

# **Royal Norwegian Ministry of Petroleum and Energy**

## **Valuation of State Direct Financial Interest, 2005**

June 2006

## **Basis of Report**

This report has been prepared for the Ministry of Petroleum and Energy by Wood Mackenzie Limited. The information upon which this report is based has either been supplied to us by Petro or the Ministry of Petroleum and Energy or comes from our own experience, knowledge and databases. The opinions expressed in this report are those of Wood Mackenzie. They have been arrived at following careful consideration and enquiry, but we do not guarantee their fairness, completeness or accuracy. The opinions, as of this date, are subject to change. We do not accept any liability for your reliance upon them.

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## Role of Wood Mackenzie

Wood Mackenzie Limited (Wood Mackenzie) has been appointed by the Ministry of Petroleum and Energy (MPE) to undertake a valuation of the SDFI portfolio of oil and gas assets and to review the valuation of the portfolio carried out by Petoro.

The principal aim is to quantify the change in value over the course of 2005. As part of this process Wood Mackenzie has identified changes in value for individual assets and the reasons for those changes.

### Approach

Wood Mackenzie has developed its approach in conjunction with the Ministry of Petroleum and Energy.

Petoro has provided Wood Mackenzie with datasets for SDFI assets at two points in time. The start year position was evaluated in the report prepared for the Ministry of Petroleum and Energy by Wood Mackenzie in June 2005 and this has been the source of the opening value used in this report. The data for this valuation was based on the Revised National Budget 2005 (generated in late 2004). The end year (2005) data is based on the Revised National Budget 2006 (generated in late 2005).

In both cases the Revised National Budget data is based on information provided by field operators, but Petoro has adjusted production and/or cost profiles on some projects due to a different perception. Changes to the data between start and end 2005 may be based upon differences in the operators' expectations from one year to the next, or changes to the field development plan.

The data has been run using the price assumptions from the NB 2005 and NB 2006 as described in the methodology section. It is worth noting that the NB 2006 price assumption is set during in the second half of 2005. Since then we have observed a significant increase in commodity prices, which, if used in this calculation would have enhanced the overall result of the portfolio valuation.

## Summary and Conclusions

Wood Mackenzie has undertaken a valuation of the SDFI portfolio of oil and gas assets as at the end of 2005 and calculated the change in value over the course of 2005.

The change in value of the SDFI portfolio over 2005 has been calculated by running valuations using the start and end year datasets, as supplied by Petoro. From this analysis the value of the SDFI portfolio has increased by Nkr 276.5 billion during the course of 2005, but would only have increased by Nkr 17.9 billion had price assumptions remained unchanged between the datasets.

Excluding the strong impact during 2005 of the more optimistic forward price assumptions, a number of different factors impact the value. The most important ones relate to changes to development plans by the operators and changes in production, reserves or cost assumptions for individual assets mainly by the operator, but also by Petoro.

The key asset that has driven the increase in the value of the State DFI portfolio during 2005 is the Troll gas project. Gas production on Troll has been increased and reserves are planned to be developed in an accelerated fashion. In conjunction with the increased production, the overall level of capital investment has reduced in real terms and the phasing of spend has been brought forward. The Heidrun field has materially decreased the overall value of the portfolio throughout 2005. A greater understanding of the reservoir has reduced the remaining recoverable gas reserves. Additional subsea wells combined with higher rig rates has also increased the capital investment on the field. The overall combined effect has resulted in a value decrease for Heidrun when ignoring the effect of commodity prices.

## Valuations

### Summary - Value Change Comparisons

In undertaking our valuation we have initially valued the datasets to show the value of the start 2005 dataset at 1 January 2005 and the end 2005 dataset at 1 January 2006. The opening value for the start year position is sourced from the equivalent report prepared for the Ministry of Petroleum and Energy in June 2005.

To ensure comparability of the value of the datasets, we have made the following adjustments as described below. Table 1 summarises the start and end year valuations of commercial assets as calculated and the reconciliation between the two figures. For a breakdown of the valuations by individual asset refer to Appendix 2 and for the valuation of technical reserves and acreage refer to Appendix 3.

