ANNUAL REPORT SDFI AND PETORO 2010

petoro

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Since its creation in 2001, Petoro has transferred a net cash flow of more than NOK 1 000 billion to the Norwegian government.

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

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PETORO'S PRINCIPAL OBJECTIVE
is to create the highest possible financial value from the state's oil and gas portfolio on the basis of sound business principles
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PETORO'S VISION:
A driving force on the Norwegian continental shelf
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PETORO'S KEY DUTIES
Management of the government's holdings in the partnerships.

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

Financial management, including accounting, for the SDFI.
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MANAGED THE SDFI PORTFOLIO FOR 10 YEARS

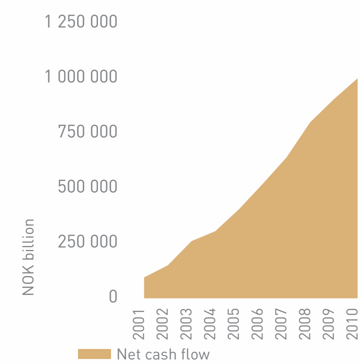
The Norwegian government has large holdings in oil and gas licences on Norway's continental shelf (NCS) through the State's Direct Financial Interest (SDFI). Its portfolio of petroleum reserves on the NCS represents about a third of the country's total offshore reserves and more than a quarter of its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

Petoro was founded on 9 May 2001 as a consequence of the partial privatisation of Statoil and on the basis of a mandate from the Storting (parliament) to manage the SDFI on commercial principles. The company has discharged this role ever since, transferring a net cash flow of more than NOK 1 000 billion to the government. That represents one of three main inputs to the government's pension fund – global, also called the oil fund.

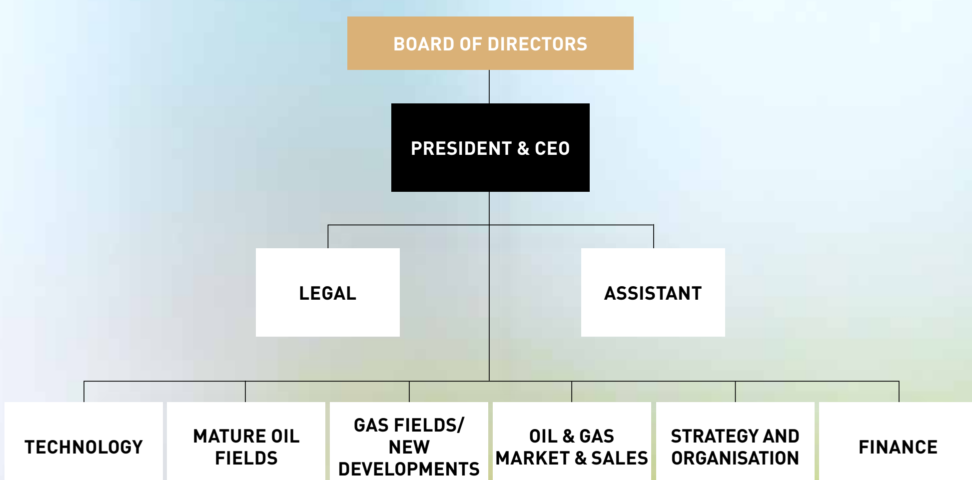
ENHANCING VALUE TOGETHER WITH OTHERS

Petoro has its office in Stavanger, with 69 employees at 31 December who cover a broad range of expertise and experience. It has a relatively small organisation, characterised by good collaboration in-house and with other companies, the authorities and external sources of expertise. Combining a goal of the largest possible financial value creation with a very large portfolio in international terms and a limited team means that Petoro must work in a special way to make a positive difference. Collaboration is crucial for reaching its goals.

CASH FLOW TRANSFERRED TO THE GOVERNMENT



The main arenas for its operations are the individual production licences and projects. Petoro was a licensee in 146 production licences at 31 December 2010, including 36 producing fields. Statoil is the operator for more than 80 per cent of SDFI production. As the manager of Norway's second largest licence portfolio, Petoro occupies a unique position on the NCS. A substantial contribution from the company will be to identify opportunities for enhanced value creation through collaboration with the other partners in each production licence.



NEED FOR ADAPTATION ON MATURE FIELDS

Oil production from the NCS has fallen by more than a third since its 2001 peak, and a further decline is expected. Gas output has risen, but not sufficiently to compensate fully for the drop in oil production. The probability of making new discoveries has also decreased. According to figures from the Norwegian Petroleum Directorate, remaining resources in existing fields are larger than those still to be discovered off Norway. This underlines the importance of the existing fields for the NCS. The SDFI portfolio is dominated by large holdings in big mature fields. Petoro's strategy was revised in 2010. The new strategy is as follows.

- Realise the potential in and close to large mature fields.
- Integrated and timely development of the gas value chain.
- Seek commercial opportunities on Vøring and in Barents Sea South.

The company prioritises a commitment to realising the potential in and close to mature fields. These efforts will be directed at extending the production life of priority installations through the choice of technology, efficient drainage methods and the completion of more production wells per year. The company will also work to prioritise selected installations as field centres and to achieve a timely phasing-in of discoveries.

Developments in the global market for natural gas in the time to come and an understanding of these will be highly significant for opportunities to realise the value potential of the portfolio. Activities related to supporting the value of the existing portfolio of contracts, identifying the best sales opportunities for new gas and facilitating greater flexibility in the gas value chain will become more extensive and will represent important areas of work for Petoro in the time to come.

Barents Sea South and the Vøring area are the most important immature areas in the portfolio. Petoro's commitment will be to contribute to continued exploration activity and maturing of resources through setting priorities for drilling rigs while also ensuring that developments in these areas safeguard the owner's interests.

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IMPORTANT MATURE OIL FIELDS: Gullfaks, Oseberg, Heidrun, Grane, Snorre, Norne, Draugen, Varg, Ekofisk, Tordis/Vigdis and Visund.

IMPORTANT GAS FIELDS: Troll, Ormen Lange, Åsgard, Kvitebjørn, Snøhvit, Kristin, Gjøa and Vega.

DRIVING FORCE ON THE NCS

Petoro could celebrate the 10th anniversary of its creation – and a cash flow of more than NOK 1 000 million to the government – on 9 May 2011. Two weeks before the company was registered, on 26 April 2001, the Storting (parliament) established new milestones in petroleum history. Statoil was partially privatised and an amendment to the Petroleum Activities Act authorised the founding of a new company to take over management of the State's Direct Financial Interest (SDFI). At the time, this was the largest portfolio on the Norwegian continental shelf (NCS).

"We Norwegians are midway through our oil adventure. In volume terms, about the same amount remains to be recovered as has already been produced. To bring up the remaining half, however, we must do things differently than when we produced the first billions of barrels."

The SDFI was established in 1985 through a broad political compromise negotiated between the Willoch government and the Labour Party. That decision was preceded by a heated political discussion about Statoil's dominant position in Norway's economy and social life, and its ability to handle a huge cash flow on behalf of the state. The debate over the "cuckoo in the nest" and "clipping the wings" ended with a division of Statoil's holdings in the petroleum industry between the company itself and the SDFI. The government then resolved to ask Statoil to administer the SDFI on behalf of the state.

In the 16 years which elapsed from the creation of the SDFI until Petoro took over as manager in 2001, Norway's petroleum activity experienced some significant changes.

- Total production tripled to about 4.3 million barrels of oil equivalent per day (boe/d).
- Crude oil output alone peaked in 2001 at 3.1 million barrels per day.
- Norway became an energy "great power" in Europe on the basis of major commercial agreements. These laid the basis for huge gas deliveries through what eventually became the world's most extensive underwater pipeline network.
- Revenues to the Norwegian government first fell sharply from 1985 because of the 1986 oil price slump, and averaged just over NOK 50 billion in 2010 value per annum during the 1980s and 1990s, with some early years close to zero and later ones just over NOK 100 billion.
- Norwegian oil companies Statoil, Hydro and Saga acquired operator positions previously

reserved for the major international companies, and the first two went international through a substantial commitment to exploration and production in four continents.

- Norwegian contractors and suppliers gained promotion to the international premier league through major deliveries at home and abroad, bold international acquisitions and unique technological progress.

In the decade since Petoro was established, Norway's petroleum industry has passed new milestones.

- Total production peaked in 2004 at 4.55 million boe/d, and amounted in 2010 to roughly four million boe/d.
- Oil output declined by 42 per cent from its 2001 peak to an average of 1.8 million barrels per day in 2010.
- Over the same period, gas production doubled from 0.9 to 1.8 million boe/d.
- Government revenues roughly quadrupled at the turn of the millennium, reaching NOK 200 billion by 2000 in 2010 value and peaking for the moment at NOK 416 billion in 2008.
- Statoil and Hydro first divided Saga between them and then merged into a single Norwegian oil company, which now operates roughly 80 per cent of Norway's petroleum output and has substantial international positions.
- Norway is close to having produced half of the estimated total recoverable reserves on the NCS.
- The number of operators and licensees on the NCS rose from 29 to 51.

As a petroleum nation, we have probably passed our peak. The question is whether we choose to regard the NCS as half empty or half full. The debate about adapting to "Norway after the oil" suggests that many people are beginning to regard themselves as finished with the oil business and are looking for other opportunities.

There is nothing wrong in seeking alternative economic pillars in a country where petroleum accounts for 22 per cent of the gross domestic product, 27 per cent of government revenues, 26 per cent of total investment and 47 per cent of exports. In my view, however, it is more important and time-critical right now to discuss what would be required to maintain and continue developing the petroleum sector for many decades to come. Because, with the right moves, it can still bring big revenues to the country, be a locomotive for industrial and technological development, and represent attractive career choices for our talented young brains.

We Norwegians are midway through our oil adventure. In volume terms, about the same amount remains to be recovered as has already been produced. To bring up the remaining half, however, we must do things differently than when we produced the first billions of barrels.

We will face almost unreasonable challenges. One example is drilling two-three times as many production wells per annum at a time when each well costs two-three times more than it did a few years ago and yields far fewer barrels than before. To meet such a challenge, it is not enough simply to improve the efficiency of our large old drilling units. We must take quantum leaps, think innovatively and flexibly – and also build along new and flexible lines.

We need aggressive companies, motivated and committed employees and dynamic leaders who decide the course to follow. We need a policy and regulatory framework which provides the right incentives, and forward-looking politicians who are able to take decisions at the interface between growth and conservation.

Just now, we face important decisions about the future of our most important industry.

How good these decisions are will also be crucial for the kind of adaptation we must concentrate on – the one to prepare us for a time after oil, or the one which motivates us to continue developing and make a long-term commitment to the petroleum industry.

I hope and believe that the decisions made will allow us to get to grips with the right changes.

—

KJELL PEDERSEN
President and CEO, Petoro AS

KEY FIGURES **2010**

Net income for the State's Direct Financial Interest (SDFI) in 2010 came to NOK 105.4 billion, compared with NOK 100.7 billion the year before. Total operating revenue was NOK 159.3 billion, compared with NOK 154.2 billion in 2009. Cash flow is transferred to the government and amounted to NOK 103.6 billion, compared with NOK 97 billion the year before. Production averaged 1 080 000 barrels of oil equivalent per day (boe/d), somewhat higher than 1 074 000 boe/d in 2009.

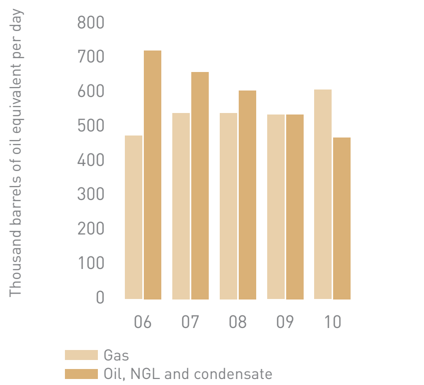
FINANCIAL DATA (in NOK million)

	2010	2009	2008	2007	2006
Operating revenue	159 270	154 186	214 585	167 724	174 979
Operating income	107 225	103 964	157 843	114 493	129 833
Net income for the year	105 379	100 662	159 906	112 641	128 467
Cash flow from operating activities	123 210	120 050	175 548	132 203	146 616
Cash flow applied to investment activities	18 443	23 592	19 948	19 871	19 887
Net cash flow	103 572	96 992	155 420	112 281	126 213

OPERATIONAL DATA

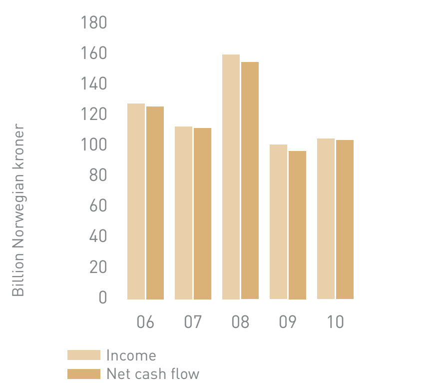
	2010	2009	2008	2007	2006
Production oil, NGL and condensate (1 000 barrels per day)	470	537	607	661	723
Production dry gas (million scm per day)	97	85	86	86	75
Oil, NGL and dry gas production (1 000 boe per day)	1 080	1 074	1 148	1 202	1 198
Remaining reserves (million boe)	6 538	6 786	7 354	7 736	8 080
Reserve replacement rate (three-year average in per cent)	1	(3)	18	28	26
Reserves added (million boe)	187	(176)	36	105	97
Oil price (USD per barrel)	79.38	60.53	97.99	71.44	64.50
Oil price (NOK per barrel)	482	380	528	418	412
Gas price (NOK per scm)	1.76	1.95	2.40	1.63	1.92

PRODUCTION



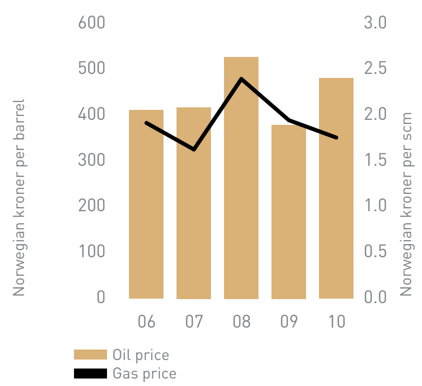
Total production from the SDFI portfolio was marginally higher than in 2009. The output of liquids (oil, NGL and condensate) declined by 12 per cent compared with the year before, while gas production rose by 14 per cent. Measured in oil equivalent, gas output in 2010 outstripped liquids production for the first time.

INCOME AND CASH FLOW



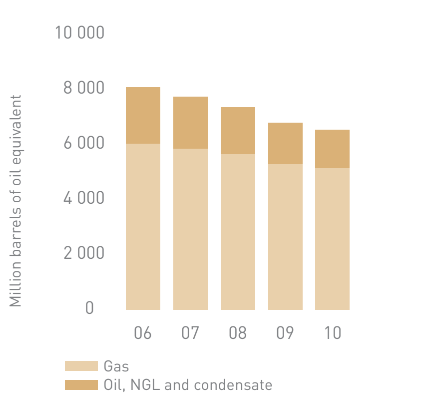
Net income for 2010 was NOK 105 billion, up by five per cent from the year before because of higher oil prices and increased gas sales. Lower oil sales reduced income to some extent. Overall oil and gas sales averaged 1 159 000 boe per day, a marginal increase from 2009. Cash flow, transferred in its entirety to the government, was NOK 104 billion, up NOK 6 billion from the year before.

OIL AND GAS PRICES



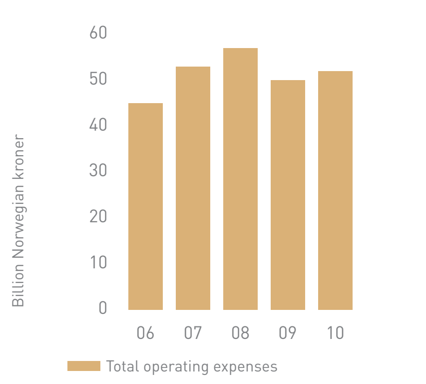
The price of oil from the SDFI portfolio averaged NOK 482 per barrel in 2010, compared with NOK 380 the year before. In US dollars, the average was USD 79.38 per barrel – 31 per cent higher than in 2009. Gas fetched an average price of NOK 1.76 per scm in 2010, compared with NOK 1.95 the year before.

REMAINING RESERVES



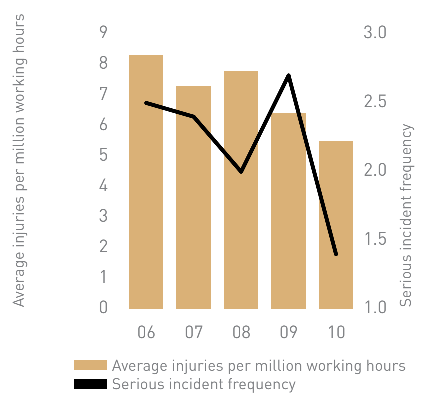
The portfolio's estimated remaining oil, condensate, NGL and gas reserves totalled 6.5 billion boe at 31 December, down by 246 million boe from the year before. Production reduced reserves by about 400 million boe from 2009, offset to some extent by new volumes from projects sanctioned during the year, such as Valemon.

EXPENSES



Total operating expenses were NOK 52 billion, up four per cent from 2009 because increased demand for and a high volume of gas purchases increased costs. Price inflation boosted the cost of operating fields, pipelines and land-based plants by four per cent from 2009. Exploration activity was rather lower than the year before.

SAFETY



Petoro's main parameter for monitoring HSE developments in the SDFI portfolio is the serious incident frequency (SIF), which measures the number of such events per million working hours. At 1.4, the SIF for 2010 represented a substantial improvement from the year before and was the best in Petoro's history. The number of personal injuries per million working hours improved from 6.4 in 2009 to 5.2.


THE SNØHVIT PLANT ON MELKØYA.

HIGHLIGHTS 2010

MARKET DEVELOPMENTS
Energy markets in 2010 were influenced by a stable trend in the world economy. Demand for oil and gas increased as the global economy recovered from the financial crisis. World economic expansion of more than four per cent was driven by high growth in China and India. Oil prices lay at a stable level of roughly USD 80 per barrel for the first nine months before rising further in the last quarter of 2010. Spot prices for gas climbed during the year and strengthened relative to oil prices.

