cent in 2007, which was somewhat more than in the year before. This expansion was primarily experienced in Asia and the Middle East. Production from non-Opec countries increased slightly because of continued strong growth in Russia and rising biofuel production. This non-Opec expansion was offset by the decline in North Sea output. Opec's production increased in 2007.

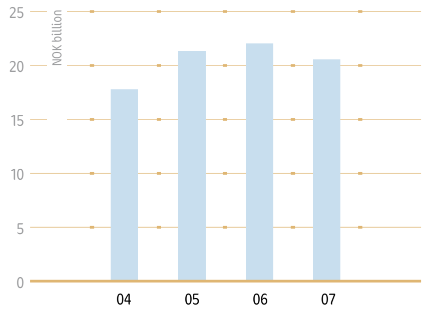
Gas prices in the UK were relatively low in the first half of 2007

[4] At USD 71.4 per barrel, the annual average for the SDFI deviates from Brent Blend – primarily because of quality differences from this reference crude.

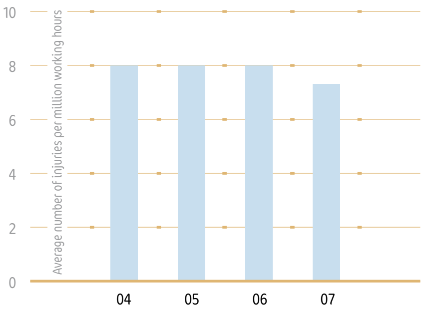
NET INCOME



INVESTMENT



PERSONAL INJURY FREQUENCY



because of mild weather and full stores. This led to an increase in British demand for gas to generate electricity by about 30 per cent in the first half compared with the same period of 2006. That reflected the use of gas to replace alternative energy bearers such as coal and oil, which both experienced substantial price rises in 2007. However, gas prices rose sharply in the second half because of a considerably tighter balance between supply and demand as well as higher oil prices. Prices in long-term oil-indexed contracts declined somewhat from 2006, since indexing was affected by the relatively low oil prices in the last part of 2006 and the first part of 2007. The annual average for the SDFI portfolio in 2007 was NOK 1.63 per scm, compared with NOK 1.92 the year before.

HEALTH, SAFETY AND THE ENVIRONMENT

The number of personal injuries per million hours worked was 7.3 in 2007, substantially better than 8.3 the year before.

A marginal improvement was recorded for serious incidents in 2007 compared with the year before. This was overshadowed by the fatal accident on *Saipem 7000*, where a man fell overboard and drowned during the lowering of the subsea production facility for Tordis. Otherwise, a small improvement was recorded for the number of gas leaks. But other serious incidents, dominated by dropped objects, remain too high.

Petoro again participated during 2007 in several HSE management inspections on selected fields and installations where a negative trend in HSE results had been observed. The company seeks to influence the operators and the industry as a whole to make a long-term commitment to reducing personal injuries and serious incidents on the NCS.

Where the natural environment was concerned, attention in 2007 focused on the use of electricity transmitted from land. The Norwegian Water Resources and Energy Directorate (NVE), the Norwegian Pollution Control Authority (SFT), the Norwegian Petroleum Directorate (NPD) and the Petroleum Safety Authority Norway (PSA) initiated a study of power supply from land to the NCS during the autumn. Completed on 4 January 2008, this confirmed the conclusions drawn earlier by the Norwegian Oil Industry Association (OLF) and others that transmitting electricity from land is not commercially viable when normal criteria are applied, and represents an extremely expensive environmental measure.

A nitrogen oxide tax was introduced in 2007, and the offshore companies have continued to work on establishing technical and organisational solutions for introducing a system to trade carbon dioxide emission allowances. These will apply from 1 January 2008.

No major oil spills or discharges of produced water with a high oil content occurred to the sea on the fields in Petoro's portfolio. Because of start-up problems with the Snøhvit plant at Melkøya, however, emissions to the air were substantially higher than expected for 2007.

Sickness absence in Petoro remained low in 2007, with short-term (one-three days) and long-term (more than three days) rates of 1.1 and 0.3 per cent respectively. Total sickness absence was 1.4 per cent, compared with 2.8 per cent in 2006. This decline primarily reflects the reduction in long-term absence. Petoro is an inclusive workplace (IA) company, which contributes to reducing sickness absence and disability retirement and helps to ensure that each employee's resources and ability to work are developed and utilised in active work. Petoro set overall goals in 2007 and developed a procedure for following up sickness absence in the company. Measures were also implemented to influence the personal attitudes of the company's own employees towards HSE and their commitment in this area. Further development of the HSE culture during 2007 included a focus on safety, diet, fitness training and health through lectures and campaigns.

WORKING ENVIRONMENT AND PERSONNEL

Petoro revised its expertise strategy and the expertise development plans of its departments in light of the company's strategy in this area. The company's workforce has a high level of education and expertise. Ninety-two per cent of employees have the equivalent of a master's degree or higher. The board takes the view that Petoro's ability to achieve its goal of maximising value creation depends on retaining, developing and attracting able personnel.

A high level of activity in the industry means that demand for expertise is heavy. Petoro's personnel turnover has been larger than desirable in recent years, and it takes rather longer to recruit replacements in a tight market. The workforce had a net increase of three people during 2007, and totalled 56 permanent employees at 31 December.

The board resolved in early 2007 to introduce a variable pay scheme in Petoro, which means that the remuneration system is now more in line with the rest of the industry.

A less extensive workplace climate survey than in previous years was conducted during 2007, with the aim of measuring the effects of existing measures. The board is satisfied that the survey attracts broad participation and that the company maintained results more or less on a par with the year before where commitment and expertise development are concerned. But it observes that the result was somewhat poorer for external relations.