- 1 The start 2005 dataset value in start 2005 terms as described in the previous year's study. This gives a value of Nkr 625.7 billion (step A in table 1).
- 2 Deducted the cash flows arising during 2005 from the start 2005 dataset (step B). These cash flows have been discounted to reflect the value of Nkr 95.9 billion in start 2005 terms. The value arising is Nkr 529.8 billion (step C).
- 3 Restated the end 2005 dataset value of Nkr 874.9 billion to start 2005 terms by deflating the dataset to convert it into start 2005 terms and then discounting from the start of 2005. This gives a value of Nkr 806.3 billion (step D).

The impact of these adjustments is such that if the 2005 actual cash flows and future expectations at the start of 2006 were those predicted at the start of 2005, there would be no change in value. A higher value for the end year dataset than the start year dataset plus 2005 cash flows would show value increase. By contrast a lower value for the end year dataset would show value decrease. As a result of our valuation analysis, a value increase of some Nkr 276.5 billion has been calculated (D minus C in table 1).

**Table 1. Reconciliation Between the Start and End Year Valuations of Commercial Assets**

Value Component	Value (Nkr billion)*	Value (Nkr billion)*
Start 2005 in start 2005 terms from previous study	625.7	(A)
Cash Flow 2005	99.2	
Discounted value of 2005 Cash Flow		95.9 (B)
<b>Start 2005 value less 2005 discounted Cash Flow (A-B)</b>		529.8 (C)
End 2005 in start 2006 terms	874.9	
<b>Restated to start 2005 terms</b>		806.3 (D)
<b>Value Creation in start 2005 terms (D-C)</b>		276.5

\* Discounted at 7% in real terms. For a detailed breakdown of the various items refer to Appendix 2. Totals may not add due to rounding.

In addition to determining the overall value change, we have calculated the extent to which changes in oil and gas price assumptions have impacted on the value change. We have therefore run the end 2005 dataset using start 2005 oil and gas price assumptions, to isolate the impact of changes arising from different oil and gas price assumptions. Refer to the table 8 in Appendix 2 titled 'Value Change by Asset – Impact of Changed Price Assumptions' for the impact on individual assets.

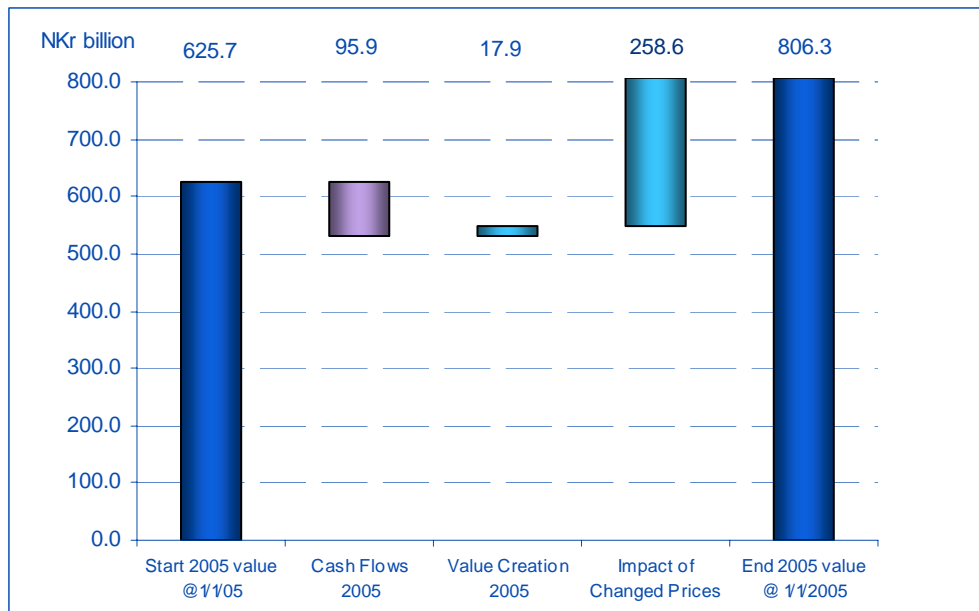
Table 2 summarises the analysis we have undertaken. Using start 2006 assumptions, the value of the end 2005 dataset falls from Nkr 806.3 billion to Nkr 547.7 billion. By changing the assumptions during the year, the value of the portfolio has therefore risen by Nkr 258.6 billion. Thus the value increase of the underlying asset base excluding the impact of changes to the assumptions is Nkr 17.9 billion.