Implementation of the European Union's new energy strategy up to 2010, combined with the EU's work on a road map for the transition to a low-carbon economy towards 2050, will provide important indicators of future energy demand and the role of different energy sources. Conclusions from this work are expected during 2011.

VALEMON
Valemon is a medium-sized discovery located between Gullfaks and Kvitebjørn, and a plan for its development and operation (PDO) was submitted in 2010. Petoro devoted particular attention to securing a timely phasing-in of this field to come on stream in 2014. The company also worked for the licence to choose an optimum development concept for the Valemon reserves, including the opportunity to tie in surrounding resources. Passing via Heimdal, the selected export solution will significantly extend activity on the latter field and have positive spin-offs for smaller discoveries in its immediate vicinity.

UPDATED STRATEGY FOR THE COMPANY
Petoro's strategy was revised during 2010. It now falls into three parts which comprise issues of great commercial value where the company has the greatest ability to exert influence.

1. Petoro will increase its efforts to realise the value potential in and close to large mature fields, because Norwegian oil output is dominated by a few big producers in a mature phase.
2. The significance of gas for SDFI production, combined with a demanding gas market, has prompted Petoro to focus attention on

realising the value potential of this resource through integrated and timely further development of the gas value chain.

3. Barents Sea South and Vøring are the most important immature areas in the SDFI potential in terms of resource potential and maturity, and Petoro will make efforts to seek commercial opportunities in these waters.

SNØHVIT TRAIN II

The Snøhvit partnership unanimously resolved in late 2010 to study the opportunities for a second process train at the Melkøya plant. A concept for this train II is to be chosen in 2012.

Increased processing capacity at Melkøya could speed up production from Snøhvit itself, permit gas evacuation from nearby discoveries and encourage increased exploration in the area. Petoro has been a driving force in the Snøhvit joint venture on securing further studies of a train II.

ÅSGARD SUBSEA COMPRESSION

Measures to increase reservoir pressure on Åsgard are needed to ensure gas production from the Midgard part of the field in addition to Mikkel. Petoro has for some time been an active driver in the Åsgard joint venture for maturing a subsea compression solution. The starting point was a traditional platform concept. While a subsea alternative calls for substantial technology development, it is financially attractive and will have spin-offs for fields other than Åsgard. The joint venture resolved in the autumn of 2010 to continue with the subsea solution, and an investment decision is planned for 2011.

ÅSGARD

GOOD HSE RESULTS, BUT BIG WELL CHALLENGES

Health, safety and environmental results for facilities in the portfolio showed a clear improvement in 2010. No fatal accidents occurred, while the number of serious incidents and the personal injury frequency both declined. However, incidents occurred which had the potential to become major accidents. That applied particularly to an event during the drilling of a well on Gullfaks, when barriers were breached or weakened. This incident attracted great attention in Petoro, and has influenced the way the company will follow up critical well operations.

DRILLING AND WELL

Petoro pursued its own efforts to boost the number of wells being drilled on mature fields during their producing life. Drilling capacity has declined during recent years on the most important SDFI fields in the mature phase, and measures to reverse that trend are required to ensure that all commercial drilling targets are reached within the operating life of the infrastructure. Low volumes in these targets call for cheaper wells. The question is whether well design can be simplified or whether new commercial concepts can be found which increase drilling capacity.

Wellhead platforms are a well-known development solution, but have not been used on the NCS in waters deeper than 350 metres. Such installations could be an important measure in cases with large remaining reserves and many potential wells. This could unleash new opportunities for the profitability of small targets and complex wells, while also making well interventions cheaper. The largest fields, such as Snorre, Heidrun and Gullfaks, have limited opportunities for a substantial increase in drilling capacity, and it was accordingly agreed to explore the concept of using wellhead platforms – initially on Snorre. This study showed that it is fully possible to use such an installation, and the question is whether that gives better profitability than alternative approaches on Snorre. Petoro's estimates indicate that installing a wellhead platform close to existing structures will yield a positive present value, primarily because it permits a substantial acceleration in production.

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Oil prices lay at a stable level of roughly USD 80 per barrel for the first nine months before rising further in the last quarter of 2010.
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Health, safety and environmental results for facilities in the portfolio showed a clear improvement in 2010.
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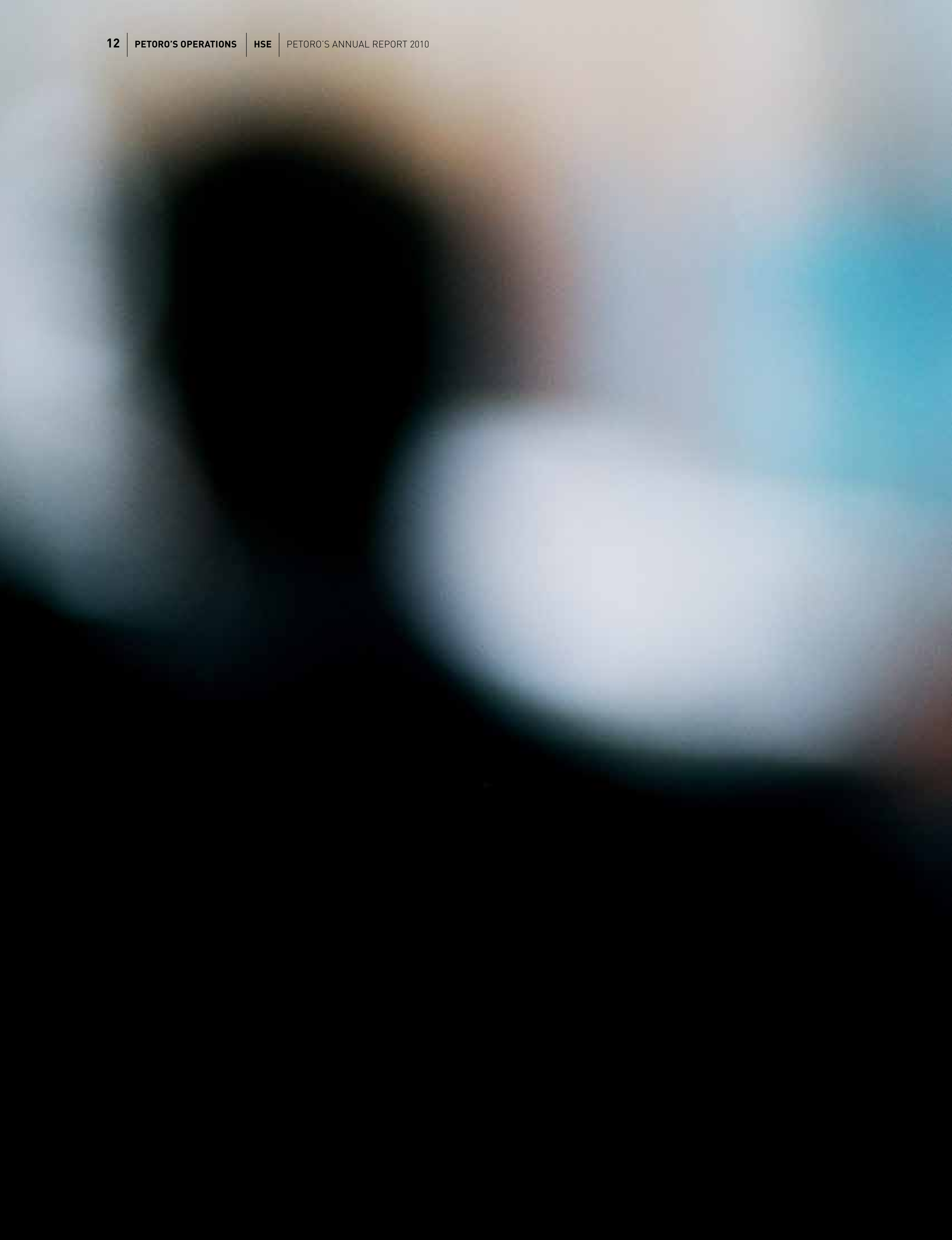


PETORO WANTS TO PLAY AN ACTIVE ROLE, INCLUDING WITH THE ENVIRONMENT

ANNUAL REPORT ON HEALTH, SAFETY, THE ENVIRONMENT AND QUALITY

SAFETY IN 2010 – **BETTER RESULTS**

Results for health, safety and the environment on facilities in the SDFI portfolio showed a clear improvement in 2010. No serious accidents were recorded, while the number of serious incidents and the personal injury frequency declined. However, events occurred which had the potential to become major accidents. That applied in particular to an incident during the drilling of a well on the Gullfaks field, where a number of barriers were breached or weakened.

This incident attracted particular attention in Petoro, and has influenced the way the company will follow up critical well operations.

It also prompted Statoil to carry out a study during the autumn of 2010 which led to the temporary shutdown of 20 wells to ensure that all the wells in the field met the requirement for two barriers against uncontrolled leaks. As a result, 30 wells were also shut down to ensure balanced pressure conditions in the reservoir.

Petoro's main parameter for following up health, safety and the environment in the SDFI portfolio is expressed by the serious incident frequency (SIF) per million working hours. This measurement parameter is intended to ensure that attention is given to the risk of incidents which can cause major accidents. The company also follows up the personal injury frequency (PIF) as a secondary parameter. A significant improvement in the number of serious incidents was registered in 2010, while the PIF improved. Dropped objects and incidents related to mechanical handling still dominate these statistics.

The SIF was 1.4 in 2010, compared with 2.7 the year before. That represented 46 incidents registered as serious.

Petoro participated in a number of HSE-related management inspections on selected fields and installations during 2010. The company works to influence operators and the rest of the industry to achieve reductions in the number of personal injuries and serious incidents.

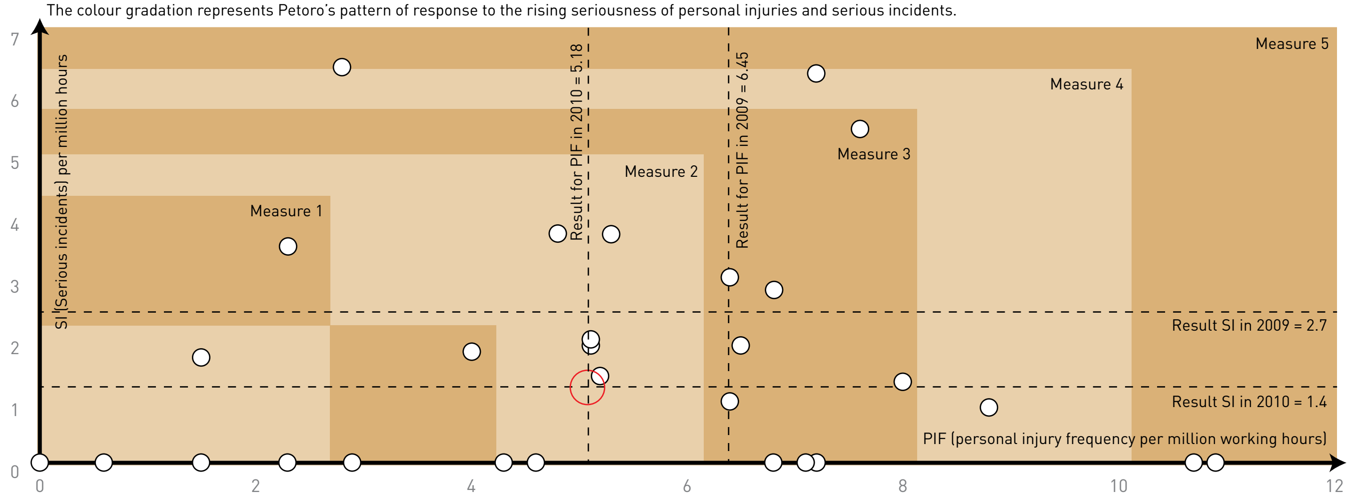
The Petroleum Safety Authority Norway (PSA) carried out an audit of Petoro in 2008 with the focus on the attention paid by the executive management and the board to preventing the risk of a major accident. As a follow-up, a further audit was conducted by the PSA in 2009 to assess consequent changes and improvements. Another audit was carried out in 2010 related to control of major accident risk from an enterprise management perspective. The report from this audit had not been received at 31 December. No major discharges of oil were registered from fields in the portfolio during 2010.

ACROSS AREAS AND LICENCES

Health and safety are a line responsibility, which is followed up in the management committees of the licences. To disseminate experience and share expertise between its own staff, safety and health are in focus at regular management-level meetings and among Petoro's area teams. The executive management also holds regular bilateral meetings with the biggest operators where HSE is a key topic. In addition, Petoro's HSE manager is a driving force and resource in cross-licence work on following up results and measures. Statistics from the various installations clarify good and less positive results, and make it possible to identify lessons which can be transferred to other installations and licences. These results also lay the basis for Petoro's decisions on follow-up and action. As in previous years, the company participated during 2010 in a number of inspections on fields and installations as part of its compliance responsibility and role as a visible and demanding partner with a focus on safety work.

SERIOUS INCIDENTS AND PERSONAL INJURY FREQUENCY

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



Installations in the SDFI portfolio

Results for personal injuries and serious incidents

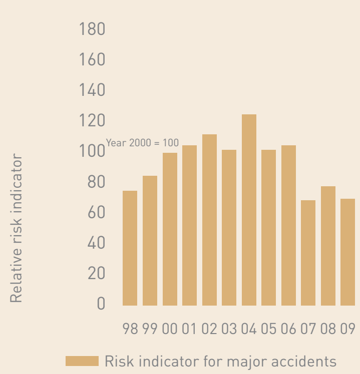
Average for 2010

Measure 1: Challenge in licences ■ Consider meeting at field/area level **Measure 2:** Meeting at field/area level ■ Assess operator measures and implementation ■ Consider doing own analysis

Measure 3: Perform own analysis ■ Call field manager after each SI ■ Consider meeting at management level ■ Consider requesting partner inspection
Measure 4: Hold meeting at management level

■ Initiate and execute partner inspection ■ Consider meeting at company level
Measure 5: Hold meeting at company level ■ Consider meeting with Petroleum Safety Authority Norway

RISK INDICATOR FOR MAJOR ACCIDENTS



DEVELOPMENTS ON THE NCS

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

Twelve hydrocarbon leaks larger than 0.1 kilograms of gas per second were recorded in 2010. The statistics here also show a declining trend since 2002, but rather slower than the industry's long-term goal.

Similarly, serious personal injuries have developed positively in recent years. Their frequency was 0.17 per million working hours in 2010.

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

NATURAL ENVIRONMENT

Emissions of carbon dioxide and sulphur dioxide from the SDFI increased in 2010, while releases of nitrogen oxides and volatile organic compounds fell. Discharges of oil to the sea in produced water declined from 2009 because of a lower oil concentration and a reduction in the volume released. A large acute spill from Draugen led to an overall increase in oil discharges for 2010. Chemical discharges were reduced, with little or no harm caused to the environment.

Emissions/discharges from SDFI petroleum production were affected by declining oil and rising gas outputs. Overall production measured in oil equivalent fell by about two per cent from 2009 to 2010. The actual portfolio changed little during 2010 with the exception of two new fields – Gjøa and Vega – coming on stream. Emissions/discharges have been calculated on the basis of interests held at 31 December 2010. At that date, the SDFI portfolio embraced 146 production licences, 36 producing fields and 14 joint ventures for pipelines, terminals and land-based plants.

NATURAL ENVIRONMENT

Developments for emissions/discharges related to the SDFI's portfolio are presented both as absolute annual values and as emissions/discharges per unit produced. The latter gives a more representative picture of historical trends, unlike the absolute values alone.

Graphs and figures presented here are based on operator reports for 2010 to the Norwegian Oil Industry Association (OLF) and the Norwegian Climate and Pollution Agency (Klif). All emission/discharge figures are related to the SDFI's portfolio of interests, and calculated on the basis of total figures for the installations. Only emissions/discharges covered by the information duty regulations are included.

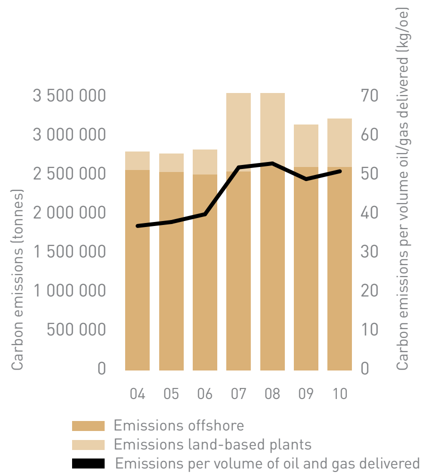
Reported emissions/discharges are not allocated by ownership of production, but by emission/discharge point. In other words, emissions/discharges related to downstream processing of the SDFI's oil and gas on installations not part of the SDFI portfolio are excluded from this accounting. Similarly, processing of all oil and gas on installations in the SDFI portfolio will be included in the emission accounting, regardless of whether the SDFI has interests in the upstream fields.

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

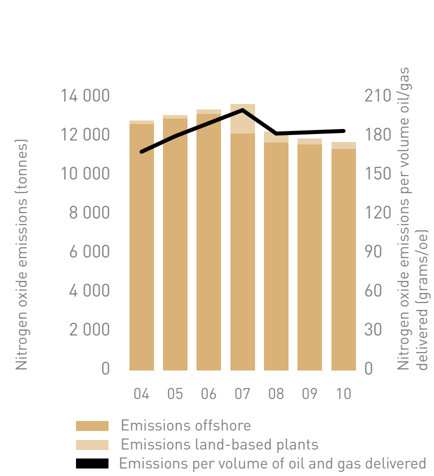
Carbon equivalent is a unit which designates the effect a specified volume of a greenhouse gas has on global warming, converted to carbon dioxide emissions with a corresponding impact.
Other greenhouse gases have a different warming potential, and their emissions are accordingly expressed as carbon equivalent in an environmental accounting.

Carbon tax and emission trading: The carbon tax and the Emission Trading Act are the key tools for reducing Norwegian carbon emissions. At 1 January 2009, the tax was NOK 0.46 per litre of oil and NOK 0.46 per scm of gas. Allowances are freely tradable permits to release greenhouse gases. One allowance corresponds to one tonne of carbon emissions. The price of an allowance is determined by supply and demand in the market.