The company aims to achieve diversity in its organisation with regard to gender, age and cultural background. The proportion of women on the company's board and in its executive management is 42 and 22 per cent respectively. Women account for 29 per cent of total employees.

Collaboration with Petoro's working environment committee and works council again functioned well in 2007. This work lays an important basis for a good climate of in-house cooperation.

RESEARCH AND DEVELOPMENT (R&D)

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 to 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

The board gives weight to good governance to ensure that the government's portfolio is managed in a way which makes the best possible contribution to long-term value creation. Through new joint operating agreements for the NCS, which came into force on 1 January 2007, Petoro and the other licensees have acquired tools for achieving better governance in the joint ventures. The company has been a prime mover in securing the implementation of the new agreements and the creation of new collaboration bodies between operators and licensees.

Petoro has clear guidelines on the business ethics which govern its commercial operations and the behaviour of its employees. Together with its values base, these guidelines define the principles for in-house corporate governance and for the company's behaviour in the production licences and in other commercial relationships.

Petoro seeks a corporate culture characterised by innovative thinking and positive attitudes to new opportunities, while also seeing the value of a good internal control regime.

The company's governance system is framed in relation to its goals and the risk picture prevailing at any given time.

Chair Bente Rathe and shareholder-elected directors Jørgen Lund and Per-Christian Endsjø retired from the board on 26 June 2007. Gunnar Berge took over as the new chair on the same day, while Mari Thjømøe and Per Arvid Schøyen were elected as new directors. Deputy chair Hilde Myrberg, director Nils-Henrik M von der Fehr and worker directors Britt Bjelland and Ove Skretting remain members of the Petoro board.

RISK

Petoro is exposed to risk throughout the value chain from the award of licence interests to the sale of gas and downstream positions. Risk management in Petoro involves identifying, analysing and managing risk within the whole value chain, and to supporting the company's strategic development and achievement of targets.

The company updated its principles for integrated risk management in 2007. These are based on the internationally recognised Coso/ERM framework for internal control and on expertise in the company.

The merger between Statoil and Hydro's oil and gas business in 2007 represents a significant change in the player picture on the NCS and in the conditions for Petoro's operations. The board has assessed further compensatory measures in that context.

PROSPECTS

The merger between Statoil and Hydro's oil and gas business came into force on 1 October 2007. Petoro is concerned to ensure continued diversity and competitiveness on the NCS. This makes new demands on the other partners, and particularly on Petoro as a substantial licensee in these waters. The board has continued to work in accordance with the company's established strategy, and the company has reshaped its resource priorities to reflect the new position.

The Ministry of Petroleum and Energy has abolished the rule which confined the company's own workforce to no more than 60 people. Petoro intends to strengthen the technical disciplines, particularly in terms of sub-surface expertise. The commercial team will also be reinforced, so that the company can undertake responsibility for leading selected commercial negotiations where incentives between the players have been changed by the merger.

A reduction in the portfolio's oil production is expected over coming years, whilst output of gas will increase. Viewed overall, total production is expected to remain at today's level for the next few years.

The level of investment in the future will be determined by the development opportunities which the industry succeeds in maturing, but will also be influenced by price developments in the market for goods and services. As the result of the high level of activity in the industry, investment is expected to increase over the next few years. A greater level of activity and rising prices also put pressure on the cost of operating the portfolio. Curbing the growth in operating costs should be possible as operators improve production efficiency by implementing integrated operation and securing synergies from the merger between Statoil and Hydro's oil and gas business. Petoro will continue to focus great attention on the portfolio's unit costs, both through cost-cutting measures and action to improve oil and gas production. Today's level of costs is expected to be representative for the next few years.

For 2008, the board expects oil prices to remain high and the average price to be greater than in 2007. Price trends depend on such factors as the growth of the world economy, geopolitical developments and Opec's production policy. Prices in the long-term gas contracts indexed in relation to oil products are expected to be a little higher in 2008 than in the year before.

Trading with LNG will contribute to a further globalisation of the gas market. That will lead to prices, including those for Norwegian gas, being set in a way which is less dependent over time on the market balance in Europe. Declining gas production in European nations means that dependence on imports is rising. Several LNG terminals currently at the planning stage will substantially increase purchases from other parts of the world. Work is also being pursued on new pipeline projects from Russia, central Asia and north Africa to the market. Demand for gas in Europe will depend on the general growth of the economy and the use of gas for electricity generation. The competitiveness of gas as a power fuel will depend on the pricing of alternative energy bearers and applicable climate policy.

PETORO AS – SHARE CAPITAL AND SHAREHOLDER

The company's share capital at 31 December 2007 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 2007 was NOK 222 million, compared with NOK 225 million the year before. This sum includes VAT, so that disposable revenue was NOK 177.6 million as against NOK 180 million in 2006. Recorded income, including financial income, for 2007 was NOK 185.7 million, compared with NOK 187.5 million the year before.

Operating expenses were NOK 185.5 million for the year, compared with NOK 169.9 million in 2006. These expenses related primarily to payroll and administration expenses and to the purchase of external services. The purchase of leading-edge expertise relating to supervision of production licences in the SDFI portfolio accounts for a substantial proportion of the company's operating expenses.

The net loss after net financial income came to NOK 0.2 million. The board proposes that this loss be covered by a transfer from other equity. The company's equity position is good, and it has little exposure to financial risk. Its non-restricted equity totalled NOK 22.7 million at 31 December. This will be used to achieve a further strengthening of Petoro.