**Table 2. Impact of Oil Price Assumptions**

Value Component	Value (Nkr billion)
End 2005 restated to start 2005 terms	806.3
End 2005 as above using start 2005 prices	547.7
Value Increase due to revised prices	258.6
Total Value Increase from table 1	276.5
<b>Value Increase based on constant price assumptions</b>	<b>17.9</b>

Totals may not add due to rounding

**Chart 1. Value Increase During 2005**



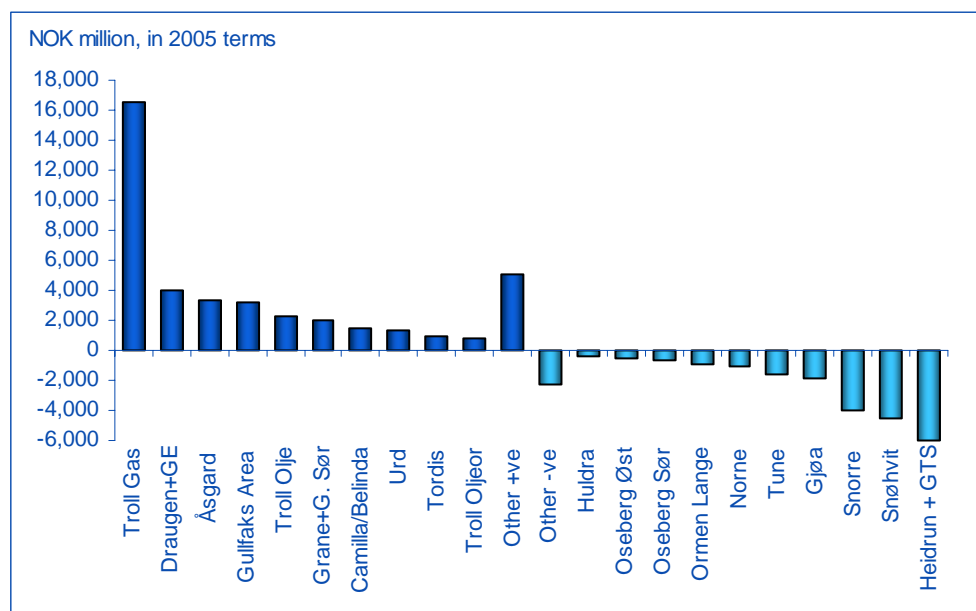
## Key Value Change Drivers

The key asset that has driven the increase in the value of the State DFI portfolio during 2005 is the Troll gas project as illustrated in the chart 2. To a lesser extent the Draugen, Åsgard, Gullfaks, Troll Oil and Grane projects have also made significant positive contributions. Overall 23 assets (or grouping of assets) made a positive contribution with 28 assets (or grouping of assets) giving an overall negative performance.

The key theme for value generation within the portfolio is the impact of new investment on existing fields, which are stimulating increased production levels (particularly gas) over the short to medium term.

The main assets where value has decreased during 2005 (excluding the impact of higher oil price assumptions) are Heidrun, Snøhvit and Snorre. For Heidrun the level of capital and operating costs have significantly increased combined with a significant reduction in gas reserves. For Snøhvit the project experienced increased capital and operational increases in the near term compounded with a delay in production start-up. Snorre has also experienced an increase in capital investment due to additional well and facilities costs as part of an upgrade programme.

**Chart 2. Value Change by Asset 2005 - Excluding Impact of Changed Price Assumptions\***



The 'Other +ve' category represents the cumulative value increase for all the other assets (not individually identified) that showed a positive value change during the year, with the 'Other -ve' category reflecting the equivalent change for all the other assets that showed a negative change in value. The overhead items such as Insurance, Marketing, Budgets and the other exploration/corporate cash flow items have not been included in chart 2. The combined effect of these items resulted in a value increase of NOK million.