CARBON DIOXIDE



NITROGEN OXIDES



SULPHUR OXIDES

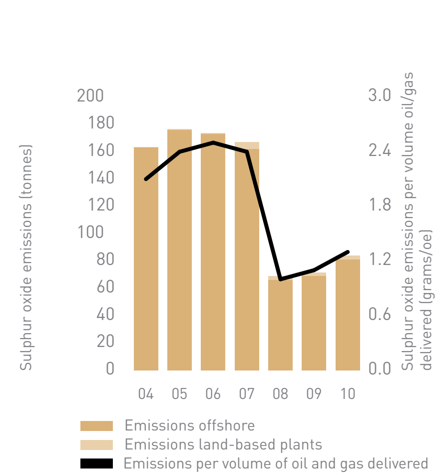


Figure 1 Annual carbon emissions and emissions per volume of oil and gas produced from the SDFI.

Figure 2 SDFI nitrogen oxide emissions and emissions per volume of oil and gas produced.

Figure 3 SDFI sulphur oxide emissions and emissions per volume of oil and gas produced.

CARBON VOLUMES INCREASED

The amount of carbon dioxide released in 2010 totalled just over 3.1 million tonnes, up roughly two per cent from the year before. Offshore emissions were on a par with 2009. The main reason for the rise on land was higher production at Melkøya, which processed about 50 per cent more gas in 2010 than in the year before. That yielded an increase of almost 30 per cent in carbon emissions.

As in 2009, Åsgard and Troll each accounted for 12 per cent of the SDFI's carbon emissions during the year and Oseberg for 10 per cent. Åsgard showed a slight reduction from 2009, while Troll and Oseberg had marginal increases.

CONTINUED DECLINE FOR NITROGEN OXIDES

Nitrogen oxide emissions from the SDFI portfolio declined by 200 tonnes from 2009 to 11 600 tonnes. This reduction was achieved offshore, with land-based emissions rising slightly because of the increased output from Melkøya.

Norway's target under the Gothenburg protocol was to reduce national nitrogen oxide emissions to 156 000 tonnes in 2010. The total released in 2009 was 181 000 tonnes, with the oil and gas industry accounting for 28 per cent. That was 16 per cent above the target, but five per cent down from 2008. A number of the measures which led to this reduction were funded by the industry's nitrogen oxide fund, with which large parts the oil and gas industry are affiliated. From the creation of the fund in 2008 until the first quarter of 2010, a reduction of 6 221 tonnes in emissions as a result of its work had been verified by Det Norske Veritas (DNV).

Figure 3: The process industry is the dominant Norwegian source of sulphur oxides, with the metals sector as clearly the most important.

The Gothenburg protocol, which came into force in 2005, focuses on various gases which cause pollution, over-fertilisation and the formation of ground-level ozone. These are sulphur dioxide, nitrogen oxides, ammonia and non-methane volatile organic compounds (nmVOC).

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

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

RISE FOR SULPHUR OXIDES

After a sharp reduction from 2007 to 2008, the SDFI's share of sulphur oxide emissions rose slowly over the past two years. The biggest contribution to this rise came from well testing on Gjøa and Vega. While carbon emissions from these two fields accounted for roughly one per cent of the total in 2010, the corresponding proportion for sulphur oxides was almost 15 per cent.

Norway's target under the Gothenburg protocol was to keep the release of sulphur oxides to 22 000 tonnes in 2010. National emissions have been below this figure since 2006, and 15 700 tonnes were emitted in 2009. The oil and gas industry accounted for about three per cent of Norwegian emissions in 2009, but total sulphur oxide emissions from the NCS rose somewhat during 2010.

The process industry is the dominant Norwegian source of sulphur oxides, with the metals sector as clearly the most important.

LOWER EMISSIONS FROM OIL LOADING

Total emissions of non-methane volatile organic compounds (nmVOC) on fields in the SDFI portfolio were about 10 000 tonnes in 2010, down nine per cent from the year before.

Sources of nmVOC are unburnt hydrocarbons and diffuse process emissions as well as oil storage and loading. Offshore loading of crude accounts for 50 per cent of the SDFI's total nmVOC emissions.

The SDFI's share of nmVOC emissions from the latter source was reduced by almost 20 per cent to 4 700 tonnes in 2010. This reflected a corresponding decline in oil loading. The SDFI's share of nmVOC emissions from loading on Draugen declined by 820 tonnes in 2010, which accounted for a large proportion of the overall reduction. Draugen's nmVOC emissions fell by almost 50 per cent in 2010, reflecting a combination of lower production and higher regularity of nmVOC recovery during loading.

Substantial cuts in emissions from loading were also achieved on Norne, Heidrun and Åsgard in 2010, which reflected a corresponding decline in production.

Under the Gothenburg protocol, Norway had undertaken to cut its nmVOC emissions to 195 000 tonnes in 2010. The 2009 figure was 141 000 tonnes, well below the commitment. Oil and gas operations accounted for about a third of the total emissions.

PRODUCED WATER DISCHARGES DOWN

The SDFI's share of produced water discharges amounted to 33 million cubic metres in 2010, down two per cent from the year before. This corresponded to the decline in petroleum output.

Draugen, Norne, Gullfaks and Troll accounted for 75 per cent of overall produced water discharges from fields in the SDFI portfolio.

The water cut – share of overall liquids production – accounted for about 64 per cent of total output, up five per cent from 2009. Having risen by 50 per cent since 2003, the water cut is expected to continue growing in the years to come.

Draugen, Norne, Gullfaks and Troll all had water cuts above 74 per cent, which helps to explain their high level of produced water discharges.

Troll ranks as one of the largest sources of low-level radioactive waste in the North Sea, and the volumes were unchanged from 2009. These naturally occurring materials are carried from the reservoirs in the production stream and discharged with the produced water. The operator is working to find a way of reducing this discharge.

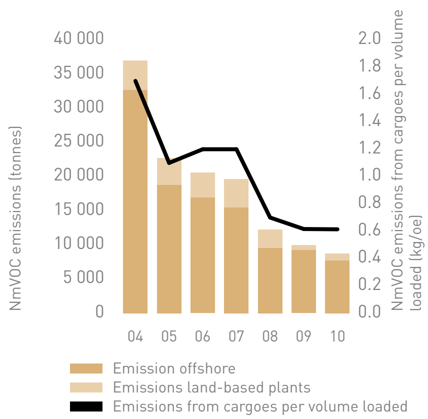
OIL DISCHARGES UP EIGHT PER CENT

A decline in the average concentration of oil in produced water on fields in the SDFI portfolio to 10.9 milligrams per litre, combined with a fall in the volume of water released, led to a reduction in oil discharged with produced water.

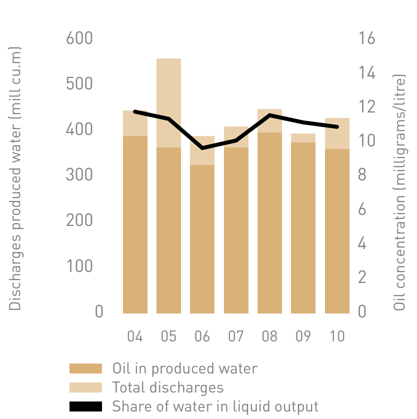
Sulphur oxides are a collective term for a series of compounds,. Sulphur dioxide as the one formed in the largest volume from combustion of sulphur-containing substances – primarily oil and coal – and from a number of industrial processes. Since sulphur monoxide and sulphur trioxide form through subsequent chemical processes, these three gases are often equated in emission terms.

Sulphur oxides cause acid precipitation, which acidifies rivers and damages buildings and other infrastructure. Inhaling these gases also harms the human respiratory system.

NmVOC



OIL IN PRODUCED WATER



DISCHARGES OF OIL

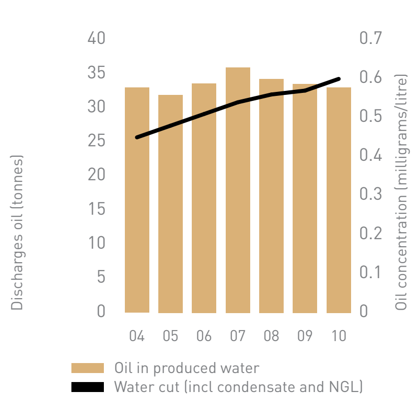


Figure 4 SDFI's annual nmVOC emissions and emissions per scm of cargo loaded.

Figure 5 SDFI's discharges of produced water, and the water cut.

Figure 6 Total discharges of oil to the sea, and oil concentration in produced water.

Oil discharged in this way totalled 360 tonnes, down from 375 tonnes in 2009. However, a large acute crude spill of 82 000 litres from Draugen resulted in an overall increase for the year.

Oil is primarily discharged to the sea in produced water, which accounted for more than 80 per cent of the volume released in 2010. Other sources include water from drainage, displacement and jetting (a method used, among other applications, for washing separators) as well as acute spills. The last of these accounted for 55 per cent of other sources in 2010. Discharges from jetting accounted for 30 per cent, three times the proportion in 2009.

One field in the SDFI portfolio – Oseberg South – had an oil concentration above the official limit of 30 milligrams of oil per litre of produced water released to the sea in 2010. Since Oseberg South injected more than 99 per cent of its produced water during the year, however, this had no influence on oil discharges to the sea.

Gullfaks, Troll, Draugen and Veslefrikk were the biggest contributors, and accounted between them for 75 per cent of discharges to the sea. The high water cut was the primary reason for the large volumes on Gullfaks and Troll. Both had oil concentrations of less than 10 mg/l. The figure for Veslefrikk was almost 20 mg/l.

STABLE DISCHARGES OF HARMFUL CHEMICALS

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

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

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

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

Industry collaboration. Operators of NCS fields with offshore loading established a collaboration in 2002 to coordinate technology adoption and fulfil emission standards set by the Norwegian authorities in an appropriate and cost-effective manner.

than 99 per cent. Although the offshore industry is approaching zero environmentally harmful discharges to the sea, reducing them even further where possible remains an important goal.

Chemicals remain necessary on the NCS for technical and safety reasons, but they are used on the environment's terms. Drilling operations represent the part of the business with the biggest need for chemicals, and account for about 80 per cent of chemical consumption in the SDFI's portfolio.

Official regulations divide chemicals into green, yellow, red and black categories, with the last two designated as environmentally harmful.

CHEMICALS

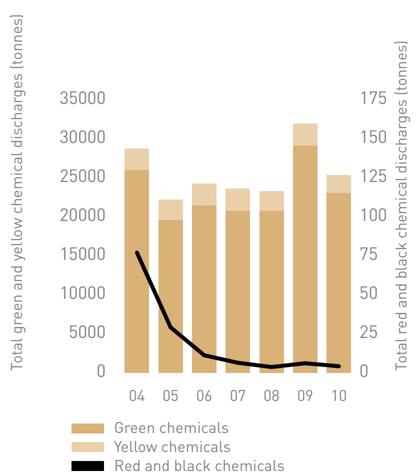


Figure 7 SDFI's share of chemical discharges per year. Black and red chemicals still used on the NCS consist by and large of thread compounds, corrosion and deposition inhibitors, emulsion breakers and cement components.

Virtually all chemicals used on the NCS now fall into the yellow and green categories. Discharges of such substances have remained stable since 2005 at just under 25 000 tonnes per year. However, an increase occurred during 2009 in the SDFI portfolio owing to higher drilling and well activity on Heidrun, Ormen Lange and Gjøa with the associated use and discharge of chemicals. Activity returned to normal levels in 2010.

Black and red chemicals still used on the NCS consist by and large of thread compounds, corrosion and deposition inhibitors, emulsion breakers and cement components. Discharges of black chemicals increased slightly from 2009 to reach 280 kilograms. More than 90 per cent of these discharges in the SDFI portfolio came from Troll. Seven fields in the portfolio released black chemicals in 2010, down from eight in 2009.

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

Discharges of red chemicals declined from six to four tonnes. Twenty-five fields in the SDFI portfolio released such substances during 2010. As in the year before, Varg was responsible for the bulk of the discharges. That field accounted for almost 70 per cent of the red chemicals released.

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How oil in water is analysed
After freon and the IR method were phased out in 2002, ISO-9377-2 was introduced as a new standard for analysing dispersed oil in water. Also known as the oil index, it was adopted in response to requirements from Klif and the Oslo-Paris convention for the protection of the marine environment of the north-east Atlantic (Ospar – see text box on next page). The method originally quantified hydrocarbons with boiling points corresponding to the C10-C40 fractions. It was modified in 2007 to ISO-9377-2 (Mod), which also includes the more volatile C7-C10 fractions. This change means that results up to 2006 and from 2007 are not directly comparable. ISO-9377-2 (Mod) will theoretically yield somewhat higher results for the concentration of oil in water, depending on the proportion of light fractions in crude oil from each field. With effect from 2007, the official requirement for the maximum permitted oil concentration in discharge water (monthly average) is 30 mg/l. That compares with 40 mg/l earlier.

ENVIRONMENTAL ASSESSMENT OF CHEMICALS IN ACCORDANCE WITH KLIF'S CATEGORIES

The operator companies assess chemicals on the basis of their environmental properties.
As a general rule, substances are classified as follows:

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

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

See the appendix to the information duty regulation.

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

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

PETORO'S MANAGEMENT AND BOARD

CORPORATE GOVERNANCE

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

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

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

Petoro has a values base with guidelines on business ethics which specify the principles which will govern its commercial operations and employee behaviour. The company's values base and ethics are embedded in its guidelines on business ethics, which were updated in 2010 as a consequence of the adoption of new values for the company.

These are as follows.

- **Vigorous**
  We seize opportunities for value creation, we establish our own positions, take the initiative and clarify expectations, and we deliver.
- **Responsible**
  We take an active approach to health, safety and the environment, we care, and we perform in a solid and professional manner with a high level of integrity.
- **Inclusive**
  We value the expertise and experience of others, and recognise each other's contribution. We are open and inquiring, and collaborate internally and externally to create results.
- **Bold**
  We think innovatively, and are adaptable in order to achieve results. We dare to try and learn from our mistakes. We challenge established truths.

The purpose of the values is to provide the company and its employees with a shared base for attitudes and actions in Petoro.

The company's ethical guidelines include:

- requirements for ethical behaviour in relation to compliance with legal provisions, statutory regulations or guidelines
- expectations that the individual will contribute to a good and inclusive working environment which protects health and safety
- a requirement that the business is pursued in a sustainable manner, which minimises negative impacts on the natural environment
- the responsibility of the individual to ensure that no conflict arises between their personal interests and the management of the SDFI or the interests of Petoro AS
- zero tolerance for corruption or other malpractices
- consequences for breaches of the guidelines.

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

Petoro constantly receives information which is not publicly available and which is subject to a duty of confidentiality. As part of its corporate social responsibility, information systems and data are secured against unauthorised access. Instructions have also been developed for handling inside information in Petoro.

THE BUSINESS

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

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

The company has three main duties:

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

Petoro's operations are subject to the Norwegian Act on Limited Companies and the Norwegian Petroleum Activities Act, and to the government's financial regulations – including the rules on appropriations and accounting. Its activities are governed by the Ministry of Petroleum and Energy's instruction for financial management of the SDFI and the annual letter of award. In addition, the company's articles of association, vision, values and guidelines on business ethics, including its principles for corporate social responsibility, provide guidance for the conduct of Petoro's business.

The company's vision is to be a driving force on the Norwegian continental shelf.

A revised strategy was adopted by the company for its business operations in 2010. Attention in the new strategy is focused on the value potential of the portfolio where Petoro has the greatest ability to exercise influence. As reformulated, the strategy now falls into three parts and is weighted particularly towards an active role in mature fields – both because of their value in the portfolio and as a consequence of the fairly limited attention being paid to them by other licensees in these fields.

The elements are:

- realise the potential in and close to large mature fields
- integrated and timely development of the gas value chain
- seek commercial opportunities on Vøring and in Barents Sea South.

Petoro's organisation was changed in early 2011. The object of this restructuring is to orient the organisation more strongly around the new strategy and values, and to achieve a stronger and more vigorous exercise of Petoro's role as an active partner.

The company is the licensee – with the same rights and obligations as the other licensees – for holdings in 146 production licences and 14 joint ventures and companies for pipelines and terminals. The SDFI participates in 36 producing fields, of which the 10 largest account for about 80 per cent of the portfolio's value. Petoro is an active partner, contributing through overall assessments and a purposeful commitment to maximising the value of the portfolio. This work is oriented towards areas and assignments in which the company, on the basis of the portfolio and in collaboration with other players on the NCS, can best contribute to achieving value creation. Petoro is concerned to achieve good governance in the joint ventures, and cooperates with its partners on further development of good performance-management processes in selected licences.

Through article 11 in Petoro's articles of association and the marketing and sale instruction issued to Statoil, the government has made Petoro responsible for monitoring that Statoil performs its duties in accordance with the instruction. As the majority shareholder in Statoil and the sole owner of Petoro, the government exercises a common ownership strategy through the marketing and sale instruction approved by the general meeting of Statoil.

A duty of confidentiality applies to all information Petoro has received during its monitoring of Statoil's marketing and sales and in its work on the budget and accounts relating to the marketing and sale of the state's petroleum. The company's ethical guidelines emphasise that the recipient of such confidential information must use it only for its intended purpose, and must not trade in Statoil's securities for as long as the information is not publicly known.

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

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

Petoro has a share capital of NOK 10 million. The limited company's own operating expenses are covered by annual appropriations over the central government budget, which are presented as operating revenues in the accounts of the limited company.

GENERAL MEETING

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

BOARD OF DIRECTORS AND ITS WORK

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

The board has overall responsibility for the management of Petoro, including ensuring that appropriate management and control systems are in place, and for exercising supervision of the day-to-day conduct of the company's business. The work of the board is based on rules of procedure which describe its responsibilities and mode of working. The board met 11 times in 2010.

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

The board continuously considers major investment decisions within the portfolio, follow-up and consideration of activities in the licences, and monitoring of gas sales – including an assessment of the overall risk picture. The board has chosen to organise its work related to compensation through a sub-committee. No other committees have been established by the board. In the event of conflicts of interest, the practice has been for the director concerned to abstain from consideration of the matter by the board.