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

Stavanger, 22 February 2008

Gunnar Berge Chair	**Hilde Myrberg** Deputy chair	**Nils-Henrik M von der Fehr** Director	**Per A Schøyen** Director
Mari Thjømøe Director	**Ove Skretting** Director*	**Britt Bjelland** Director*	**Kjell Pedersen** President and CEO

* Elected by the employees

SDFI APPROPRIATION ACCOUNTS

Expenses and revenue	Notes	NOK
Removal		0.00
Pro and contra settlements (payments)	1	0.00
Investment	2	19 950 561 006.08
Total expenses		**19 950 561 006.08**
Pro and contra settlements (receipts)		**0.00**
Operating revenue	3, 4	(162 924 992 264.23)
Operating expenses	5	30 350 798 989.87
Exploration and field development expenses		1 423 992 988.88
Depreciation	2	15 403 963 141.88
Interest	6	6 929 150 460.86
Operating income		**(108 817 086 682.74)**
Depreciation	2	(15 403 963 141.88)
Transfer from Government Petroleum Insurance Fund	8	(1 136 550 996.56)
Interest on fixed capital	6	(6 918 460 112.00)
Interest on intermediate accounts	6	(10 690 348.86)
Total revenue		**(132 286 751 282.04)**
Cash flow (net revenue from the SDFI)		**(112 336 190 275.96)**

SDFI CAPITAL ACCOUNTS

	Notes	NOK	NOK	NOK
Open account government 31 Dec 07				(168 922 247.34)
Fixed asset before write-down			138 753 697 481.43	
Write-down	2, 8		(79 618 256.50)	
Fixed asset account	2		138 674 079 224.93	138 674 079 224.93
Total				**138 505 156 977.59**
Open account government 1 Jan 07			223 942 866.19	
Total expenses		19 950 561 006.08		
Total revenue		(132 286 751 282.04)		
Cash flow		(112 336 190 275.96)	(112 336 190 275.96)	
Net transfer to the government			112 281 169 657.11	
Open account government at 31 Dec 07			**168 922 247.34**	**168 922 247.34**
Fixed assets 1 Jan 07			(134 207 099 617.23)	
Investments for the year	2		(19 950 561 006.08)	
Depreciation for the year	2		15 403 963 141.88	
Write-down	2, 8		79 618 256.50	
Fixed assets 31 Dec 07	2		(138 674 079 224.93)	(138 674 079 224.93)
Total				**(138 505 156 977.59)**

Stavanger, 22 February 2008

Gunnar Berge
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M von der Fehr
Director

Per A Schøyen
Director

Mari Thjømøe
Director

Ove Skretting
Director*

Britt Bjelland
Director*

Kjell Pedersen
President and CEO

** Elected by the employees*

SDFI INCOME STATEMENT

All figures in NOK million	Notes	2007	2006	2005
OPERATING REVENUE				
Operating revenue	3, 4, 8, 9	167 724	174 979	152 683
Total operating revenue		**167 724**	**174 979**	**152 683**
OPERATING EXPENSES				
Exploration expenses		621	940	543
Depreciation and amortisation	2	17 946	15 898	14 051
Other operating expenses	5, 8, 9, 10	34 664	28 308	25 020
Total operating expenses		**53 231**	**45 146**	**39 614**
Operating income		**114 493**	**129 833**	**113 069**
FINANCIAL ITEMS				
Financial income		4 316	4 339	3 056
Financial expenses	11	6 169	5 705	2 953
Net financial items	7	**(1 852)**	**(1 366)**	**103**
Net income for the year	18	**112 641**	**128 467**	**113 172**

SDFI BALANCE SHEET

All figures in NOK million	Note	2007	2006	2005
ASSETS				
Intangible fixed assets		1 132	1 302	1 241
Tangible fixed assets	17	157 046	157 130	140 997
Fixed assets	2	158 178	158 432	142 238
Stocks		744	585	505
Trade debtors	9, 10	25 227	20 108	20 693
Bank deposits		150	63	76
Current assets		26 121	20 756	21 274
Total assets		**184 299**	**179 188**	**163 512**
EQUITY AND LIABILITIES				
Equity at 1 January		136 748	134 554	120 530
Paid from/(to) government during the year		(112 281)	(126 213)	(99 175)
Net income		112 641	128 467	113 172
Translation differences*		(110)	(60)	27
Equity	18	136 998	136 748	134 554
Long-term removal liabilities	11, 17	27 465	29 202	18 538
Other long-term liabilities	12	1 657	2 026	648
Long-term liabilities		29 123	31 228	19 186
Trade creditors		2 611	1 909	1 966
Other current liabilities	9, 13	15 567	9 303	7 806
Current liabilities		18 178	11 212	9 772
Total equity and liabilities		**184 299**	**179 188**	**163 512**

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

Stavanger, 22 February 2008

Gunnar Berge
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M von der Fehr
Director

Per A Schøyen
Director

Mari Thjømøe
Director

Ove Skretting
Director*

Britt Bjelland
Director*

Kjell Pedersen
President and CEO

** Elected by the employees*

SDFI CASH FLOW STATEMENT

All figures in NOK million	2007	2006	2005
OPERATING ACTIVITIES			
Cash receipts from operations	163 712	176 737	144 800
Cash disbursements to operations	(31 590)	(30 052)	(25 069)
Net interest payments	80	(69)	36
Cash flow from operational activities	**132 203**	**146 616**	**119 767**
INVESTMENT ACTIVITIES			
Pro and contra from government sale	0	(10)	0
Investments	(19 871)	(19 867)	(20 686)
Cash flow from investment activities	**(19 871)**	**(19 877)**	**(20 686)**
FINANCING ACTIVITIES			
Change in working capital in the licences	377	(984)	484
Change in under/over calls in the licences	(342)	446	(389)
Net transfer to the government	(112 281)	(126 213)	(99 175)
Cash flow from financing activities	**(112 246)**	**(126 751)**	**(99 080)**
Increase in bank deposits of partnerships with shared liability	86	(12)	1

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 2007 as the licensee on behalf of the SDFI for interests in 114 production licences and 14 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. Petoro has the same rights and obligations as other licensees, and manages the SDFI on the NCS on a commercial basis.