### Troll Gas

Because the Troll Gas project has made the single largest contribution to State DFI portfolio we have examined in greater detail the cause and effect of this change. The development of Troll phase III (Troll Vest Gas) is currently being discussed by the field partners. The main issue surrounding the project is the timing of full gas production from this part of the field. The 2005 dataset now forecasts Troll Vest oil production ceasing in 2022, compared to the 2004 forecast of 2016. This implies that Troll phase III gas production may be delayed.

Comparing the 2005 and 2004 datasets we observed that the capital investment for the development of the Troll Vest gas reserves has been postponed and reduced due to the extension of the oil production. The increase in near term capital investment seen in the 2005 dataset is largely as a result of increased gas production solely from reserves currently being developed from the Troll A platform. The net result is an increase in capital cost to gain early production from Troll A and a decrease in the estimated capital cost to develop Troll phase III. Production over the next four years, compared to the 2004 dataset is higher by an average of nine percent. From 2011, the plateau production levels are 20 percent higher year-on-year from the previous years estimate. As a result of the increased gas production, the annual operating cost estimate has increased correspondingly.

### Portfolio Analysis

Charts 3, 4 and 5 show the value distribution of the SDFI portfolio by location on the Norwegian Continental Shelf. Charts 3 and 4 show the split by region, in 2005 and 2004 respectively, whilst chart 5 shows the split by core asset area.

In percentage terms the value increase in the geographic areas has been largely due to the relative decrease in value of the infrastructure. In monetary terms the infrastructure has not materially increased or decreased in value, but it is unaffected by the increase in commodity prices, hence its relative decline to other assets.

**Chart 3. Value Distribution by Region (End 2005 value in 2006 Terms)**

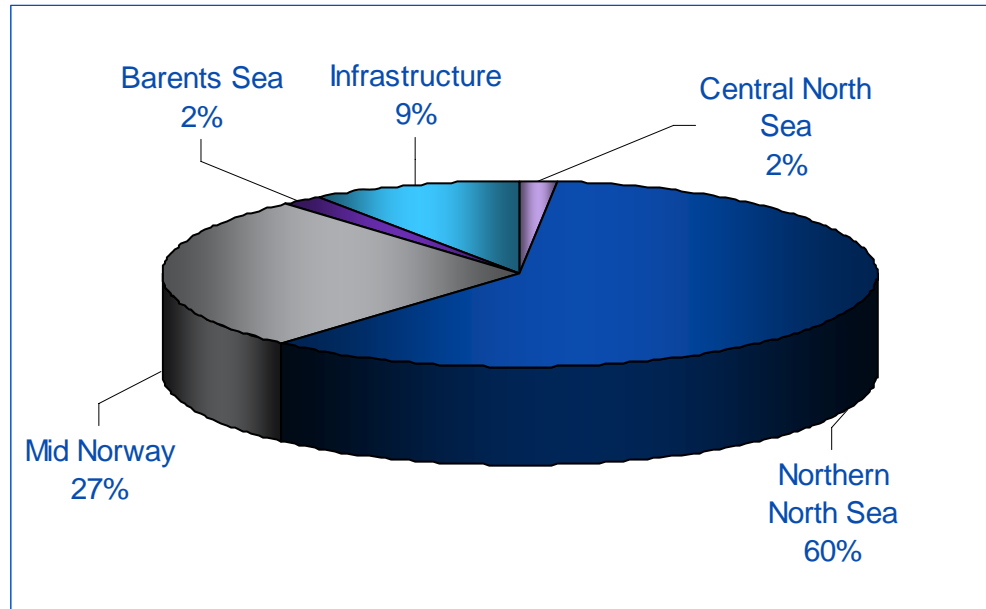


Chart 4. Value Distribution by Region (End 2004 value in 2005 Terms)