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

CORPORATE SOCIAL RESPONSIBILITY – THE ENVIRONMENT

As part of the company's corporate social responsibility and in addition to the duties which apply to it, the business must be conducted in a manner which minimises negative impacts on the natural environment. This obligation is incorporated in the company's guidelines on business ethics and is described in more detail above.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

Petoro's internal audit function is provided by an external audit company, which audits the internal control systems in accordance with its instructions and an annual 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. Guidelines have been specified by the board for the remuneration of senior executives in Petoro pursuant to the frameworks specified in the guidelines for state ownership – attitude to executive pay. Details of the actual remuneration paid in 2010 to directors, to the president and CEO, and to the management team as a whole are provided in the notes to the annual accounts.

INFORMATION AND COMMUNICATION

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

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

AUDITOR

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

In addition, the board has appointed Deloitte as an external audit company to serve as the internal auditor for the SDFI. The internal auditor conducts a financial audit of the portfolio's accounts and submits an auditor's report pursuant to Norwegian auditing standards and cash accounting principles. The contract with the external auditor company covers financial auditing of the SDFI and Petoro's internal auditor function. In addition, the internal auditor is responsible for receiving notification of irregularities (whistleblowing).

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

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BOARD OF DIRECTORS OF PETORO

BOARD OF DIRECTORS OF PETORO. From left: Hilde Myrberg [1], Gunnar Berge [2], Per A Schøyen [3], Mari Thjømøe [4], Nils-Henrik M von der Fehr [5], Erik Aarrestad [6] and Line Geheb [7]

[1] **HILDE MYRBERG** [1957]
Deputy chair
Years of election/re-election: 2006/2011
Occupation: Executive vice president, Orkla.
Other directorships: Director, Salvesen & Thams AS and REC AS.
Education: Law degree, MBA from Insead.
Career: Head, market sector, Hydro Oil & Energy, 2002-06, and otherwise held a number of posts in Hydro, including business development for Hydro Energy, head of marketing activities in the power area, corporate legal executive and board secretary.

[2] **GUNNAR BERGE** [1940]
Chair
Years of election/re-election: 2007/2011
Other directorships: University of Stavanger, Western Norway Regional Health Authority.
Education: Technical college, 1957-58, Trade union college, 1966, and various courses. Skilled plate worker.
Career: Director-general, Norwegian Petroleum Directorate, 1997-2007, minister of local government, 1992-96, minister of finance, 1986-89, member of the Storting (parliament) for Rogaland, delegate to the UN general assembly, a number of important posts in the Norwegian Labour Party, including parliamentary leader and key committee posts in the Storting and party organisation, industrial worker in the 1950s and 1960s.

[3] **PER A SCHØYEN** [1947]
Director
Years of election/re-election: 2007/2011
Occupation: Partner, Kluge Advokatfirma DA, Stavanger
Education: Law degree, various management programmes.
Career: Partner at Kluge since 2005. With Esso/ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also deputy judge and assistant police attorney.

[4] **MARI THJØMØE** [1962]
Director
Years of election/re-election: 2007/2011
Other directorships: SinOceanic Shipping ASA, Bank2 ASA, Seilsport Maritimt Forlag AS, Argentum Fondsinvestering AS and Xantippe Invest AS.
Education: MBE, Norwegian School of Management, 1987, authorised financial analyst, Norwegian School of Economics and Business Administration, 1992.
Career: Self-employed. CFO/acting CEO, Norwegian Property ASA, 2009-2010, executive vice president, KLP, 2005-2008, senior vice president, Statoil, 2000-2005, with Norsk Hydro ASA 1988-2000. Directorships with Oslo Børs VPS Holding, Oslo Børs, Oslo Clearing, Norgani Hotels AS, KLP Eiendom, KLP Skadeforsikring, Aksje Norge foundation and Norwegian Investor Relations Association.

[5] **NILS-HENRIK M VON DER FEHR** [1960]
Director
Years of election/re-election: 2005/2011
Occupation: Professor of community economics, University of Oslo.
Education: Economics degree.
Career: Has held a number of academic posts at the University of Oslo, and also lectured at the Universities of Heidelberg and Oxford. In addition, he has held a number of public and private posts, including member/chair of several official committees.

[6] **ERIK AARRESTAD** [1962]
Director – elected by the employees
Years of election/re-election: 2010/2012
Occupation: Senior adviser, strategy and organisation, Petoro AS.
Education: MSc economics, University of Oslo.
Career: Broad experience from the Norwegian Petroleum Directorate, Statoil and Petoro.

[7] **LINE GEHEB** [1963]
Director – elected by the employees
Years of election/re-election: 2010/2012
Occupation: Senior adviser, marketing department, Petoro AS.
Education: MSc engineering, Norwegian University of Science and Technology.
Career: Joined Petoro 2008. Employed in a number of different posts at the Shell group in Norway and the Netherlands, 1987-2008, including oil refining (technology, operations, HSE), E&P (technical and commercial licence follow-up) and marketing of natural gas.
A number of directorships, including REC ASA in 2006-2009.

EXECUTIVE MANAGEMENT OF PETORO

EXECUTIVE MANAGEMENT OF PETORO 2010/2011. From left: Kjell Pedersen [1], Olav Boye Sivertsen [2], Tor Rasmus Skjærpe [3], Jan Rosnes [4], Roy Ruså [5], Marion Svihus [6], Grethe Kristin Moen [7] and Laurits Haga [8].

[1] **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.

[2] **OLAV BOYE SIVERTSEN** [1951]
Vice president legal affairs
Education: Law degree from the University of Oslo.
Career: Has earlier held posts as legal affairs officer at ExxonMobil, head of the legal affairs department for Mobil Norway, and in posts at the Ministry of Petroleum and Energy, the Ministry of Labour and Local Government and the Norwegian Petroleum Directorate. Also has international experience from Mobil's US business.

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

[4] **JAN ROSNES** [1965]
Vice president gas fields/new developments
Education: MSc petroleum engineering, Stavanger University College.
Career: Broad experience from project and strategy work with Shell in Norway and the UK and with Statoil, among others. At Petoro, has been vice president for projects and strategy and for technology and ICT.

[5] **ROY RUSÅ** [1956]
Vice president technology
Education: BSc petroleum, Rogaland Regional College.
Career: Long experience of the Norwegian oil and gas business from Statoil and Baker Hughes Inteq. Previously headed Petoro's projects and strategy department.

[6] **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.

[7] **GRETHE KRISTIN MOEN** [1960]
Vice president mature oil fields
Education: MSc chemical engineering, Norwegian University of Science and Technology.
Career: Long experience from Norwegian and international petroleum operations. Has held a number of management posts in the production, technology and commercial areas at Statoil and Shell. Her most recent post at the latter was head of the E&P business in Norway and of HSE in Europe.

[8] **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.

DIRECTORS' REPORT 2010

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

Net income for the portfolio in 2010[1] came to NOK 105.4 billion, compared with NOK 100.7 billion the year before. Total operating revenue was NOK 159.3 billion, compared with NOK 154.2 billion in 2009. This yielded a cash flow to the government of NOK 103.6 billion as against NOK 97 billion the year before. Total production averaged 1 080 000 barrels of oil equivalent per day (boe/d), which was somewhat higher than the 2009 figure of 1 074 000 boe/d.

INCOME, REVENUES, COSTS AND RESERVES

The main reason why net income for 2010 grew by five per cent from the year before was an increase in oil prices, while reduced oil production offset the positive effect to some extent. Overall oil and gas sales for the year averaged 1 159 000 boe/d, compared with 1 147 000 boe/d in 2009.[2] Further maturation of the portfolio meant that oil production in 2010 declined by 12 per cent from the year before. Gas output rose by 15 per cent from 2009.

Income before financial items came to NOK 107.2 billion. Net financial expenses of NOK 1.8 billion consisted mainly of calculated interest expenses on future removal liabilities for the SDFI.

Revenue for the year from dry gas sales totalled NOK 68 billion as against NOK 70.3 billion in 2009. Total gas sold rose by 15 per cent from 2009 to 39.5 billion standard cubic metres (scm), including sales of third-party volumes. That corresponds to 681 000 boe/d.[3] Troll alone accounted for 40 per cent of total gas revenue. The average gas price for the year was NOK 1.76 per scm, down 10 per cent from 2009.

Total revenue for the year from oil and natural gas liquids (NGL) was NOK 81 billion, compared with NOK 73.7 billion the year before. The sales volume totalled 175 million barrels, or a daily average of 479 000 barrels. The decline in production was rather larger than expected, and reflected reduced output from the mature oil fields. The average oil price for the year for the SDFI portfolio was NOK 482 per barrel, compared with NOK 380 the year before. In US dollars, the oil price averaged USD 79.38 per barrel, up 27 per cent from 2009.

Other revenues, which primarily comprise tariff earnings from Gassled, amounted in 2010 to NOK 10.3 billion and were on a par with the year before.

Total investment in 2010 was NOK 19.5 billion as against NOK 22.2 billion the year before. The biggest spending in 2010 related to Troll, with a high level of drilling activity as the most important factor. The overall decline in investment activity reflected the completion of the Gjøa/Vega development, reinforced because few new projects were initiated during the year.

The cost of operating fields, pipelines and land-based facilities was NOK 15.9 billion, up four per cent from 2009. Operating costs for fields and plants represented about 70 per cent of these expenses, and accounted for the entire increase of just over NOK 0.5 billion.

Exploration-related costs amounted to NOK 2 billion, of which NOK 0.8 billion was capitalised as investment related to possible and confirmed discoveries, and NOK 1.2 billion was expensed as exploration costs for dry wells. Correspondingly, exploration expenses totalled NOK 2.2 billion in 2009, of which NOK 1.1 billion was expensed. A total of 12 exploration wells were completed during 2010, compared with 23 the year before. Hydrocarbons totalling about 30 million boe were proven in eight wells. That represented a substantial reduction from 2009, when more than 100 million boe in new reserves were proven.

At 31 December 2010, the portfolio's expected remaining oil, condensate, NGL and gas reserves

[1] All figures are based on the accounts compiled in accordance with the Norwegian Accounting Act.

[2] Sales of entitlement oil, NGL and gas in 2009 totalled 1 088 000 boe/d compared with 1 091 000 boe/d the year before.

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

comprised 6 539 million boe – a decrease of 246 million boe from the year before. Petoro reports the portfolio's expected reserves on the basis of categories 1-3 in the classification system used by the Norwegian Petroleum Directorate (NPD).

New reserves totalling 204 million boe were added to the SDFI in 2010. The biggest contributions came from the decision to develop the Valemon discovery and the sanctioning of low-pressure production on Kvitebjørn. At the same time, reserves were downgraded for certain fields, which meant that the net increase in reserves was 187 million boe. That does not include a correction of 40 million boe to earlier reserve estimates which resulted from a reconciliation with official production figures from the NPD.

The net reserve replacement rate for 2010 was thereby 37 per cent, compared with a negative 45 per cent the year before, and the average replacement rate for the portfolio over the past three years came to one per cent. The corresponding rate for 2007-09 was a negative three per cent.

BOOK ASSETS AND EQUITY

The book value of assets totalled NOK 207.4 billion at 31 December 2010. These assets mainly comprise operating facilities related to field installations, pipelines and land-based plants, as well as current debtors.

Equity at 31 December amounted to NOK 146.5 billion. Long-term liabilities totalled NOK 47 billion, of which NOK 45.2 billion related primarily to future removal liabilities. These liabilities are calculated in accordance with an established industry standard based on existing technology. Great uncertainty exists both over the removal estimates and over the timing of removals. Current liabilities, which comprise provision for costs incurred but not paid, were NOK 13.9 billion at 31 December.

Petoro served at 31 December as the licensee for the government's interests in 146 production licences and 14 joint ventures covering pipelines and terminals, including the interests in Mongstad Terminal DA and Vestprosess DA. It also managed the shares in Norsea Gas AS and Norpipe Oil AS.

STRATEGY FOR PETORO

The company revised the strategy for its business operations during 2010. In this work, the board concentrated attention on the value potential of the SDFI portfolio and areas where Petoro has the greatest ability to exercise influence.

A three-point strategy was adopted.

1. Realise the potential in and close to large mature fields.
2. Integrated and timely development of the gas value chain.
3. Seek commercial opportunities on Vøring and in Barents Sea South.

This strategy is directed particularly at playing an active role on mature fields, both because of their value in the portfolio and as a consequence of the fairly limited attention being paid to them by other licensees in these fields.

Petoro's contribution to realising the potential on and close to large fields will be directed at improving recovery from and extending the production life of priority installations through the choice of technology, efficient drainage methods and the completion of more production wells per year. The company will also work to prioritise selected installations for use as field centres and to achieve a timely phasing-in of discoveries.

Developments in the global market for natural gas in the time to come and an understanding of these will be highly significant for opportunities to realise the portfolio's value potential. Activities related to supporting the value of the existing portfolio of contracts, identifying the best future sales and facilitating greater flexibility in the gas value chain will become more extensive and will represent important areas of work for Petoro in the time to come.

Barents Sea South and Vøring are the most important immature areas in the portfolio. Petoro's commitment will be to contribute to continued exploration activity and maturing of resources through setting priorities for drilling rigs while also ensuring that developments in these areas safeguard the owner's interests.

To give force to the new strategy, the company restructured its organisation with effect from February 2011. The board feels that this will provide a good basis for realising the strategy and protecting the value of the company's assets in a positive manner.

PETORO'S CONTRIBUTION TO ADDED VALUE

Petoro contributes to safeguarding asset value and to creating added value for the SDFI. Results of the company's work are reflected in a wide range of activities, such as analyses which influence important investment decisions on fields in which Petoro is a licensee.

An annual assessment is conducted of the results achieved by Petoro's work. The submission of a plan for development and operation for the Valemon discovery was one of the company's most important projects in 2010. Through its expertise, Petoro contributed to achieving the most optimum development of this field in financial terms.

BUSINESS AREAS IN THE SDFI PORTFOLIO

Management of the SDFI portfolio in 2010 was organised in three business areas – Troll, Tampen/Oseberg and the Norwegian/Barents Seas. Management of participatory interests in non-field-specific pipelines and land-based plants is treated as a separate area.

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

Total production from the business area in 2010 averaged 423 000 boe/d, up by 14 per cent from the year before. Output from Troll made a substantial contribution to both gas and liquids production from the area. The Gjøa and Vega fields came on stream as planned towards the end of the year, and will make an important contribution in volume terms during the years to come.

The reserve addition for the area was high in 2010, corresponding to 117 million boe. The biggest contributions related to the decisions on the Valemon development and low-pressure production on Kvitebjørn.

Expenses for operating fields and facilities in the area came to NOK 2.3 billion, which represented a small increase from 2009. This rise related primarily to operation and maintenance of Troll and to the start-up of Gjøa in November 2010.

Capital spending in the Troll area amounted to NOK 7.1 billion in 2010, a substantial reduction from the year before. That primarily reflected the completion of the Gjøa development.

Petoro is concerned to secure optimum value creation from Troll by ensuring a good balance between oil and gas reserves. This is in line with the harmonisation work which has long been underway in the partnership, where the desire is to establish a long-term plan for improved oil recovery (IOR) from the field and to facilitate maximum value creation from the gas.

In addition to the development and completion of Valemon, timely decisions concerning discoveries on Visund and development projects at the southern end of the Norwegian continental shelf (NCS) are important for long-term value creation from the business area.

Two wells were drilled in the area in 2010, which both proved non-commercial. Even though a well is non-commercial or completely dry, however, valuable knowledge of the geology in the area can be obtained.

The Tampen/Oseberg business area embraces 22 producing fields, and is dominated by four large developments: Gullfaks, Snorre, Oseberg and Grane.

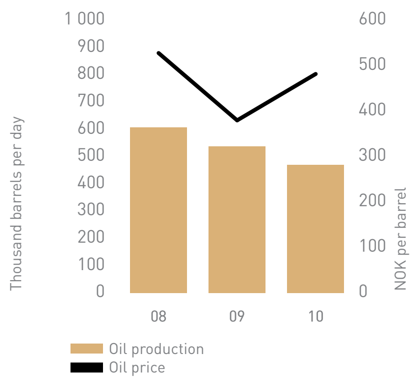
Production from the area in 2010 averaged 254 000 boe/d, about nine per cent lower than the year before. Liquids accounted for 78 per cent of this total. The most important gas producers were Gullfaks and Oseberg, and the level of gas offtake was governed by the value potential of injection for IOR.

Expenses for operating fields and facilities in the area came to NOK 6.1 billion in 2010, an increase of NOK 0.8 billion from the year before. That reflected higher costs for well maintenance and the purchase of injection gas for Grane.

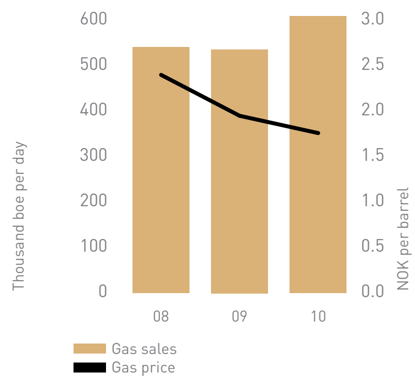
Capital spending came to NOK 5.6 billion in 2010 and was on a par with the year before. The biggest investments related to drilling and modifications, and were directed in part at IOR. Development costs accounted for about six per cent of the total. Drilling of new wells on Gullfaks suffered big delays because of operational problems with the mobile rig. In addition, all drilling operations on Gullfaks were halted from November 2010 after the serious incident in one of the wells on the C platform. Towards the end of the year, a number of injection wells and producers were also shut in because of injection problems. The various incidents on this field over the past year also call – as discussed below – for special attention on Petoro's part in the time to come.

The reserve addition for the area was good in 2010, and corresponded to 61 million boe. This increase related primarily to improved recovery measures on Gullfaks.