The company maintains separate accounts for all transactions relating to its participatory interests, so that revenue and costs from production licences and joint ventures are kept separate from the operation of the company. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. Petoro prepares separate annual accounts for the SDFI, with an overview of the participatory interests managed by the company and associated resource accounting.

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

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

ACCOUNTING PRINCIPLES (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 StatoilHydro, and all gas is sold by StatoilHydro for the SDFI's expense and risk. The SDFI records the revenue from its sold share of oil and gas when the products are delivered to the customer.

Revenue from ownership in pipelines and land-based production plants is recorded when the service is rendered.

Gas swap and borrowing agreements where settlement takes the form of returning volumes are accrued as a general rule using the sales method. This 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 prepaid 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. The SDFI's share of time swaps are recorded gross.

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

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

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

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

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

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

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

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

Petoro determines the reserve base for depreciation purposes on the basis of estimated remaining reserves per field, which are adjusted downwards by a factor calculated as the relationship between the Norwegian Petroleum Directorate's sum of low reserves in production and the sum of basis reserves in production for oil and gas reserves respectively. This reserve adjustment totalled 71.7 per cent of expected remaining oil reserves in 2007, while the corresponding figure for gas fields is 85.5 per cent. The reserve estimates are revised annually. Possible changes affect only further depreciation expenses.

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

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

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

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

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

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

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

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. 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

Nine production licences with SDFI participation were allocated in connection with licensing awards in 2007. Eight of these participatory interests were formally awarded by the Ministry of Petroleum and Energy in connection with the 2006 awards in predefined areas (APA), in two tranches on 16 February 2007 and 15 June 2007 respectively. The final participatory interest was awarded outside normal licensing rounds by a royal decree of 7 December 2007.

Production licence 128C was relinquished with effect from 6 January 2007 as a result of disappointing exploration results in 2006.

In connection with the incorporation of Tampen Link in Gassled, the participatory interest in Gassled and the terminals in continental Europe was amended with effect from 1 September 2007.

No transactions took place in 2007 which caused changes to the cash payments for transferred assets relating to government sales in 2001 (15 per cent to StatoilHydro) and in 2002 (6.5 per cent to other oil companies).

NOTE 2 SPECIFICATION OF FIXED ASSETS

All figures in NOK mill	Historical cost at 1 Jan 07	Addition 2007	Write-down 2007	Disposal* 2007	Transfers 2007	Accumulated depreciation 1 Jan 07	Depreciation 2007	Book value at 31 Dec 07
Fields under development	25 293	8 177	0	0	(31 535)	(52)	0	1 883
Fields in operation	260 946	8 261	0	(744)	31 746	(162 563)	(16 460)	121 185
Pipelines and terminals	53 109	1 457	0	0	0	(20 495)	(1 444)	32 627
Capitalised exploration expenses	886	1 029	(358)	0	(211)	0	0	1 346
Other fixed assets	166	0	0	0	0	(161)	(1)	4
Total tangible fixed assets	**340 401**	**18 923**	**(358)**	**(744)**	**0**	**(183 271)**	**(17 905)**	**157 046**
Intangible assets	1 316	(32)	0	(97)	0	(14)	(41)	1 132
Total fixed assets	**341 717**	**18 891**	**(358**	**(841**	**0**	**(183 285)**	**(17 946)**	**158 178**
Translation to cash basis	(36 969)	1 059	278	841	0	12 744	2 542	(19 504)
Total fixed assets on cash basis	**304 748**	**19 951**	**(80)**	**0**	**0**	**(170 541)**	**(15 404)**	**138 674**

* 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 depreciated over 20 years, which is the duration of the charter.

Intangible assets of NOK 1 132 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 StatoilHydro 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 StatoilHydro of 140 million scm, of which the SDFI share is 46.7 per cent following the merger between Statoil and Hydro's oil and gas business (originally 57.7 per cent). Plans call for the facility to come into commercial operation towards the end of 2008, a year later than earlier planned. 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 510 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.

NOTE 3 SPECIFICATION OF OPERATING REVENUE

All figures in NOK million	**2007**	**2006**	**2005**
Troll	54 154	58 002	47 650
Tampen/Oseberg	53 238	55 680	51 910
Norwegian and Barents Seas	47 943	47 182	38 591
Gassled and other infrastructure	10 740	11 173	9 819
Netto Net profit agreements	1 718	1 359	1 688
Other revenue	4 377	5 922	6 964
Elimination internal tariff income	(4 447)	(4 339)	(3 939)
Total operating revenue	**167 724**	**174 979**	**152 683**
Translation to cash basis	(4 799)	1 465	(8 502)
Total cash basis	**162 925**	**176 443**	**144 181**

Other revenue principally comprises revenues from onward sale of purchased gas, reduced by some NOK 2 billion in unrealised losses on derivatives in the UK and continental Europe related to gas trading.

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	**2007**	**2006**	**2005**
Crude oil and NGL*	98 486	104 945	96 460
Gas	57 827	59 375	45 205
Transport and processing revenue	8 890	9 684	8 564
Other revenue	803	(386)	765
Net profit agreements	1 718	1 359	1 688
Total operating revenue	**167 724**	**174 979**	**152 683**
Translation to cash basis	(4 799)	1 465	(8 502)
Total cash basis	**162 925**	**176 443**	**144 181**

* Includes condensate.