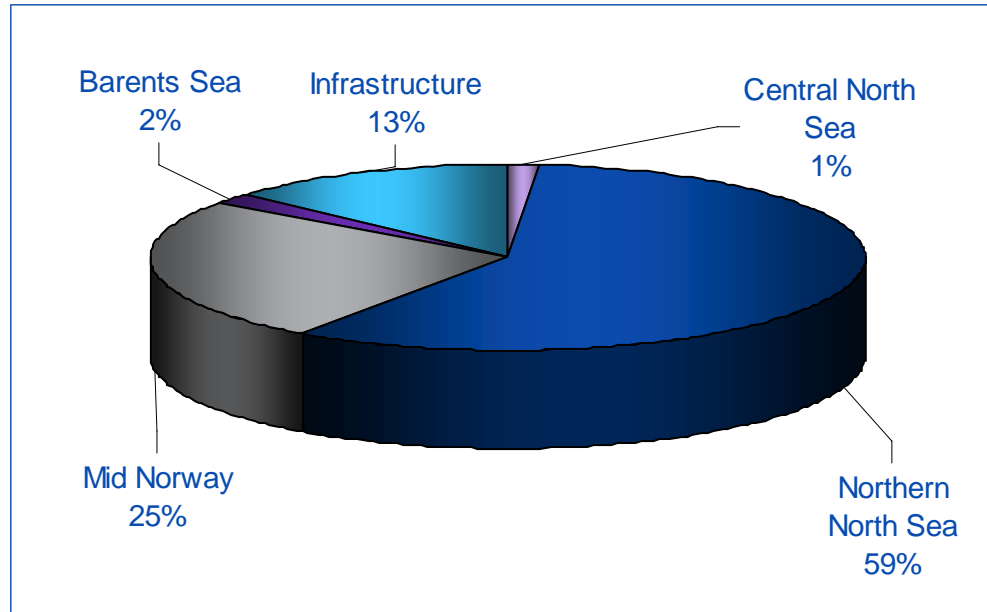
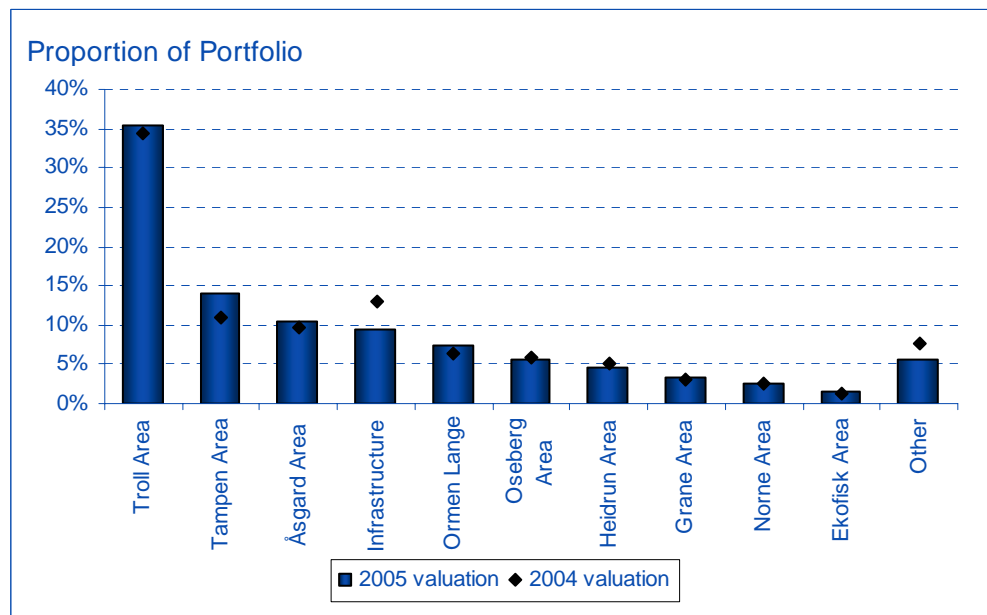