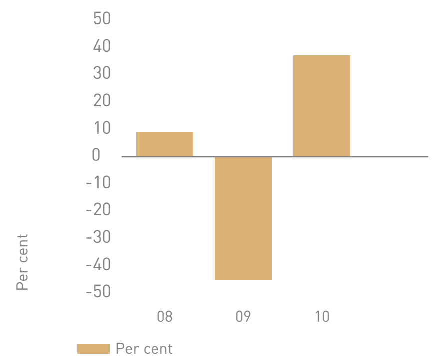
OIL PRODUCTION/PRICE



GAS SALES/PRICE



RESERVE REPLACEMENT RAT



A number of the mature fields in the area are challenged by declining production and increased costs per barrel. Substantial resources remain in the existing fields, and work is under way to develop measures which can first secure recovery of the estimated reserves and subsequently boost the recovery factor, reduce costs and ensure a longer producing life for aging installations. Timely phasing-in of new discoveries to the existing infrastructure is important. Petoro gave priority in 2010 to work on the Snorre 2040 project, with an optimum long-term solution and reservoir understanding, and further development of Gullfaks. The goal of these projects is to ensure optimum development of the remaining reserves. Two rig upgrades are being implemented on Oseberg. Work is under way on maturing several discoveries, including Hild, Vigdis North-East and Katla.

Although Tampen/Oseberg represents a mature area, substantial exploration activity is being pursued there – particularly close to existing fields. A total of seven exploration and appraisal wells were completed in 2010. These resulted in four discoveries, including two planned for development. Of the three appraisal wells drilled, two confirmed volumes in the Grevling discovery. A test well on Hild was completed in 2010 with positive results. The Norwegian/Barents Seas business area embraces nine producing fields on the Halten Bank and one in the Barents Sea, plus 28 discoveries which include 18 under evaluation. Exploration activities are being pursued in the Norwegian Sea, both in deep water and close to existing infrastructure, and in parts of the Barents Sea.

Production in 2010 derived primarily from the Åsgard, Ormen Lange, Heidrun, Draugen, Norne, Kristin and Snøhvit fields. Output from the area averaged 403 000 boe/d, down about five per cent from 2009. The general decline in output during 2010 was partly offset by the first year of plateau production from Ormen Lange.

The reserve addition for the area during 2010 was 10 million boe.

Expenses for operating fields and facilities in the area were NOK 5.1 billion, on a par with the year before. At NOK 5.1 billion, capital spending for the area was lower than in 2009 because of postponed or delayed projects and drilling activity.

The declining trend in production from Heidrun continued in 2010. Together with an external consultant, Petoro has launched a project to assess the drainage strategy for this field.

Despite substantial modifications to the Snøhvit gas liquefaction plant at Melkøya, new problems arose with the cooling plant in December and led to a shutdown.

Low-pressure compression for Kristin with the tie-in of Tyrihans was implemented, with Petoro as lead negotiator for Kristin.

Three exploration and appraisal wells were completed in the area during 2010, two in the

Norwegian Sea and one in Barents Sea South. The Norwegian Sea wells yielded discoveries, while the one on the Lunde/Alke prospect in production licence 489 was dry. The discovery on the Fossekall prospect in production licence 128 was the most positive, and will be considered for development through a tie-in to Norne.

Petoro is the largest partner in the Gassled joint venture, which comprise gas infrastructure and terminals on or in association with the NCS. Day-to-day operation is handled by Gassco. The SDFI's revenues from Gassled in 2010 were NOK 11 billion, while capital spending and operating costs came to NOK 1.5 billion and NOK 2 billion respectively. The Gassled partners are concerned with regularity and plant integrity in order to ensure stable gas deliveries to customers in continental Europe and the UK.

Regularity at Gassled's export points to the markets was 98.78 per cent in 2010, compared with 99.6 per cent the year before. Gassled is paying great attention to the level of operating expenses, and Petoro has been a prime mover in achieving lower costs for ordinary operations. A new improvement programme has been defined for 2010-14 with the goal of achieving further cost cuts. This programme will embrace all parts of the transport system, with greater emphasis on risk and regularity.

Petoro is actively involved in planning new projects in order to influence the choice of technical solutions through to concept selection. A priority in 2010 was to ensure good execution of the sanctioned modification and upgrading projects at the Kårstø plant.

MARKETING AND SALE OF THE PRODUCTS

All oil and NGL from the SDFI portfolio is sold to Statoil. The latter is responsible for marketing all the natural gas together with its own gas as a single portfolio but at the government's expense and risk. Petoro is responsible for monitoring that Statoil's sales of the SDFI's petroleum achieve the highest possible overall value, and for ensuring an equitable division of total value creation and expenses. Petoro concentrates in this work on Statoil's marketing and sales strategy and risks, issues of great significance in value terms, matters of principle and questions relating to incentives.

Energy markets were affected in 2010 by greater stability in world economic development compared with the year before. The Brent Blend oil price strengthened from USD 76.5 per barrel at 1 January to USD 88 at 31 December. This resulted in an average price of roughly USD 79 per barrel. Oil price changes in Norwegian kroner were somewhat higher because the USD exchange rate strengthened during the year from NOK 5.78 to NOK 6.22 per USD.

Part of the gas sold to Europe is priced in accordance with market quotations which reflect the balance between supply and demand. Following declining prices in the first quarter, the balance strengthened during 2010 and prices increased to a level of NOK 2.10 per scm in the UK.

The average gas price for the SDFI portfolio in 2010 was NOK 1.76 per scm, compared with NOK 1.95 the year before. About 90 per cent of the SDFI's gas production was sold under long-term contracts at 1 January, with the rest sold in the spot market. Gas prices in the long-term contracts are primarily calculated in relation to the price of oil products and quotations in the gas market.

Oil price trends and continued plentiful supplies of gas in the market over the past year helped to maintain a significant differential between oil-indexed contract prices and spot prices for gas. This position led to pressure on the level of prices in the long-term contracts.

Petoro will work to ensure maximum value creation for the gas portfolio, including realisation of the value potential in the long-term sales contracts. The company is concerned to see that available gas is sold in the market at the highest price, and that the flexibility in the production plants is exploited to optimise deliveries.

Petoro has also monitored that petroleum sales to Statoil's own facilities are made at their market-based value. In addition, checks have been made to ensure that the SDFI is being charged an equitable share of costs and receives its equitable share of revenues.

HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

HSE results at the facilities in the portfolio showed a clear improvement during 2010. The number of serious incidents per million working hours (SIF) was 1.4, compared with 2.7 in 2009. This is a very positive development, and the lowest registered frequency in the company's history. The figure represents a total of 46 incidents registered as serious, or an average of 1.5 incidents per installation included in the statistics. No fatalities were suffered in 2010, but incidents occurred with the potential to become major accidents. That applied particularly to an incident during the drilling of a well on Gullfaks, where barriers were breached or weakened. This event attracted great attention in Petoro, and has influenced the way the company will follow up critical well operations in the future. It also prompted Statoil to carry out a study in the autumn of 2010 which led to the temporary shutdown of 20 injection and production wells on integrity grounds. As a result, a further 30 production wells were shut down to ensure balanced pressure conditions in the reservoir.

An improvement in the personal injury frequency was also registered in 2010. Dropped objects and incidents related to mechanical handling continued to dominate the statistics.

Petoro participated in HSE management inspections on selected fields and installations during 2010. The company works with the operators and the industry as a whole to achieve a reduction in personal injuries and serious incidents with long-term consequences.

The Petroleum Safety Authority Norway (PSA) audited Petoro in 2010 to check its management of major accident risk from an enterprise management perspective. No report had been received from this audit at 31 December.

No large oil spills were registered from fields in the portfolio during 2010.

ATTRACTIVE WORKING ENVIRONMENT AND INTERESTING ASSIGNMENTS

The individual Petoro employee is crucial to the company's delivery and success, and the board gives emphasis to the company offering an appealing and stimulating working environment which attracts people with the right expertise and positive attitudes. Helping to ensure that each employee achieves the professional and personal development needed to attain both company goals and personal targets and job satisfaction is a management responibility.

Petoro's human resources policy aims to ensure diversity and equal opportunities, competence development and good work on HSE.

Over the past two years, the company has strengthened its organisation through new recruitment. Petoro had 69 employees at 31 December 2010, up by four from 2009. No significant increase in the workforce is expected during 2011.

Collaboration with the company's working environment committee (AMU) and works council (Samu) lays an important basis for achieving a good working environment. Work in these bodies functioned well in 2010.

EXPERTISE

Opportunities for professional and personal development will help to attract, develop and retain good employees. Learning and expertise development goals with associated plans are drawn up each year at company and individual level. The company revised its expertise strategy in 2010, and this builds on the competence required by the new corporate strategy.

SICKNESS ABSENCE

Sickness absence in Petoro was 3.76 per cent in 2010, up by almost two per cent from the year before. This reflects higher long-term sick leave. By comparison, sickness absence on a national basis was 7.6 per cent in 2009. Petoro has an inclusive workplace (IA) agreement, and gives weight to close follow-up of and dialogue with employees on sick leave, as well as making arrangements to ensure that such absences are as short as possible.

ETHICAL GUIDELINES

A review of the ethical guideliner is conducted every year with all the employees in the company. All employees signed the company's ethical guidelines in 2010, which cover such considerations as the duty of confidentiality, possible conflicts of interest and issues related to the receipt of gifts and services. As an important anti-corruption measure, employees must not accept remuneration from anyone other than Petoro in connection with their work for the company. Its information systems and data are secured against unauthorised access.

Through its HSE declaration, Petoro has a common goal of creating a good physical and mental working environment for all employees. Actions or attitudes which conflict with this goal are not accepted. The board encourages the company's employees to raise ethical issues and to report any breaches of the regulations they encounter. The internal audit function is an independent whistleblowing channel with the right and duty to report on to the board. No cases of whistleblowing were recorded in 2010.

EQUAL OPPORTUNITIES

Women accounted for 33 per cent of the total workforce in 2010, compared with 35 per cent the year before, and for 42 and 22 per cent of the company's directors and executive management respectively, unchanged from 2009. Petoro gives weight to equality between the genders in terms of opportunities for professional and personal development, pay and promotion. The company facilitates a flexible customising of working hours. When determining pay and in pay negotiations, Petoro is conscious that men and women must be treated equally. No systematic or significant differences exist between male and female pay in the company.

DIVERSITY

Petoro took on new employees with differing cultural and ethnic backgrounds in 2010. The company offers language facilitation to new recruits and Norwegian lessons were provided to employees joining the company during the year.

Physical access to Petoro's offices is good.

SOCIAL RESPONSIBILITY/NATURAL ENVIRONMENT

Work was pursued by Petoro during 2010 on supplying power from shore to offshore installations. The company followed up this issue in the Åsgard compression and Valemon projects. In addition came efforts under way on Snøhvit to reduce carbon emissions from today's gas liquefaction plant and from a potential new facility of this kind.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of its external annual report on the natural environment, based on figures obtained from the operators. The company's values and a more detailed description of its management system, including its guidelines on business ethics, are contained in the statement on corporate governance, which also covers Petoro's corporate social responsibility (CSR).

RESEARCH AND DEVELOPMENT

The oil companies are estimated to devote some NOK 2.7 billion per year to research and development (R&D), with the supplies industry spending about NOK 1 billion. Through its interests in production licences, Petoro contributes to R&D by meeting its share of these costs in accordance with its participatory interest in the respective production licences, where the funds are managed by the respective operators. This contribution comes to more than NOK 500 million per annum, or an average of 30 per cent of R&D expenses in the production licences where Petoro is a licensee.

In addition to the above-mentioned R&D commitment, a great deal of technology development and qualification is done directly through projects and in day-to-day operations. The cost of this work is charged as part of the development projects – through construction or drilling of wells, for instance. Experience indicates that qualifying and adopting new technology represents a major challenge for the oil industry, including on the NCS.

Petoro has worked for a number of years to secure faster adoption of technological opportunities. Its commitment in 2010 focused particularly on the company's own specialist work and active efforts to achieve a decision on a pilot project for advanced water injection on Heidrun.

The company also contributed during 2010 to the choice of subsea compression on Åsgard, the first field to adopt such technology. This is the result of five years of purposeful technological development in the Åsgard and Ormen Lange joint ventures.

CORPORATE GOVERNANCE

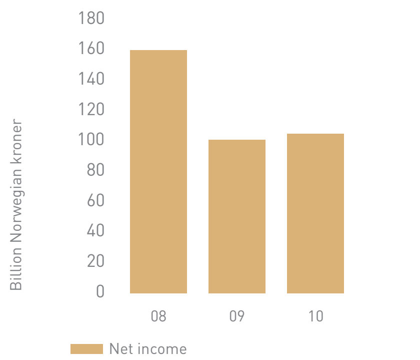
The board gives weight to good governance to ensure that the government's portfolio is managed in a way which maximises long-term value creation. That includes following up wider social considerations relating to such issues as ethics and HSE as specified in White Paper no 13 (2006-2007) on active and long-term state ownership. The company's management system is based on the Norwegian code of practice for corporate governance to the extent that the code's recommendations are relevant to Petoro's business and the frameworks established by the company's form of organisation and ownership. Further developed in 2010, the management system contributes to maximising value creation for the state by concentrating attention at all times on the attainment of targets by the company and on the risk picture.

Petoro seeks a corporate culture characterised by commitment and vigour within a good internal control regime. The company's values base and ethical code were revised in 2010 together with its strategy. Its values base and ethics are embedded in its guidelines on business ethics.

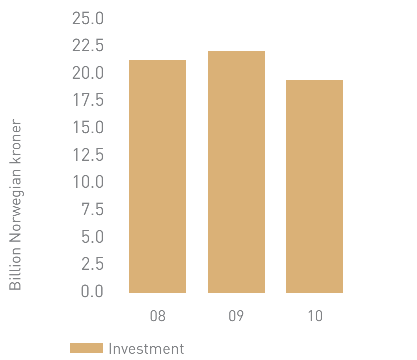
WORK OF THE BOARD

The board held 11 meetings in 2010. An annual meeting and work plan has been established for the board's work, with the emphasis on the consideration of strategy, goals, budgets and interim results. The board is continuously con-

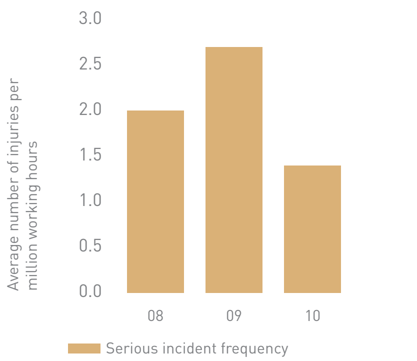
NET INCOME



INVESTMENT



SERIOUS INCIDENT FREQUENCY



cerned with overall value creation from the total portfolio, and with ensuring that the state receives its rightful share and does not get charged a larger proportion of costs than is warranted. A key instrument used by the board to monitor performance is measuring against established goals (balanced scorecards). The board considers major investment decisions in the portfolio as well as following up and considering the commercial business, including monitoring Statoil's duties under the marketing and sales instruction. It also monitors the company's overall risk picture. The board ensures that control systems have been established and that the business is conducted in compliance with the company's values base and guidelines on business ethics. Instructions issued by the board for its own work and that of the chief executive include taking care of CSR in relation to the company's duties and mandate. The board has chosen to organise preparatory work related to compensation arrangements in a sub-committee. Conflicts of interest are a fixed item on the agenda at board meetings, and directors with such a conflict withdraw from the board's consideration of the relevant issue. The board conducts an annual evaluation of its own work, and employed an external consultant in 2010 to facilitate this self-assessment.

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

Petoro's board comprises Gunnar Berge as chair, Hilde Myrberg as deputy chair, Mari Thjømøe, Per Arvid Schøyen and Nils-Henrik M von der Fehr as the other shareholder-elected directors, and Line Geheb and Erik Aarrestad as directors elected by and from among the employees in 2010.

RISK MANAGEMENT AND INTERNAL CONTROL

The board conducted an assessment of the risk picture in 2010 on the basis of the new strategy. Compensatory measures were identified for the biggest risks Petoro has an opportunity to influence through the frameworks available to it. The greatest potential for maturing reserve in the SDFI portfolio lies in the large mature fields, where Statoil is the dominant operator. The most important risks for Petoro in the time to come relate to development of and production from the big mature fields, well integrity, and technical integrity related to aging installations on fields and in the infrastructure.

Operational risk is mainly managed at field level within the various business areas and within the joint ventures. The biggest risk within the marketing and sales area is a weak gas market with low and volatile prices. Statoil has identified compensatory measures for risk in relation to the marketing and sale instruction, which are followed up as part of Petoro's monitoring of the sale of SDFI production. Financial instruments used to hedge future gas sales are related to forward contracts and sales for future delivery managed by Statoil pursuant to the marketing and sale instruction.

Principles for risk management in Petoro build on the internationally recognised Coso/ERM framework for internal control, and on in-house expertise.

PROSPECTS

Considerable changes are taking place on the NCS, and the future of the SDFI portfolio depends on developments for the mature oil fields and the gas business, and on access to new exploration acreage. Discoveries in recent years have been small, and continued operation of the big fields is crucial for the profitable development of many minor finds.

Increased reserves and new technology have extended the production life of several large mature fields. But oil output is declining faster than earlier expected. At the same time, production costs have risen considerably. So few production wells are now being drilled that it could be difficult to achieve planned recovery before fields must be shut in. A substantial commitment is needed from both companies and government to implement the necessary changes on mature fields. The board would emphasise the importance of Petoro's efforts to ensure that the operators and other partners give priority to reserves in as well as work on and investment in the mature fields on the NCS.

Statoil is the dominant player on the NCS and operates about 90 per cent of production from the SDFI portfolio. This means that the choices made by this company have great significance for the further development of the NCS and the SDFI.

Pressure on margins highlights the need to adapt to a trend characterised by many small discoveries combined with mature fields where production is declining. Exploiting tested technology and standardised solutions will be important in achieving profitable development of these small finds. Given its position and substantial portfolio, Petoro will act as driver on the NCS and play an important role in the process of identifying good solutions to these challenges within the framework of the company's resources as determined by the owner.

Petoro has ambitious goals for its role as a partner and manager of the SDFI portfolio on the NCS. It aims to contribute to enhanced value creation and gives priority to work on the areas when the value potential and its ability to exert influence are greatest. The company achieves this through purposeful use of the funds allocated to it for independent studies and assessments, and to support and challenge the operators. Where commercial matters are concerned, Petoro must safeguard the government's interests in competition with the priorities of other companies. It fulfils this role through a purposeful build-up of its own expertise and capacity, and by setting good priorities. In the board's view, the changes to the organisational structure will help to focus greater attention on the new strategy and give vigour to the company.