In accordance with the marketing and sales instruction, all crude oil and NGL are sold to StatoilHydro. 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	2007	2006	2005
Troll	8 486	8 001	6 448
Tampen/Oseberg	9 318	9 295	8 872
Norwegian and Barents Seas	8 106	6 005	4 805
Gassled and other infrastructure	3 527	1 603	1 879
Other operating expenses	9 674	7 743	6 955
Elimination internal purchases	(4 447)	(4 339)	(3 939)
Total other operating expenses	**34 664**	**28 308**	**25 020**
Translation to cash basis	(4 313)	770	(731)
Total – cash basis	**30 351**	**29 078**	**24 289**

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

NOTE 6 INTEREST

Interest on the government's fixed capital is recorded in the accounts compiled on a cash basis. The amount of interest is calculated as specified in Proposition no 1 Appendix no 7 (1993-94) to the Storting (the Finance Bill) and in item 5.6 in the 2007 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy.

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

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

Interest on the open account with the government is calculated as specified in item 5.7 in the 2007 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy. The interest rate applied is the rate earned by the government's current account with the Bank of Norway, and interest is calculated on the average monthly balance in the open account with the government.

NOTE 7 NET FINANCIAL ITEMS

All figures in NOK million	2007	2006	2005
Interest	28	24	96
Other financial revenue	66	71	60
Currency gain	4 222	4 244	2 900
Currency loss	(5 052)	(4 867)	(2 247)
Interest costs	(23)	(175)	(60)
Interest on removal liability	(1 094)	(663)	(646)
Net financial items	**(1 852)**	**(1 366)**	**103**

NOTE 8 GOVERNMENT PETROLEUM INSURANCE FUND

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

NOTE 9 CLOSE ASSOCIATES

The government (represented by the Ministry of Petroleum and Energy) owns 62.5 per cent of StatoilHydro and 100 per cent of Gassco. These companies are classified as close associates of the SDFI.

StatoilHydro is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL to StatoilHydro totalled NOK 98.5 billion (241 million boe) for 2007 and NOK 104.9 billion (266 million boe) for 2006. These amounts and quantities are exclusive of the government's royalty oil.

StatoilHydro markets and sells the government's natural gas at the government's expense and risk, but in StatoilHydro's name and together with its own production. The government receives the market value for these sales. The government sold dry gas directly to StatoilHydro to a value of NOK 287 million in 2007 and NOK 300 million in 2006. StatoilHydro 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 15.5 billion in 2007 and NOK 13.7 billion in 2006. In addition came NOK 3 billion in costs associated with the activity in the USA. Open accounts with StatoilHydro totalled NOK 12.4 billion in favour of the SDFI, converted at the exchange rate prevailing at 31 December.

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

NOTE 10 TRADE DEBTORS

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

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

NOTE 11 ABANDONMENT/REMOVAL

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

The liability is calculated on the basis of estimates from the respective operators. Great uncertainty relates to a number of factors, such as the removal estimate, including assumption for removal and estimating methods, technology and the removal date. The removal date is expected by and large to coincide with the cessation of production. See note 21.

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

The estimate for removal costs has been reduced by NOK 2.7 billion as a result of downward 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	2007	2006	2005
Liability at 1 Jan	29 202	18 538	14 930
New liabilities	883	17	191
Actual removal	(81)	(131)	(31)
Changes to estimates	(2 653)	13 081	1 654
Changes to discount rates	(981)	(2 966)	1 148
Interest expense	1094	663	646
Liability at 31 Dec	**27 465**	**29 202**	**18 538**

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.

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 1 141 million. Of this, NOK 147 million falls due for payment in 2008, NOK 588 million in the subsequent four years, and the residual NOK 653 million after 2012.

Other long-term liabilities falling due longer than five years total NOK 375 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 StatoilHydro. 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 2007, the market value of the instruments was NOK 607 million in assets and NOK 2 194 million in liabilities. The comparable figures at the end of 2006 were NOK 1 829 million and NOK 754 million respectively.

Price risk

The SDFI is exposed to fluctuations in oil and gas prices in the world market. StatoilHydro 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 2007 related to one month's outstanding revenue.

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

Credit risk
The SDFI's sales are made to a limited number of parties, with all oil and NGL sold to StatoilHydro. 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

All figures in NOK million	Leases	Transport capacity and other liabilities
2008	2 787	959
2009	3 263	1 310
2010	2 170	1 453
2011	1 722	1 436
2012	920	1 404
Beyond	475	16 398

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

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

In connection with the award of licences to explore for and produce petroleum, licensees may be required to undertake to drill a certain number of wells. Petoro was committed at 31 December to participate in 17 wells with an expected cost to the SDFI of NOK 1.2 billion. Of this, NOK 761 million is expected to fall due in 2008.

The company has also accepted contractual liabilities relating to the development of new fields, represented by field development costs. These obligations total NOK 6 billion for 2008 and NOK 10.7 billion for subsequent periods, a total of NOK 16.7 billion. Petoro is also committed through approved licence budgets to operating and investment expenses for 2008 which will be on a par with the 2007 figure. The above-mentioned liabilities for 2008 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 140 million have been accepted by the SDFI in relation to third parties. NOK 75 million of this is expected to fall due in 2008.

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

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

NOTE 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 in the joint sale of the SDFI's gas together with StatoilHydro. 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 SIGNIFICANT ESTIMATES

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

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

Reference is otherwise made to the description of the company's accounting principles and Notes 11 and 14, which describe the company's treatment of exploration expenses, uncertainties related to removal and financial instruments.

NOTE 18 EQUITY

All figures in NOK million	**2007**	**2006**	**2005**
Accumulated earnings at 1 Jan*	902 713	774 246	661 075
Net income for the year	112 641	128 467	113 172
Cash transfers to the Bank of Norway	(858 382)	(746 100)	(619 888)
Capital contribution	9 082	9 082	9 082
Accumulated transfer of interests in 2001-02	(29 922)	(29 922)	(29 922)
Implementation effect, new removal model 2004	1 044	1 044	1 044
Translation differences	(179)	(69)	(9)
Total equity	**136 998**	**136 748**	**134 554**

* 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 19 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 issues a final audit letter (report) concerning the SDFI accounts and budget, which is first published after the government accounts have been submitted and when the Auditor General's annual report, Document no 1, is submitted to the Storting (parliament).