Environmental challenges on the NCS and what these will mean for the development of the portfolio are a matter of concern for the board. Great uncertainty exists over which climate policy instruments will be applied to the petroleum sector and the consequences these will have for the SDFI portfolio.

The board expects oil prices to be stable at a high level during 2011, primarily because of increased demand for crude as a result of the recovery in the global economy. Uncertainty over political developments in a number of north African and Middle Eastern countries is also helping to strengthen oil prices. Output from the SDFI's portfolio is not expected to increase in coming years, but the shift from oil to gas will continue.

Structural market changes have reduced the level of prices for gas relative to oil. The board nevertheless expects a gradual strengthening in the market balance for gas in Europe over the next few years. However, this development is highly uncertain. An important source of such uncertainty is the progress of the world economy. Current discussion within the European Union on energy and climate policies also contribute to increased uncertainty about the role of gas in tomorrow's energy picture.

PETORO AS – SHARE CAPITAL AND SHAREHOLDER

The company's share capital at 31 December 2010 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government. Petoro's business office is in Stavanger.

PETORO AS – NET INCOME AND ALLOCATIONS

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

Petoro's operating revenue takes the form of a contribution from the government, which is directly liable for the commitments accepted by the company under contract or in other forms. The government contribution for 2010 was NOK 260 million, compared with NOK 252 million the year before. Since this sum includes VAT, disposable revenue was NOK 208 million as against NOK 201.6 million in 2009. Recorded income, including financial income, for 2010 was NOK 216.6 million, compared with NOK 208.1 million the year before.

Operating expenses were NOK 216.5 million for the year, compared with NOK 207.2 million in 2009. These expenses related primarily to payroll and administration expenses and to the purchase of external services. The purchase of leading-edge expertise relating to supervision of production licences in the SDFI portfolio accounts for a substantial proportion of the company's operating expenses. Petoro's payroll expenses were on a par with 2009.

Costs related to ICT and accounting services were reduced in 2010 compared with the year before, reflecting fewer ICT projects and enhancements in accounting efficiency. The company carried out in-depth studies of priority fields and purchased external services in this connection, and these were reflected in increased costs for technical studies and leading-edge expertise. The board devoted attention in 2010 to the company's overall resource position and priority areas, and implemented a cautious strengthening of Petoro's own resources in critical disciplines. Further use of resources directed at mature fields and critical activities will be given priority, but kept within available disposal funds.

The net loss after net financial income came to NOK 0.4 million. The board proposes that this loss be covered from other equity. The company's equity position is good, and it has little exposure to financial risk. Its non-restricted equity totalled NOK 24.1 million at 31 December.

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

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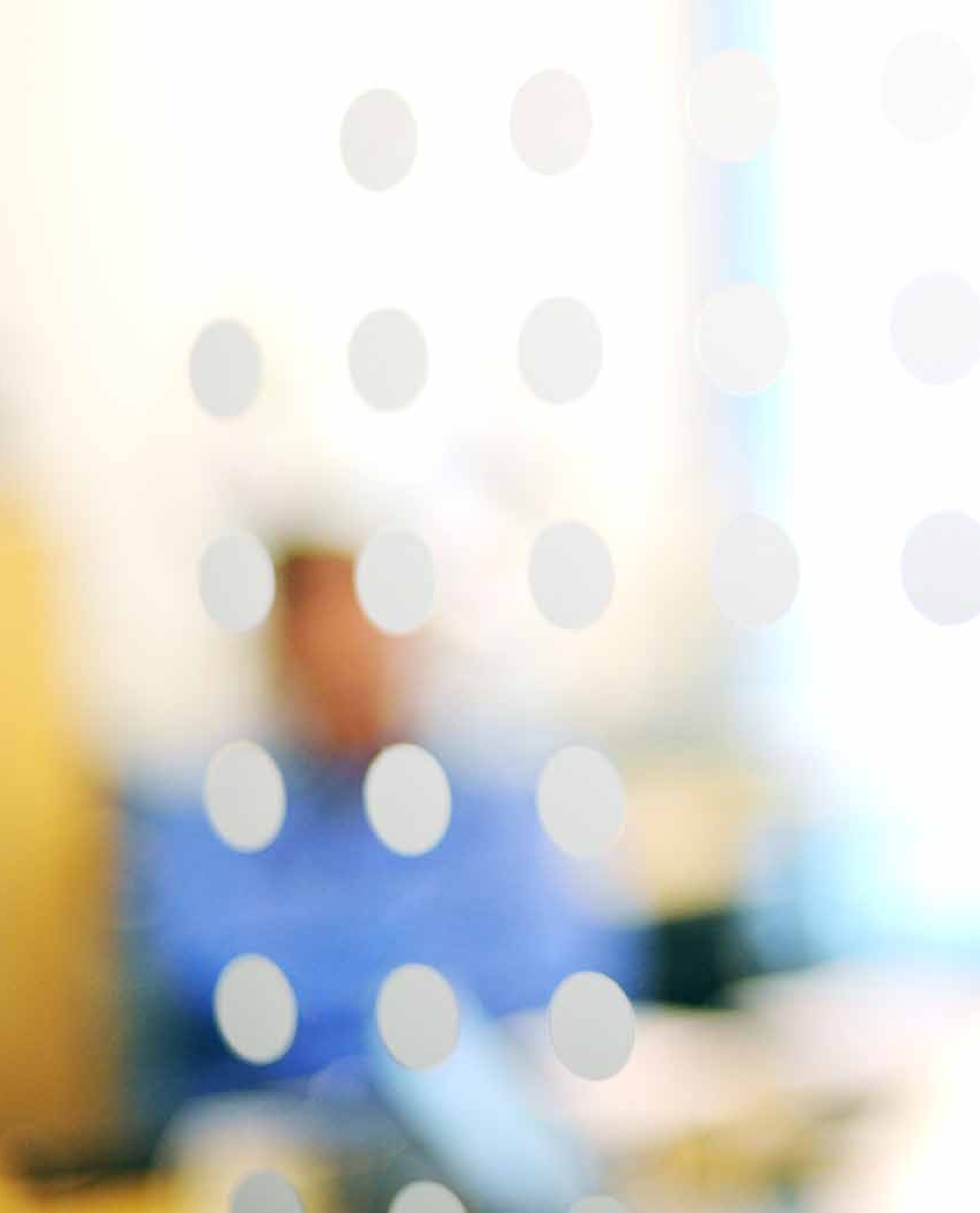
Stavanger, 18 February 2011

Gunnar Berge Chair	**Hilde Myrberg** Deputy chair	**Nils-Henrik M von der Fehr** Director
Per Arvid Schøyen Director		**Mari Thjømøe** Director
Erik Aarrestad Director elected by the employees	**Line Geheb** Director elected by the employees	**Kjell Pedersen** President and CEO



FIGURES FOR 2010

ACCOUNTS SDFI AND PETORO AS

CONTENTS

SDFI APPROPRIATION ACCOUNTS

All figures in round NOK	2010
Investment	18 470 068 654.60
Total expenses	**18 470 068 654.60**
Operating revenue	(156 745 936 050.58)
Operating expenses	32 477 387 917.19
Exploration and field development expenses	1 764 538 192.92
Depreciation	15 719 890 320.81
Interest	6 526 390 746.60
Operating income	**(100 257 728 873.06)**
Depreciation	(15 719 890 320.81)
Transfer from Government Petroleum Insurance Fund	(737 848 759.20)
Interest on fixed capital	(6 527 677 002.00)
Interest on intermediate accounts	1 286 255.40
Total revenue	**(123 241 858 699.67)**
Cash flow (net revenue from the SDFI)	**(104 771 790 045.07)**

SDFI CAPITAL ACCOUNTS

All figures in round NOK	NOK	NOK	NOK
Open account government 31 Dec 10			680 224 333.24
Fixed assets before write-down		153 772 124 729.96	
Write-down		146 996 639.83	
Fixed asset account		153 919 121 369.79	153 919 121 369.9
Total			**154 599 345 703.03**
Open account government 1 Jan 10		519 915 771.65	
Total expenses	18 470 068 654.60		
Total revenue	(123 241 858 699.67)		
Cash flow	(104 771 790 045.07)	(104 771 790 045.07)	
Net transfer to the government		103 571 649 940.18	
Open account government at 31 Dec 10		**(680 224 333.24)**	**(680 224 333.24)**
Fixed assets 1 Jan 10		(151 021 946 396.17)	
Investments for the year		(18 470 068 654.60)	
Depreciation for the year		15 719 890 320.81	
Write-down		(146 996 639.83)	
Fixed assets 31 Dec 10		(153 919 121 369.79)	(153 919 121 369.79)
Total			**(154 599 345 703.03)**

Stavanger, 18 February 2011

Gunnar Berge
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M von der Fehr
Director

Per Arvid Schøyen
Director

Mari Thjømøe
Director

Erik Aarrestad
Director, elected by the employees

Line Geheb
Director, elected by the employees

Kjell Pedersen
President and CEO

SDFI INCOME STATEMENT

All figures in NOK million	Notes	2010	2009	2008
OPERATING REVENUE				
Operating revenue	3, 4, 8, 9, 11	159 270	154 186	214 585
Total operating revenue		**159 270**	**154 186**	**214 585**
OPERATING EXPENSES				
Exploration expenses		1 192	1 084	1 536
Depreciation, amortisation and write-down	2	18 056	18 970	17 915
Other operating expenses	5, 8, 9, 10	32 797	30 167	37 292
Total operating expenses		**52 045**	**50 222**	**56 742**
Operating income		**107 225**	**103 964**	**157 843**
FINANCIAL ITEMS				
Financial income		6 003	4 642	9 851
Financial expenses	12	7 849	7 944	7 788
Net financial items	**7**	**(1 846)**	**(3 302)**	**2 063**
Net income for the year	**19**	**105 379**	**100 662**	**159 906**

SDFI BALANCE SHEET AT 31 DECEMBER

All figures in NOK million	Notes	2010	2009	2008
Intangible fixed assets	2	800	742	1 404
Tangible fixed assets	1, 2, 18, 22	179 953	172 304	168 666
Financial fixed assets	2, 11	1 382	908	4
Fixed assets		182 136	173 954	170 075
Stocks		2 074	1 270	951
Trade debtors	9, 10	23 102	16 700	29 207
Bank deposits		81	127	154
Current assets		25 257	18 097	30 311
Total assets		**207 392**	**192 051**	**200 385**
Equity at 1 January		144 649	141 781	136 998
Paid from/(to) government during the year		(103 572)	(96 992)	(155 420)
Net income		105 379	100 662	159 906
Translation differences*		0	(802)	297
Equity	19	146 456	144 649	141 781
Long-term removal liabilities	12, 18	45 186	37 313	36 576
Other long-term liabilities	13	1 827	1 724	1 858
Long-term liabilities		47 012	39 037	38 434
Trade creditors		1 920	1 493	2 790
Other current liabilities	9, 14, 15	12 003	6 872	17 381
Current liabilities		13 924	8 364	20 170
Total equity and liabilities		**207 392**	**192 051**	**200 385**

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

Stavanger, 18 February 2011

Gunnar Berge
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M von der Fehr
Director

Per Arvid Schøyen
Director

Mari Thjømøe
Director

Erik Aarrestad
Director, elected by the employees

Line Geheb
Director, elected by the employees

Kjell Pedersen
President and CEO

SDFI CASH FLOW STATEMENT

All figures in NOK million	2010	2009	2008
Cash receipts from operations	157 311	156 123	217 350
Cash disbursements to operations	(34 060)	(36 074)	(41 800)
Net interest payments	41	1	(2)
Cash flow from operational activities	**123 210**	**120 050**	**175 548**
PRO AND CONTRA FROM GOVERNMENT SALE			
Investments	(18 443)	(23 592)	(19 948)
Cash flow from investment activities	(18 443)	(23 592)	(19 948)
FINANCING ACTIVITIES			
Change in working capital in the licences	(1 740)	20	987
Change in under/over calls in the licences	498	487	(1 164)
Net transfer to the government	(103 572)	(96 992)	(155 420)
Cash flow from financing activities	**(104 814)**	**(96 485)**	**(155 596)**
Increase in bank deposits of partnerships with shared liability	(46)	(27)	(4)

SDFI NOTES (NORWEGIAN ACCOUNTING ACT)

GENERAL

Petoro's object, on behalf of the government and at the government's expense and risk, 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 2010 as the licensee on behalf of the SDFI for interests in 146 production licences and 14 joint ventures for pipelines and terminals. The company also managed the government's commercial interests in Mongstad Terminal DA and Vestprosess DA, as well as the shares in Norsea Gas AS and Norpipe Oil AS. Petoro has the same rights and obligations as other licensees, and manages the SDFI on the NCS on a commercial basis. The company maintains separate accounts for all transactions relating to its participatory interests, so that revenue and costs from production licences and joint ventures are kept separate from the operation of the company. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. Petoro prepares separate annual accounts for the SDFI, with an overview of the participatory interests managed by the company and associated resource accounting. Administration of the portfolio is subject to the accounting regulations for the government. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act.

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

ACCOUNTING PRINCIPLES

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

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

The SDFI's participation in Statoil Natural Gas LLC (SNG) is treated as an investment in an associate and recorded in accordance with the equity method. This means that the SDFI's share of the equity is recorded in the balance sheet under financial fixed assets and its share of the profit/loss is recorded as operating revenue/expense in the income statement.

The functional currency is the Norwegian krone.

Principles for revenue recognition

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

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

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.

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

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

Tangible fixed assets
Tangible fixed assets and investments are carried at historical cost with a deduction for planned depreciation. Fixed assets under construction are carried at historical cost.

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

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

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 70.5 per cent of expected remaining oil reserves in 2010, while the corresponding figure for gas fields was 80 per cent. The reserve estimates are revised annually, and 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.

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.

Write-downs
Each time the accounts are made up, assets are reviewed for indications of a fall in value. Oil and gas fields or installations are normally treated as separate units for assessing write-downs. 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 recoverable value is normally the company's estimated utility value, calculated using discounted cash flows. Further expected cash flows are discounted using a discount rate based on the weighted average cost of capital (WACC) calculated for the company.

Should the review indicate that the value of the asset has deteriorated, the asset will be written down to its recoverable value, which is the higher of the asset's fair value less sales costs and its utility value.

The write-down will be reversed if the conditions for writing down the asset no longer apply.

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.

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 cessation and 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.

A change in the liability relating to its time value – the effect of the removal time having come one year closer – is recorded as a financial expense.

Stocks
Stocks of spare parts and operating materials are valued at the

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

Debtors

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

Bank deposits

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

Current liabilities

Current liabilities are valued at their face value.

Taxes

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

Financial instruments

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

Such instruments are valued at their market value on the balance sheet date. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are recorded as income if all the following criteria are fulfilled: the instrument is classified as a current asset, is part of a trading portfolio with a view to onward sale, is traded on an exchange, an authorised marketplace or similar regulated market outside Norway, and has a good ownership spread and liquidity. Valuations are based on a portfolio assessment where this is regarded as the most sensible approach given the nature of the financial instruments, and where the portfolio is balanced in volume and time. Eliminations are carried out where legal rights exist to set off unrealised loses and gains, or where deposit/margins which correspond with the market value of the derivatives have been paid and capitalised.

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

Eleven production licences with SDFI participation were awarded in 2010. Participatory interests in these licences were formally awarded by the Ministry of Petroleum and Energy on 19 January 2010 in connection with the awards in predefined areas (APA) for 2009.

The following production licences were relinquished in 2010:
- production licence 448 B was relinquished with effect from 15 September
- production licence 461 was relinquished with effect from 1 March
- production licence 487 S was relinquished with effect from 1 March.

The Gjøa gas pipeline was incorporated in Gassled from 1 June 2010. In that connection, the SDFI's holding in Gassled was changed from 38.459 per cent to 38.435 per cent.

Petoro entered into an agreement during 2010 on acquiring interests in production licence 158 from A/S Norske Shell and Chevron. This transaction was approved by the government together with the agreement entered into with Statoil in 2009 on the transfer of an interest in the same production licence. At 1 January 2011, Petoro held 47.88 per cent of production licence 158 in the Norwegian Sea, which embraces part of the Hasselmus discovery. Petoro sold a 30 per cent holding in production licences 043 CS and 043 DS to Total E&P Norge during 2010. These licences were carved out of the 043 and 043 BS licences respectively in 2010. The licences embrace the Norwegian share of the Islay field.

NOTE 2 SPECIFICATION OF FIXED ASSETS

All figures in NOK million	Historical cost at 1 Jan 10	Accu-mulated deprec-iation 1 Jan 10	Addition 2010	Write-down 2010	Disposal* 2010	Transfers 2010	Deprecia-tion 2010	Book value at 31 Dec 10
Fields under development	8 315	0	3 045	0	0	(10 966)	0	394
Fields in operation	341 220	(212 491)	21 134	(9)	0	11 135	(16 567)	144 421
Pipelines and terminals	57 876	(25 458)	1 333	0	0	0	(1 706)	32 045
Capitalised exploration expenses	2 842	0	888	0	(468)	(169)	0	3 092
Total tangible fixed assets	**410 253**	**(237 950)**	**26 399**	**(9)**	**(468)**	**0**	**(18 273)**	**179 953**
Intangible assets	762	(20)	90	0	0	0	(32)	800
Financial fixed assets	908	0	291	183	0	0	0	1 382
Total fixed assets (NGAAP)	**411 923**	**(237 969)**	**26 781**	**174**	**(468)**	**0**	**(18 305)**	**182 136**
Translation to cash basis	(44 039)	21 107	(8 311)	(27)	468	0	2 586	(28 216)
Total fixed assets on cash basis	**367 884**	**(216 862)**	**18 470**	**147**	**0**	**0**	**(15 720)**	**153 920**

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

Write-downs for the year on fields in production involved a write-down of the Jotun production licence based on a calculated negative present value resulting from increased removal costs and an expected reduction in production.