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

Deloitte's fee is expensed in the Petoro accounts.

NOTE 20 EXPECTED OIL AND GAS RESERVES

	2007		2006		2005	
Oil* in mill bbl Gas in bn scm	**Oil**	**Gas**	**Oil**	**Gas**	**Oil**	**Gas**
Expected reserves at 1 Jan	2 048	959	2 311	971	2 499	997
Corrections for earlier years**	(1)	(1)			(5)	(11)
Change in estimates	(26)	0	(101)	(1)	(6)	2
Extensions and discoveries	4	0	63	16	3	3
Improved recovery	104	3	39	1	108	6
Purchase of reserves			0	0	0	0
Sale of reserves			0	0	0	0
Production	(241)	(31)	(264)	(28)	(288)	(26)
Expected reserves at 31 Dec	**1 886**	**930**	**2 048**	**959**	**2 311**	**971**

* Oil includes NGL and condensate.
** Vega's reserves in 2006 were inaccurately reported, and were corrected in 2007.

The SDFI added 138 million boe in new reserves during 2007. At the same time, reserves in certain fields were downgraded. The most important contributions to the increase in recoverable reserves were improved recovery on Troll, Oseberg and Heidrun.

At 31 December, the portfolio's expected remaining oil, condensate, NGL and gas reserves totalled 7 737 billion boe. This represented a reduction of 339 million boe from the end of 2006. Petoro reports the portfolio's expected reserves in accordance with the NPD's classification system and on the basis of resource classes 1-3.

Reserves were downgraded during 2007 in a number of producing fields, corresponding to 33 million boe. With a net addition of 105 boe in reserves, this yielded a reserve replacement rate of 24 per cent for 2007, compared with 22 per cent the year before. The average reserve replacement rate for the portfolio over the past three years has been 28 per cent. The corresponding figure for the 2004-06 period was 26 per cent.

NOTE 21 SDFI OVERVIEW OF INTERESTS

Production licence	At 31 Dec 07 Interest (%)	At 31 Dec 06 Interest (%)
018	5.0000	5.0000
018 B	5.0000	5.0000
018 C	5.0000	5.0000
028 C	30.0000	30.0000
034	40.0000	40.0000
036 BS	20.0000	20.0000
037	30.0000	30.0000
037 B	30.0000	30.0000
037 E	30.0000	30.0000
038	30.0000	30.0000
038 C	30.0000	30.0000
040	30.0000	30.0000
043	30.0000	30.0000
043 BS	30.0000	30.0000
050	30.0000	30.0000
050 B	30.0000	30.0000
050 C	30.0000	30.0000
050 D	30.0000	-
050 DS	30.0000	30.0000
051	31.4000	31.4000
052	37.0000	37.0000
052 B	37.0000	37.0000
053	33.6000	33.6000
053 B	25.4000	25.4000
054	40.8000	40.8000
055	13.4000	13.4000
055 B	13.4000	13.4000
055 C	33.6000	33.6000
057	30.0000	30.0000
062	19.9500	19.9500
064	30.0000	30.0000
074	19.9500	19.9500
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

Production licence	At 31 Dec 07 Interest (%)	At 31 Dec 06 Interest (%)
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	30.0000
120	16.9355	16.9355
120 B	16.9355	16.9355
124	27.0900	27.0900
128	24.5455	24.5455
128 B	54.0000	54.0000
128 C	-	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
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	30.0000
265	30.0000	30.0000
275	5.0000	5.0000
277	30.0000	30.0000
277 B	30.0000	30.0000
281	20.0000	20.0000
283	20.0000	20.0000

Production licence	At 31 Dec 07 Interest (%)	At 31 Dec 06 Interest (%)
309	33.6000	33.6000
315	30.0000	30.0000
318	20.0000	20.0000
318 B	20.0000	-
327	20.0000	20.0000
327B	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	20.0000
394	15.0000	15.0000
395	20.0000	20.0000
396	20.0000	20.0000
400	20.0000	-
402	20.0000	-
423 S	20.0000	-
438	20.0000	-
439	20.0000	-
448	30.0000	-

Net profit licences*		
027		
028		
029		
033		

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

Unitised fields	At 31 Dec 07 Interest (%)	At 31 Dec 06 Interest (%)	Remaining production period	Licence term
Brage Unit	14.2567	14.2567	2022	2015
Gimle Unit	24.1863	24.1863	2020	2023
Grane Unit	30.0000	30.0000	2028	2030
Haltenbanken West (Kristin)	19.5770	19.5770	2029	2027
Heidrun Unit	58.1644	58.1644	2036	2024
Hild Unit	30.0000	30.0000	2021	2012
Huldra Unit	31.9553	31.9553	2012	2015
Jotun Unit	3.0000	3.0000	2015	2015
Njord Unit	7.5000	7.5000	2022	2021
Norne Unit	54.0000	54.0000	2021	2026
Ormen Lange Unit	36.4750	36.4750	2046	2040
Oseberg Area Unit	33.6000	33.6000	2050	2031
Ringhorne East Unit	7.8000	7.8000	2020	2030
Snorre Unit	30.0000	30.0000	2031	2015
Snøhvit Unit	30.0000	30.0000	2039	2035
Statfjord East Unit	30.0000	30.0000	2021	2024
Sygna Unit	30.0000	30.0000	2019	2024
Tor Unit	3.6874	3.6874	2011	2028
Troll Unit	56.0000	56.0000	2057	2030
Visund Unit	30.0000	30.0000	2029	2023
Åsgard Unit	35.6900	35.6900	2029	2027
Fields				
Draugen	47.8800	47.8800	2022	2024
Ekofisk	5.0000	5.0000	2029	2028
Eldfisk	5.0000	5.0000	2029	2028
Embla	5.0000	5.0000	2029	2028
Gullfaks	30.0000	30.0000	2030	2016
Gullfaks South	30.0000	30.0000	2023	2016
Heimdal	20.0000	20.0000	2021	2021
Kvitebjørn	30.0000	30.0000	2033	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	2015	2032
Urd	24.5455	24.5455	2021	2026
Varg	30.0000	30.0000	2022	2011
Veslefrikk	37.0000	37.0000	2017	2015
Vigdis	30.0000	30.0000	2022	2024
Rev	30.0000	-	2021	2021
Gjøa	30.0000	-	2024	2028
Vega	40.0000	-	2022	2035
Shut-in fields				
Albuskjell				
Cod				
Edda				
Frøy Unit				
West Ekofisk				
East Frigg				

Oil pipelines	At 31 Dec 07 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**	37.8920	38.2450	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	24.6298	24.8593	-
Zeepipe Terminal JV	18.5671	18.7401	-
Etanor DA	62.7000	62.7000	-
Vestprosess DA	41.0000	41.0000	-
Kollsnes (gas processing plant) (operation)*****	37.8920	38.2450	2028
Snøhvit LNG plant	30.0000	30.0000	-
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 39.01%.
*** Langeled was incorporated in Gassled from 1 September 2006. Northern leg (Nyhamna-Sleipner Riser): 37.475%. Southern leg (Sleipner Riser-Easington): 28.360%.
**** Tampen Link was incorporated in Gassled from 1 September 2007.
***** 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, +47 51 59 98 87

Our date	Our reference
13.03.2008	2.3 2008/~~xxx~~ 441 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
Norway

Audit of the 2007 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 will issue a final audit letter (Report) which summarises the conclusions of its audit work. The audit letter will not be made public before the Office of the Auditor General has reported the results of the audit to The Storting (Parliament), pursuant to section 18 of the Auditor General Act.

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

Yours sincerely

Hans Conrad Hansen
Director General

for Tom Arild Hanekamhaug
Deputy Director General

PETORO AS INCOME STATEMENT

All figures in NOK 1 000	Notes	2007	2006	2005
OPERATING REVENUE				
Invoiced government contribution	1	177 600	180 000	174 320
Other revenue	1	987	27	189
Net deferred revenue recorded	2	181	5 292	3 377
Total operating revenue		**178 769**	**185 319**	**177 886**
OPERATING EXPENSES				
Payroll expenses	3,9	82 171	74 621	80 207
Depreciation and write-down	4	3 632	7 464	6 098
Administrative fees	12, 15	2 817	2 301	2 714
Accounting fees	14	14 113	13 936	16 440
Office expenses	13	8 110	7 403	8 695
ICT expenses	14	12 629	12 500	6 585
Other operating expenses	11, 14, 15	62 066	51 715	57 185
Total operating expenses		**185 537**	**169 940**	**177 924**
Operating income/(loss)		**(6 768)**	**15 379**	**(38)**
FINANCIAL ITEMS				
Financial income		6 953	2 170	1 117
Financial expenses		(422)	(284)	(142)
Net financial result		**6 531**	**1 886**	**975**
NET INCOME/(LOSS)		**(237)**	**17 265**	**937**
TRANSFERS				
Transfer to other equity		(237)	17 265	937
Total transfers		**(237)**	**17 265**	**937**

PETORO AS BALANCE SHEET

All figures in NOK 1 000	Notes	2007	2006	2005
ASSETS				
Operating equipment, fixtures, etc	4	7 622	7 803	13 352
Total fixed assets		**7 622**	**7 803**	**13 352**
Trade debtors		1 507	34	2 445
Other debtors	5	4 102	267	388
Bank deposits	6	85 393	73 280	57 890
Total current assets		**91 002**	**73 581**	**60 723**
TOTAL ASSETS		**98 624**	**81 385**	**74 075**
EQUITY AND LIABILITIES				
Share capital (10 000 shares at NOK 1 000)	7	10 000	10 000	10 000
Other equity	8	22 681	22 918	5 653
Total equity	8	**32 681**	**32 918**	**15 653**
Pension liabilities	9	24 653	15 740	17 707
Deferred revenue government contribution	2	7 622	7 803	13 095
Total provisions		**32 275**	**23 544**	**30 802**
Trade creditors	15	13 223	10 426	10 636
Withheld taxes and social security		8 095	3 118	3 856
Other current liabilities	10	12 350	11 380	13 127
Total current liabilities		**33 668**	**24 923**	**27 619**
TOTAL EQUITY AND LIABILITIES		**98 624**	**81 385**	**74 075**

Stavanger, 22 February 2008

Gunnar Berge
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M von der Fehr
Director

Per A Schøyen
Director

Mari Thjømøe
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	2007	2006	2005
	LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES			
	Provided by operations for the year*	3 394	24 729	7 035
+/-	Change in debtors	(1 473)	2 411	(1 245)
+/-	Change in trade creditors	2 797	(210)	5 065
+/-	Change in accrued items	10 845	(9 625)	(9 975)
	Net change in liquidity from operating activities	**15 563**	**17 305**	**880**
-	LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES			
	Invested in tangible fixed assets	(3 450)	(1 915)	(2 429)
	Net change in liquidity from investing activities	**(3 450)**	**(1 915)**	**(2 429)**
	LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES			
+	Proceeds from share issue	0	0	0
	Net change in liquidity from financing activities	**0**	**0**	**0**
	Net change in liquid assets	12 113	15 390	(1 549)
+	Cash and cash equivalents at 1 January	73 280	57 890	59 439
	Cash and cash equivalents at 31 December	**85 393**	**73 280**	**57 890**
*	This figure is obtained as follows:			
	Net (loss)/income	(237)	17 265	937
+	Ordinary depreciation and write-downs	3 632	7 464	6 098
	Provided by operations for the year	**3 394**	**24 729**	**7 035**

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

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

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

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

Debtors
Trade debtors and other debtors are carried at face value.