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

Intangible assets of NOK 800 million relate mainly to rights in the gas storage facility at Aldbrough, which began commercial operation in 2009. This provides a combined capacity for the SDFI and Statoil of 140 million scm, of which the SDFI's share is 48.3 per cent. The amount invested will be depreciated on a straight-line basis over the estimated 25-year economic life. A small amount for Åsgard Transport is also included.

Financial fixed assets of NOK 1 382 million include:

- Capacity rights for regasification of LNG at the Cove Point terminal in the USA, with an associated agreement on the sale of LNG from Snøhvit to Statoil Natural Gas LLC (SNG) in the USA, which have been reclassified with effect from 2009 as a financial fixed asset. Changes in SNG's operations mean that this activity is now assessed as an investment in an associate and recorded in accordance with the equity method. See also note 11.
- Shareholdings in Norsea Gas AS, with a book value of NOK 3.98 million, and in Norpipe Oil AS.

NOTE 3 SPECIFICATION OF OPERATING REVENUE BY AREA

All figures in NOK million	2010	2009	2008
Troll	52 970	47 101	64 574
Tampen/Oseberg	40 638	37 348	60 892
Norwegian and Barents Seas	50 067	53 193	66 047
Gassled and other infrastructure	12 528	13 378	11 310
Net profit agreements	876	770	2 222
Other revenue	6 566	6 975	13 774
Elimination internal tariff income	(4 375)	(4 579)	(4 235)
Total operating revenue	**159 270**	**154 186**	**214 585**

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	2010	2009	2008
Crude oil, NGL and condensate	81 019	73 676	112 753
Gas	67 964	70 284	89 999
Transport and processing revenue	8 989	9 557	8 962
Other revenue	422	(102)	648
Net profit agreements	876	770	2 222
Total operating revenue	**159 270**	**154 186**	**214 585**

All crude oil, NGL and condensate from the SDFI are sold to Statoil, and all gas is sold by Statoil at the SDFI's expense and risk. Virtually all the gas is sold to customers in Europe, and the two largest customers purchase just over 30 per cent of the annual volumes under long-term contracts.

NOTE 5 SPECIFICATION OF OTHER OPERATING EXPENSES BY AREA

All figures in NOK million	2010	2009	2008
Troll	8 185	7 257	7 933
Tampen/Oseberg	8 621	7 948	9 396
Norwegian and Barents Seas	10 361	11 202	9 987
Gassled and other infrastructure	2 274	2 678	1 664
Other operating expenses	7 731	5 662	12 547
Elimination internal purchases	(4 375)	(4 579)	(4 235)
Total other operating expenses	**32 797**	**30 167**	**37 292**

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 2010 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 2010 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	2010	2009	2008
Interest	4	20	28
Other financial revenue	101	42	64
Currency gain	5 898	4 580	9 758
Currency loss	(6 123)	(6 430)	(6 298)
Interest costs	(151)	(99)	(240)
Interest on removal liability	(1 575)	(1 414)	(1 250)
Net financial items	**(1 846)**	**(3 302)**	**2 063**

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.

The Government Petroleum Insurance Fund has been wound up with effect from 1 January 2011. The government will continue to be its own insurer for the SDFI portfolio, and payments to third parties for claims related to the government's financial liability as own insurer for the SDFI will be met from within the SDFI's other activities.

NOTE 9 CLOSE ASSOCIATES

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

Statoil is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL to Statoil totalled NOK 81 billion (corresponding to 175 million boe) for 2010 and NOK 73.7 billion (202 million boe) for 2009.

Statoil markets and sells the government's natural gas at the government's expense and risk, but in Statoil's name and together with its own production. The government receives the market value for these sales. The government sold dry gas directly to Statoil to a value of NOK 363 million in 2010 and NOK 271 million in 2009. Statoil is reimbursed by the government for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for onward sale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 18 billion in 2010 and NOK 16 billion in 2009. In addition came costs associated with the activity in the USA. Open accounts with Statoil totalled NOK 10.2 billion in favour of the SDFI, converted at the exchange rate prevailing at 31 December.

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

NOTE 10 TRADE DEBTORS

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

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

NOTE 11 INVESTMENT IN ASSOCIATE

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

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

Statoil consolidates its holding in SNG with other US operations, and uses SNG as a marketing company for gas sales in the American market. Pursuant to the marketing and sale instruction, the SDFI participates in SNG with regard to activities related to the sale of the government's LNG from Snøhvit. Write-downs made in 2009 on the basis of indications that gas prices would be lower and use of the terminal reduced were reversed in 2010. The value of this holding was reviewed again in the fourth quarter on the basis of new information, and it was concluded that the basis for the write-down no longer existed.

In addition to SNG, the shareholdings in Norsea Gas AS and Norpipe Oil AS are included in the table below.

All figures in NOK million	**2010**	**2009**
Opening balance financial fixed assets (adjusted share)	908	1003
Net profit credited before write-down	291	88
Write-up/(down)	183	(183)
Closing balance financial fixed assets	**1382**	**908**

NOTE 12 ABANDONMENT/REMOVAL

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

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

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

The estimate for removal costs has been increased by NOK 5.3 billion as a result of changes to future estimated costs from operators and alterations to cessation dates. This rise primarily reflects higher estimates for plugging and abandoning wells. Estimates for removal expenses include operating costs for rigs and other vessels required for such complex operations.
A reduction in the discount rate increases the liability by NOK 360 billion.

All figures NOK million	**2010**	**2009**	**2008**
Liability at 1 Jan	37 313	36 554	27 465
New liabilities	775	95	0
Actual removal	(107)	(150)	(492)
Changes to estimates	5 269	1 804	4 594
Changes to discount rates	360	(2 403)	3 737
Interest expense	1 575	1 414	1 250
Liability at 31 Dec	**45 186**	**37 313**	**36 554**

NOTE 13 OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprise:
- debt related to financial leasing of three LNG carriers delivered in 2006

• debt relating to the final settlement of commercial arrangements concerning the move to company-based gas sales.

Three financial leasing contracts were entered into in 2006 on the delivery of three ships for transporting LNG from Snøhvit. These contracts run for 20 years, with two options for five-year extensions. The future discounted minimum payment for financial leasing totals NOK 1 384 million. Of this, NOK 133 million falls due for payment in 2011, NOK 460 million in the subsequent four years, and the residual NOK 791 million after 2015.

Other long-term liabilities total NOK 443 million, of which NOK 226 million falls due longer than five years from the balance sheet date.

NOTE 14 OTHER CURRENT LIABILITIES

Other current liabilities falling due in 2011 comprise:
- provisions for unpaid costs accrued by licence operators in the accounts at November
- provisions for accrued unpaid costs at December, adjusted for cash calls in December
- other provisions for accrued unpaid costs not included in the accounts received from operators
- current share of long-term liabilities.

NOTE 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Only limited use is made of financial instruments (derivatives) to manage risk in the SDFI portfolio. 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 is sold to Statoil. Instruments used to hedge gas sales relate to forwards and futures. At 31 December 2010, the market value of the financial instruments was NOK 365 million in assets and NOK 2 059 million in liabilities. The comparable figures at the end of 2009 were NOK 2 189 million and NOK 696 million respectively. The figures include the market value of unlisted instruments. Furthermore, long-term derivative contracts with end-user customers in continental Europe which contain an unrealised loss are included in the figures above. The unrealised loss for the trading portfolio is substantially higher than the unrealised gain.

Price risk
The SDFI is exposed to fluctuations in oil and gas prices in the world market. Statoil purchases all oil, NGL and condensate 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 only 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 2010 was largely related to one month's outstanding revenue.

Interest risk
The SDFI is primarily exposed to credit risk through financial leases. Together with Statoil, it has a financial liability related to charters for LNG ships pursuant to the marketing and sale instruction. The SDFI has no other interest-bearing debt exposed to interest rate fluctuations.

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

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

NOTE 16 LEASES/CONTRACTUAL LIABILITIES

All figures in NOK million	Leases	Transport capacity and other liabilities
2011	5 959	1 531
2012	4 137	1 386
2013	3 900	1 262
2014	2 548	1 234
2015	1 575	1 210
Beyond	4 432	9 312

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.

Other liabilities

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 2010 to participate in 15 wells with an expected cost to the SDFI of NOK 1.1 billion. Of this, NOK 482 million is expected to fall due in 2011.

The company has also accepted contractual liabilities relating to the development of new fields, represented by field development costs. These obligations total NOK 1.7 billion for 2011 and NOK 5.5 billion for subsequent periods, a total of NOK 7.2 billion. The SDFI is also committed through approved licence budgets to operating and investment expenses for 2011 which will be at the same level as the 2010 figure. The above-mentioned liabilities for 2011 are included in this total.

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

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

NOTE 17 OTHER LIABILITIES

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

NOTE 18 SIGNIFICANT ESTIMATES

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

Recoverable reserves include volumes of crude oil, NGL (including condensate) and dry gas as reported in resource classes 1-3 in the NPD's classification system. Only reserves for which the licensees' plan for development and operation (PDO) has been sanctioned in the management committee and submitted to the authorities are included in the portfolio's expected reserves.
A share of the field's remaining reserves in production (resource class 1) provides the basis for depreciation. A share of oil and gas respectively is calculated annually for the portfolio to represent the relationship between low and basis reserves. This common

share is used to calculate the depreciation basis for each field. The downwardly adjusted basis reserves which form the basis for depreciation expenses have great significance for the result, and adjustments to the reserve base can cause major changes to the SDFI's profit.

Drilling expenses are capitalised temporarily until an assessment has been made of whether oil or gas reserves have been found. Assessments of the extent to which these expenses should remain capitalised or be written down in the period will affect results for the period.

Substantial investments in tangible fixed assets have been made in the SDFI portfolio. Each time the accounts are made up, these are reviewed for indications of a fall in value. The assessment of whether an asset must be written down builds to a great extent on judgements and assumptions about the future.

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

NOTE 19 EQUITY

All figures in NOK million	2010	2009	2008
Equity at 1 Jan	144 649	141 781	136 998
Net income for the year	105 379	100 662	159 906
Cash transfers to the government	(103 572)	(96 992)	(155 420)
Items recorded directly against equity		(684)	
Translation differences		(118)	297
Equity at 31 Dec	**146 456**	**144 649**	**141 781**

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

Items recorded directly against equity in 2009 relate to the winding-up of Etanor DA on its transfer to Gassled.

NOTE 20 AUDITORS

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

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

NOTE 21 EXPECTED REMAINING OIL AND GAS RESERVES

	2010		2009		2008	
Oil* in mill bbl Gas in bn scm	**Oil**	**gas**	**Oil**	**gas**	**Oil**	**gas**
Expected reserves at 1 Jan	1 511	839	1 703	898	1 886	930
Corrections for earlier years**	(2)	(6)				
Change in estimates	(4)	3	(83)	(34)	(26)	(0.4)
Extensions and discoveries	16	8			1	0.3
Improved recovery	48	9	87	5	64	(0.4)
Purchase of reserves						
Sale of reserves						
Production	(172)	(35)	(196)	(31)	(222)	(31)
Expected reserves at 31 Dec	**1 397**	**817**	**1 511**	**839**	**1 703**	**898**

* Oil includes NGL and condensate.

** Correction as a result of reconciliation with official production figures from the NPD.

A reconciliation with official production figures from the NPD was carried out in 2010. As a result, reserve estimates from earlier years were corrected downward by 40 million boe.

The SDFI added 204 million boe in new reserves during 2010. The biggest contributions came from the decisions to develop Valemon and to initiate low-pressure production on Kvitebjørn. At the same time, downward adjustments for some fields resulted in a net reserve addition of 187 million boe. That does not include the 40 million boe correction to earlier reserve estimates.

At 31 December 2010, the portfolio's expected remaining oil, condensate, NGL and gas reserves totalled 6 539 million boe. This represented a reduction of 246 million boe from the end of 2009. Petoro reports the portfolio's expected reserves in accordance with the NPD's classification system and on the basis of resource classes 1-3.

The net reserve replacement rate for 2010 was thereby 37 per cent, compared with a negative 45 per cent the year before. The average reserve replacement rate for the portfolio over the past three years was one per cent. The corresponding figure for the 2007-09 period was a negative three per cent.

NOTE 22 SDFI OVERVIEW OF INTERESTS

Production licence	At 31 Dec 10 Interest (%)	At 31 Dec 09 Interest (%)
018	5.0000	5.0000
018 B	5.0000	5.0000
018 C	5.0000	5.0000
028 C	30.0000	30.0000
034	40.0000	40.0000
036 BS	20.0000	20.0000
037	30.0000	30.0000
037 B	30.0000	30.0000
037 E	30.0000	30.0000
038	30.0000	30.0000
038 C	30.0000	30.0000
038 D	30.0000	30.0000
040	30.0000	30.0000
043	30.0000	30.0000
043 BS	30.0000	30.0000
050	30.0000	30.0000
050 B	30.0000	30.0000
050 C	30.0000	30.0000
050 D	30.0000	30.0000
050 DS	30.0000	30.0000
051	31.4000	31.4000
052	37.0000	37.0000
052 B	37.0000	37.0000
052 C	37.0000	37.0000
053	33.6000	33.6000
053 B	25.4000	25.4000
054	40.8000	40.8000
055	13.4000	13.4000
055 B	13.4000	13.4000
055 C	33.6000	33.6000
057	30.0000	30.0000
062	19.9500	19.9500
064	30.0000	30.0000
074	19.9500	19.9500
074 B	19.9500	19.9500
077	30.0000	30.0000
078	30.0000	30.0000
079	33.6000	33.6000
085	62.9187	62.9187
085 B	62.9187	62.9187
085 C	56.0000	56.0000
089	30.0000	30.0000
093	47.8800	47.8800
093 B	47.8800	-
094	14.9500	14.9500
094 B	35.6900	35.6900
095	59.0000	59.0000
097	30.0000	30.0000
099	30.0000	30.0000
100	30.0000	30.0000
102	30.0000	30.0000
102 C	30.0000	30.0000

Production licence	At 31 Dec 10 Interest (%)	At 31 Dec 09 Interest (%)
103 B	30.0000	30.0000
104	33.6000	33.6000
107	7.5000	7.5000
107 B	7.5000	7.5000
107 C	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
132	7.5000	7.5000
134	13.5500	13.5500
152	30.0000	30.0000
153	30.0000	30.0000
153 B	30.0000	30.0000
158	35.4400	-
169	30.0000	30.0000
169 B1	37.5000	37.5000
169 B2	30.0000	30.0000
169 C	30.0000	30.0000
169 D	30.0000	-
171 B	33.6000	33.6000
176	47.8800	47.8800
185	13.4000	13.4000
190	40.0000	40.0000
193	30.0000	30.0000
193 B	30.0000	30.0000
195	35.0000	35.0000
195 B	35.0000	35.0000
199	27.0000	27.0000
208	30.0000	30.0000
209	35.0000	35.0000
237	35.6900	35.6900
248	40.0000	40.0000
248 B	40.0000	40.0000
250	45.0000	45.0000
255	30.0000	30.0000
256	20.0000	20.0000
263C	19.9500	19.9500
264	30.0000	30.0000
265	30.0000	30.0000
275	5.0000	5.0000
277	30.0000	30.0000
277 B	30.0000	30.0000
283	20.0000	20.0000
309	33.6000	33.6000
318	20.0000	20.0000
318 B	20.0000	20.0000
318 C	20.0000	20.0000
327	20.0000	20.0000
327 B	20.0000	20.0000

Production licence	At 31 Dec 10 Interest (%)	At 31 Dec 09 Interest (%)
328	20.0000	20.0000
331	20.0000	20.0000
331 C	20.0000	-
348	7.5000	7.5000
374 S	20.0000	20.0000
393	20.0000	20.0000
393 B	20.0000	-
394	15.0000	15.0000
395	20.0000	20.0000
396	20.0000	20.0000
400	20.0000	20.0000
402	20.0000	20.0000
402 B	20.0000	20.0000
423 BS	20.0000	-
423 S	20.0000	20.0000
438	20.0000	20.0000
439	20.0000	20.0000
448	30.0000	30.0000
448 B	-	30.0000
461	-	20.0000
473	19.9500	19.9500
479	14.9500	14.9500
482	20.0000	20.0000
487S	-	20.0000
488	30.0000	30.0000
489	20.0000	20.0000
502	33.3333	33.3333
504	3.0000	3.0000
504 BS	3.0000	-
506 S	20.0000	20.0000
511	20.0000	20.0000
516	24.5455	24.5455
522	20.0000	20.0000
527	20.0000	20.0000
532	20.0000	20.0000
536	20.0000	20.0000
537	20.0000	20.0000
538	20.0000	20.0000
545	20.0000	-
552	30.0000	-
558	20.0000	-
560	24.5455	-
562	20.0000	-
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.