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

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

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

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

Current liabilities
Current liabilities are assessed at their face value.

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

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

NOTE 1 GOVERNMENT CONTRIBUTION

The company received an operating contribution from the Norwegian government totalling NOK 177.6 million excluding VAT in 2007. The net loss after financial items was NOK 0.2 million, which it is proposed to cover from other equity. Other revenue primarily relates to invoicing of services provided to operators of joint ventures and other joint venture partners.

NOTE 2 DEFERRED REVENUE

The change in deferred revenue recorded in the income statement comprises deferred revenue related to NOK 3.4 million in investment made in 2007 as well as NOK 3.6 million in depreciation and write-down of investment in earlier years.

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

(All figures in NOK 1 000)	2007	2006	2005
Pay	56 691	49 979	50 647
Payroll taxes	7 767	7 198	10 142
Pensions (note 9)	15 482	15 094	17 077
Other benefits	2 231	2 351	2 342
Total	**82 171**	**74 621**	**80 207**
Employees at 31 Dec	56	53	53
Employees with a signed contract who had not started work at 31 Dec	5	5	4
Average number of work-years employed	54	53	57

Remuneration of senior executives (All figures in NOK 1 000)	Pay	Recorded pension	Other benefits
President and CEO	2 820	2 205	266
Management team (eight people)	9 554	2 769	1 315

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. Five more can opt to retire upon reaching the age of 65 on a reduced pension for the first two years. Recorded pension obligation represents the actuarially-estimated cost for the year of the pension obligation for the president and the rest of the management team.

Directors' fees

Fees paid in 2007 totalled NOK 315 000 for the chair and NOK 1 285 000 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 07	3 563	7 027	16 672	27 262
Additions		872	2 578	3 450
Disposals				
Purchase cost at 31 Dec 07	3 563	7 899	19 250	30 712
Accumulated depreciation 1 Jan 07	959	5 407	13 094	19 460
Depreciation and write-downs for the year	341	900	2 390	3 631
Accumulated depreciation 31 Dec 07	1 300	6 307	15 484	23 091
Book value at 31 Dec 07	**2 263**	**1 592**	**3 766**	**7 622**
Economic life	11 years	3/5 years	3 years	
Depreciation plan	Linear	Linear	Linear	
Operational lease charges	0	184	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 25 million in withheld tax and pension plan assets.

NOTE 7 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital of the company at 31 December 2007 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

Figures in NOK 1 000	Share capital	Other equity	Total
Equity at 1 Jan 07	10 000	22 918	32 918
Change in equity for the year			
Net income	0	(237)	(237)
Equity at 31 Dec 07	**10 000**	**22 681**	**32 681**

NOTE 9 PENSION COSTS, ASSETS AND LIABILITIES

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

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

Figures in NOK 1 000	2007	2006	2005
Present value of benefits earned during the year	13 427	12 944	12 027
Interest expense on pension obligation	4 728	3 880	3 598
Return on pension plan assets	(4 671)	(3 821)	(3 180)
Recorded change in estimates	85	84	4 305
Payroll tax	1 913	2 007	2 362
Net pension cost	**15 482**	**15 094**	**19 112**

Net pension obligation	**2007**	**2006**	**2005**
Estimated pension obligation at 31 Dec	83 818	94 420	75 581
Pension plan assets (market value)	(53 510)	(74 977)	(56 612)
Capitalised pension obligations before payroll tax	30 308	19 443	18 969
Unrecorded change in estimates	(9 928)	(5 790)	(3 450)
Payroll tax	4 273	2 087	2 188
Net pension obligation	**24 653**	**15 740**	**17 707**

NOK 2.8 million of this year's premium has been paid by transfer from the premium reserve. NOK 3 million has also been paid from the premium reserve to the company, since the collective annuity scheme has been terminated.

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

All figures in per cent	2007	2006	2005
Discount rate	5.0	5.0	6.0
Expected return on plan assets	6.0	6.0	7.0
Expected increase in pay/NI base rate	4.0	4.0	3.0
Expected increase in pensions	1.6	1.6	2.5

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

NOTE 10 OTHER CURRENT LIABILITIES

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

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 2007 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 1.9 million for this service in 2007. Deloitte has also performed services relating to partner audits totalling NOK 2.8 million.

NOTE 12 BUSINESS MANAGEMENT AGREEMENTS

To ensure efficient resource utilisation with a small organisation, 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 StatoilHydro, ConocoPhillips, Lundin, Total 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 7 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. This agreement was concluded in 2002 for five years, with an option for a further two years. The recorded accounting fee in 2007 was NOK 13 million. Other purchased services totalled NOK 5.5 million, of which NOK 2.7 million related to programme development which has been capitalised.

NOTE 15 CLOSE ASSOCIATES

StatoilHydro ASA and Petoro AS have the same owner in the Ministry of Petroleum and Energy, and are accordingly close associates. Petoro purchased services in 2007 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 2.2 million was recorded in 2007 for the purchase of services from StatoilHydro. These were purchased at market price on the basis of hours worked. At 31 December 2007, Petoro owed NOK 0.6 million to StatoilHydro. 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 2007

We have audited the annual financial statements of the PETORO AS as of 31 December 2007, showing a loss of NOK 237 000. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The 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, 2007, 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 coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Stavanger, 22 February 2008.
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 2008

29 April Interim report for first quarter
4 August Interim report for second quarter
28 October Interim report for third quarter

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