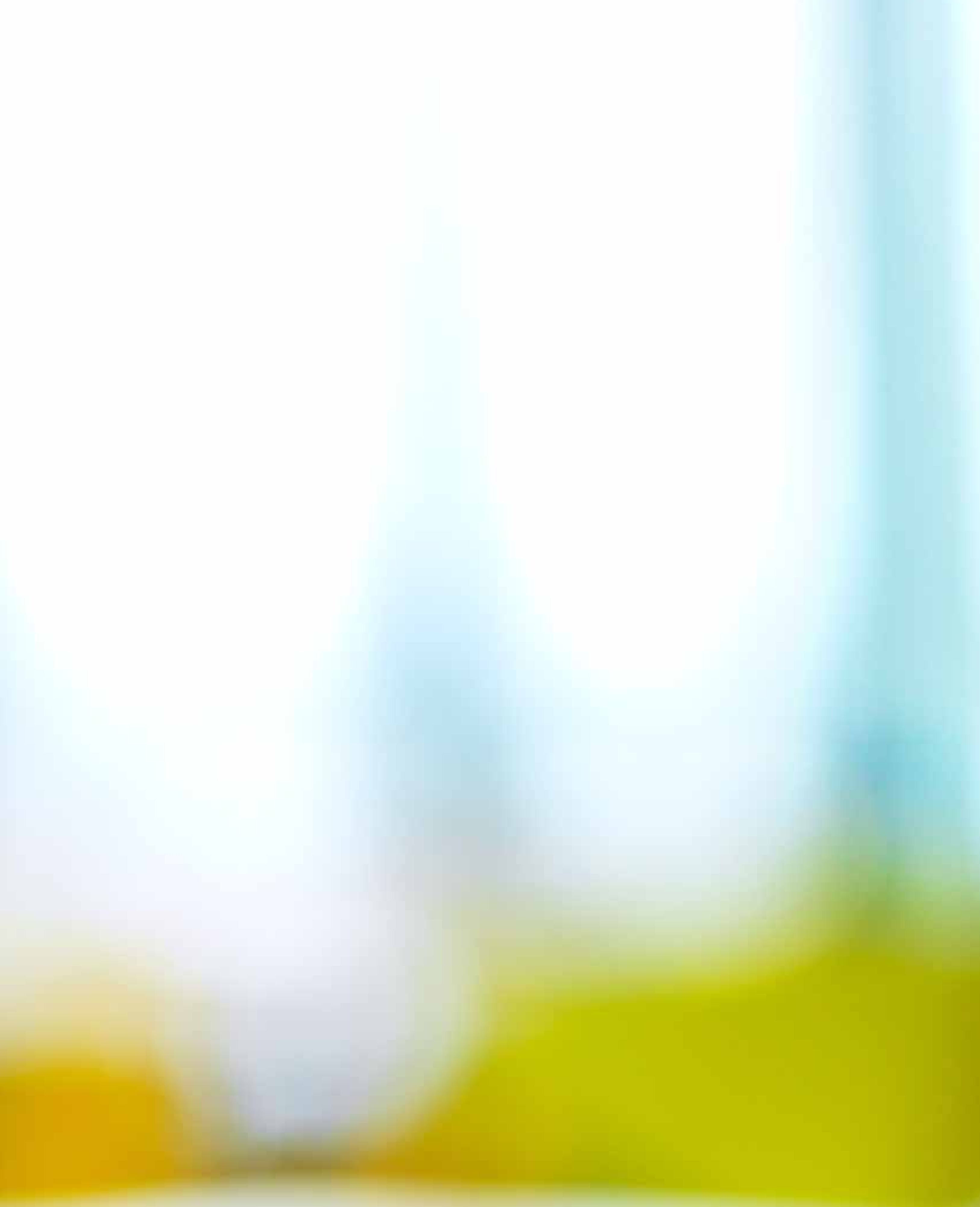
Unitised fields	**At 31 Dec 10 Interest (%)**	**At 31 Dec 09 Interest (%)**	**Remaining production period**	**Licence term**
Brage Unit	14.2567	14.2567	2025	2015
Gimle Unit	24.1863	24.1863	2030	2023
Grane Unit	28.9425	28.9425	2030	2030
Halten Bank West Unit (Kristin)	19.5770	19.5770	2029	2027
Heidrun Unit	58.1644	58.1644	2036	2024
Hild Unit	30.0000	30.0000	2031	2012
Huldra Unit	31.9553	31.9553	2013	2015
Jotun Unit	3.0000	3.0000	2025	2015
Njord Unit	7.5000	7.5000	2021	2021
Norne Unit	54.0000	54.0000	2021	2026
Ormen Lange Unit	36.4750	36.4750	2027	2040
Oseberg Area Unit	33.6000	33.6000	2037	2031
Ringhorne East Unit	7.8000	7.8000	2025	2030
Snorre Unit	30.0000	30.0000	2039	2015
Snøhvit Unit	30.0000	30.0000	2035	2035
Statfjord East Unit	30.0000	30.0000	2020	2024
Sygna Unit	30.0000	30.0000	2020	2024
Tor Unit	3.6874	3.6874	2049	2028
Troll Unit	56.0000	56.0000	2058	2030
Visund Unit	30.0000	30.0000	2030	2023
Åsgard Unit	35.6900	35.6900	2029	2027
Fields				
Draugen	47.8800	47.8800	2031	2024
Ekofisk	5.0000	5.0000	2049	2028
Eldfisk	5.0000	5.0000	2049	2028
Embla	5.0000	5.0000	2028	2028
Gjøa	30.0000	30.0000	2027	2028
Gullfaks	30.0000	30.0000	2037	2016
Gullfaks South	30.0000	30.0000	2034	2016
Heimdal	20.0000	20.0000	2013	2021
Kvitebjørn	30.0000	30.0000	2045	2031
Rev	30.0000	30.0000	2017	2021
Skirne	30.0000	30.0000	2014	2025
Statfjord North	30.0000	30.0000	2020	2026
Tordis	30.0000	30.0000	2024	2024
Tune	40.0000	40.0000	2013	2032
Urd	24.5455	24.5455	2021	2026
Varg	30.0000	30.0000	2020	2021
Vega	40.0000	40.0000	2022	2035
Veslefrikk	37.0000	37.0000	2020	2015
Vigdis	30.0000	30.0000	2020	2024
Yttergryta	19.9500	19.9500	2013	2027

PIPELINES AND LAND-BASED PLANTS

Oil pipelines	At 31 Dec 10 Interest (%)	At 31 Dec 09 Interest (%)	Licence term
Frostpipe	30.0000	30.0000	-
Oseberg Transport System (OTS)	48.3838	48.3838	2014
Troll Oil Pipeline I + II	55.7681	55.7681	2023
Grane Oil Pipeline	42.0631	42.0631	2030
Kvitebjørn Oil Pipeline	30.0000	30.0000	2020
Norpipe Oil AS (interest)	5.0000	5.0000	2028
Oil – land-based plants			
Mongstad Terminal DA	35.0000	35.0000	-
Gas pipelines			
Gassled*	38.4350	38.4590	2028
Haltenpipe	57.8125	57.8125	2020
Mongstad Gas Pipeline	56.0000	56.0000	2030
Gas – land-based plants			
Dunkerque Terminal DA	24.9828	24.9984	2028
Zeepipe Terminal	18.8332	18.8449	2028
Vestprosess DA	41.0000	41.0000	-
Kollsnes (gas processing plant, operation)	38.4350	38.4590	-
Norsea Gas AS (Interest)	40.0060	40.0060	2028
Ormen Lange Eiendom DA	36.4750	36.4750	2035

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

* The interest in Gassled including Norsea Gas is 39.522%. The Gjøa gas pipeline was included in Gassled with effect from 1 June 2010.



Riksrevisjonen
Office of the Auditor General of Norway

Executive officer
Stig Allan Snähre, +47 21 54 08 81

Our date	Our reference
17.02.2011	2.3 2010/02267 - 3
	Filing code
	680 OED
Your date	Your reference

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

Audit of the 2010 accounts of the State's Direct Financial Interest

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

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

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

Yours sincerely

Hans Conrad Hansen
Director General

Tom Arild Hanekamhaug
Deputy Director General

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PETORO AS INCOME STATEMENT

All figures in NOK 1 000	NOTES	2010	2009	2008
Invoiced government contribution	1	208 000	201 600	193 600
Other revenue	1	2 902	3 201	3 806
Net deferred revenue recorded	2	2 713	57	(1 367)
Total operating revenue		**213 615**	**204 857**	**196 039**
Payroll expenses	3, 10	108 136	108 395	92 712
Depreciation and write-down	4	4 864	4 513	3 812
Administrative fees	13, 16	2 666	2 744	2 435
Accounting fees	15	15 830	19 077	16 702
Office expenses	14	8 976	8 613	8 439
ICT expenses	15	15 851	14 202	18 064
Other operating expenses	12, 15, 16	60 146	49 610	53 639
Total operating expenses		**216 470**	**207 154**	**195 802**
Operating income/(loss)		**(2 855)**	**(2 297)**	**237**
Financial income	5	3 030	3 194	6 035
Financial expenses	5	(541)	(223)	(877)
Net financial result		**2 490**	**2 971**	**5 158**
NET INCOME/(LOSS)		**(365)**	**674**	**5 395**
TRANSFERS				
Transferred to/(from) other equity		(365)	674	5 395
Total transfers		**(365)**	**674**	**5 395**

PETORO AS BALANCE SHEET

All figures in NOK 1 000	NOTES	2010	2009	2008
ASSETS				
Fixed assets				
Operating equipment, fixtures, etc	4	6 219	8 932	8 989
Total tangible fixed assets		**6 219**	**8 932**	**8 989**
Total fixed assets		**6 219**	**8 932**	**8 989**
Current assets				
Trade debtors		1 448	0	1 068
Other debtors	6	9 430	8 387	10 183
Bank deposits	7	125 510	119 735	96 295
Total current assets		**136 388**	**128 121**	**107 546**
TOTAL ASSETS		**142 607**	**137 053**	**116 535**
EQUITY AND LIABILITIES				
Equity				
Paid-in capital				
Share capital (10 000 shares at NOK 1 000)	8	10 000	10 000	10 000
Retained earnings				
Other equity	9	28 384	28 750	28 076
Total equity		**38 384**	**38 750**	**38 076**
Liabilities				
Provisions				
Pension liabilities	10	61 424	55 756	31 725
Deferred revenue government contribution	2	6 219	8 932	8 989
Total provisions		**67 644**	**64 688**	**40 714**
Current liabilities				
Trade creditors		13 364	10 904	11 492
Withheld taxes and social security		7 159	6 339	5 741
Other current liabilities	11	16 057	16 373	20 512
Total current liabilities		**36 580**	**33 616**	**37 745**
Total liabilities		**104 223**	**98 304**	**78 459**
TOTAL EQUITY AND LIABILITIES		**142 607**	**137 053**	**116 535**

Stavanger, 18 February 2011

Gunnar Berge
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M von der Fehr
Director

Per Arvid Schøyen
Director

Mari Thjømøe
Director

Erik Aarrestad
Director, elected by the employees

Line Geheb
Director, elected by the employees

Kjell Pedersen
President and CEO

PETORO AS CASH FLOW STATEMENT

	All figures in NOK 1 000	2010	2009	2008
	LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES			
	Provided by operations for the year*	4 499	5 187	9 207
+/-	Change in trade debtors	(1 448)	1 068	439
+/-	Change in trade creditors	2 460	(588)	(1 731)
+/-	Change in accrued items	2 417	22 229	8 165
	Net change in liquidity from operating activities	**7 928**	**27 896**	**16 081**
	LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES			
-	Invested in tangible fixed assets	(2 152)	(4 456)	(5 179)
	Net change in liquidity from investing activities	**(2 152)**	**(4 456)**	**(5 179)**
	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	5 776	23 440	10 903
+	Cash and cash equivalents at 1 January	119 735	96 295	85 393
	Cash and cash equivalents at 31 December	**125 510**	**119 735**	**96 295**
*	This figure is obtained as follows:			
	Net income/(loss)	(365)	674	5 395
+	Ordinary depreciation and write-downs	4 864	4 513	3 812
	Provided by operations for the year	**4 499**	**5 187**	**9 207**

PETORO AS NOTES

ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

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

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

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

Current liabilities
Current liabilities are assessed at their face value.

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

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

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

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

NOTE 1 GOVERNMENT CONTRIBUTION AND OTHER INCOME

The company received an operating contribution from the Norwegian government totalling NOK 208 million excluding VAT in 2010. The net loss after financial items was NOK 0.4 million. 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 2.2 million in investment made during 2010 as well as NOK 4.9 million in depreciation and write-down of investment made during the year and in earlier years.

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

Payroll expenses (all figures in NOK 1 000)	2010	2009	2008
Pay	73 151	68 293	63 803
Payroll taxes	10 616	10 745	8 555
Pensions (note 10)	20 870	26 312	17 478
Other benefits	3 500	3 045	2 876
Total	**108 136**	**108 395**	**92 712**
Employees at 31 Dec	69	65	61
Employees with a signed contract who had not started work at 31 Dec	0	1	2
Average number of work-years employed	67	63	58

Remuneration of senior executives (all figures in NOK 1 000)	Pay	Recorded pension	Other benefits
President and CEO	3 309	2 641	117
Management team (eight people)	11 969	4 717	1 005

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

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

Directors' fees

Fees paid in 2010 totalled NOK 335 000 for the chair and NOK 1 125 000 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 10	4 021	8 628	24 546	37 196
Additions	-	197	1 955	2 152
Disposals		-		-
Purchase cost 31 Dec 10	4 021	8 825	26 501	39 347
Accumulated depreciation 1 Jan 10	2 055	7 050	19 158	28 264
Reversal of accumulated depreciation				-
Depreciation and write-downs for the year	418	972	3 475	4 864
Accumulated depreciation 31 Dec 10	2 473	8 022	22 633	33 128
Book value at 31 Dec 10	**1 548**	**803**	**3 868**	**6 219**
Economic life	Until lease expires in 2014	3-5 years	3 years	
Depreciation plan	Linear	Linear	Linear	
Leie operasjonell leasing	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 FINANCIAL ITEMS

Financial items (all figures in NOK 1 000)	2010	2009	2008
Financial income			
Interest income	2843	2 908	5 846
Currency gain	188	286	190
Other financial income		-	-
Financial expenses			
Interest expenses	297	10	492
Currency loss	244	213	384
Other financial expenses		0	1
Net financial items	**2490**	**2 971**	**5 158**

NOTE 6 OTHER DEBTORS

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

NOTE 7 BANK DEPOSITS

Bank deposits total NOK 125.5 million, including NOK 69.4 million in withheld tax and pension plan assets.

NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital of the company at 31 December 2010 comprised 10 000 shares with a nominal value of NOK 1 000 each. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government, and all have the same rights.

NOTE 9 EQUITY

(All figures in NOK 1 000)	Share capital	Other equity	Total
Equity at 1 Jan 10	10 000	28 750	38 750
Change in equity for the year			
Net income		(365)	(365)
Equity at 31 Dec 10	**10 000**	**28 384**	**38 384**

NOTE 10 PENSION COSTS, ASSETS AND LIABILITIES

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

The company has pension plans covering all its employees, which give the right to defined future benefits. These depend primarily on the number of years of pensionable earnings, the level of pay at retirement and the size of national insurance benefits.

Net pension cost (all figures in NOK 1 000)	**2010**	**2009**	**2008**
Present value of benefits earned during the year	16 217	19 645	14 427
Interest expense on pension obligation	5 796	5 334	4 349
Return on pension plan assets	(3 524)	(3 618)	(3 474)
Recorded change in estimates	(198)	1 700	142
Payroll tax	2 579	3 252	2 034
Net pension cost	**20 870**	**26 312**	**17 478**

Capitalised pension obligation	**2010**	**2009**	**2008**
Estimated pension obligation at 31 Dec	142 648	101 864	122 500
Pension plan assets (market value)	(67 940)	(55 161)	(56 652)
Net pension obligations before payroll tax	74 708	46 703	65 849
Unrecorded change in estimates	(20 875)	2 163	(38 044)
Payroll tax	7 591	6 890	3 920
Capitalised pension obligation	**61 424**	**55 756**	**31 725**

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

	2010	**2009**	**2008**
Discount rate	4.6%	5.4%	4.3%
Expected return on plan assets	5.4%	5.7%	6.3%
Expected increase in pay	4.0%	4.5%	4.5%
Expected increase in pensions	1.3%	1.4%	2.0%
Expected change in NI base rate	3.75%	4.5%	4.25%

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

NOTE 11 OTHER CURRENT LIABILITIES

Other current liabilities relate almost entirely to provision for costs incurred, pay outstanding and holiday pay.

NOTE 12 AUDITOR'S FEES

Erga Revisjon AS is the elected auditor of Petoro AS. Fees charged by Erga Revisjon to Petoro for external auditing in 2010 totalled NOK 0.3 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 1.5 million for this service in 2010. Deloitte has also performed other services, including partner audits, totalling NOK 2.2 million.

NOTE 13 BUSINESS MANAGEMENT AGREEMENTS

To ensure efficient resource utilisation with an organisation totalling 69 employees, Petoro sets priorities for its work commitments in and between the interests it manages in the various joint ventures. This prioritisation reflects the significance of each joint venture to the overall value of the portfolio and risk assessments related to the various phases in a joint venture (exploration, development and production). To permit such prioritisation, Petoro has concluded business management agreements with various licence partners. 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. The bulk of the business management agreements have been entered into with Statoil ASA.

NOTE 14 LEASES

The company entered into a lease with Smedvig Eiendom AS for office premises in the autumn of 2003. The remaining term of the lease is five years, with options for a further two periods of five years each. Rent for the year was NOK 9 million, which included all management and shared expenses.

NOTE 15 SIGNIFICANT CONTRACTS

Petoro has entered into an agreement with Upstream Accounting Excellence (Upax) on the delivery of accounting and associated ICT services related to the SDFI accounts. This five-year agreement was entered into in 2008, with delivery starting on 1 March 2009. ErgoGroup is the sub-contractor for ICT services. The recorded accounting fee for Upax in 2010 was NOK 14.5 million. Other services purchased from the contractor totalled NOK 1.8 million.

NOTE 16 CLOSE ASSOCIATES

Statoil ASA and Petoro AS have the same owner in the Ministry of Petroleum and Energy, and are accordingly close associates. Petoro purchased services in 2010 relating to business management agreements, cost sharing for the audit of licence accounts, insurance services for the Government Petroleum Insurance Fund and other minor services. NOK 3.3 million was recorded in 2010 for the purchase of services from Statoil ASA. These were purchased at market price on the basis of hours worked.
NOK 5.4 million has been invoiced for services rendered to Statoil ASA under the arm's-length principle, based on hours worked by Petoro personnel and contract staff.

INDEPENDENT **AUDITOR'S REPORT**

To the general meeting for Petoro AS

Report on the Financial Statements

We have audited the accompanying financial statements of Petoro AS, which comprise the balance sheet as at December 31, 2010, the income statement showing a loss of NOK365 000, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing director is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects the financial position of Petoro AS as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

OPINION ON THE BOARD OF DIRECTORS' REPORT

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements, the going concern assumption and the proposal for the allocation of the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

OPINION ON REGISTRATION AND DOCUMENTATION

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 18 February 2011
Erga Revisjon AS

Sven Erga
State Authorised Public Accountant (Norway)

Note: Translation has been made for information purposes only.

PETORO'S FINANCIAL CALENDER 2011

9 May	First quarter report
2 August	Second quarter report
28 October	Third quarter report

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