Chart 5. Value Distribution by Core Area

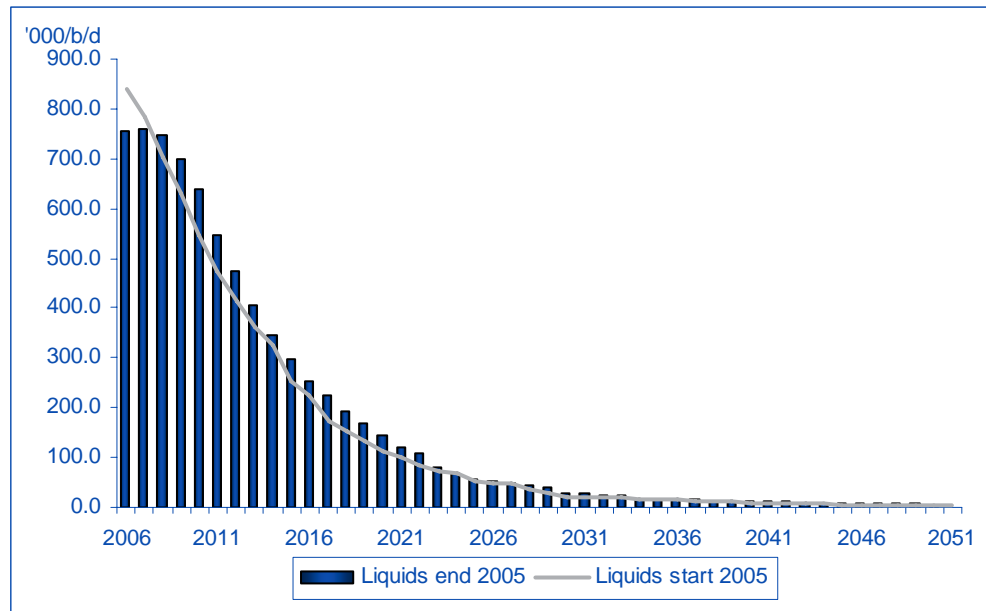


## Comparison of Production Profiles for Start vs. End Year Datasets

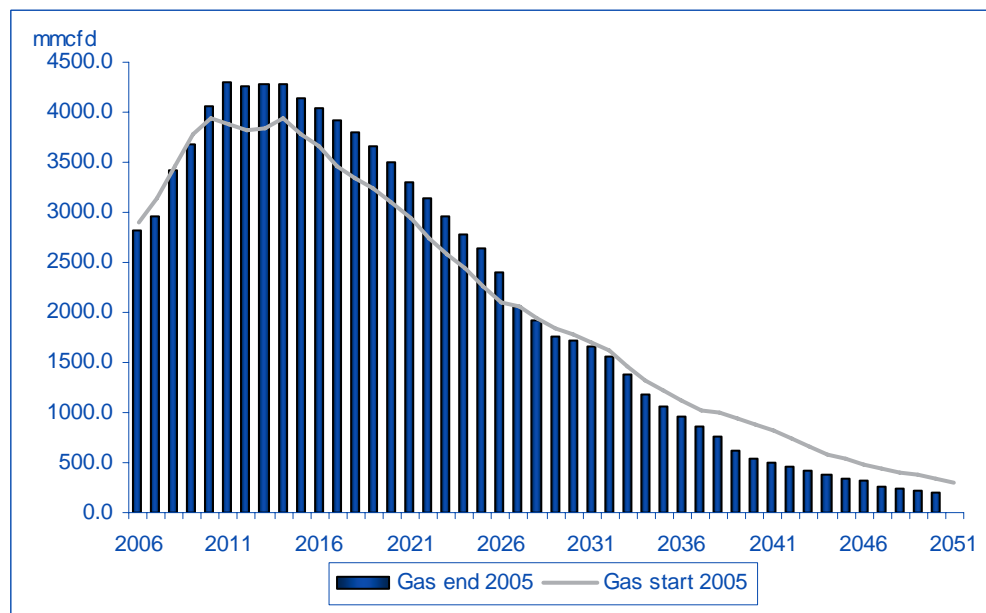
Charts 6 and 7 show the forward liquid and gas production profiles for the start year and end year datasets. The profile for 2006 and beyond in the end year dataset is slightly lower during 2006 and 2007. Beyond this point, there is a significant increase in liquids production averaging at an estimated 18% higher in the near to mid term. This reflects more optimistic assumptions for oil recovery from existing reservoirs as shown by the increased number of enhanced oil recovery projects being undertaken.

The gas production profile for the end year dataset is slightly lower over the next four years compared to the start year dataset. However, from 2010 to 2027 the end year dataset shows an average yearly increase of around 10%. From 2029 to the end of the portfolio, the end year dataset is constantly lower than the start year dataset. This near term increase in production results from the increased near term production from the Troll gas field.

**Chart 6. Liquids Production**



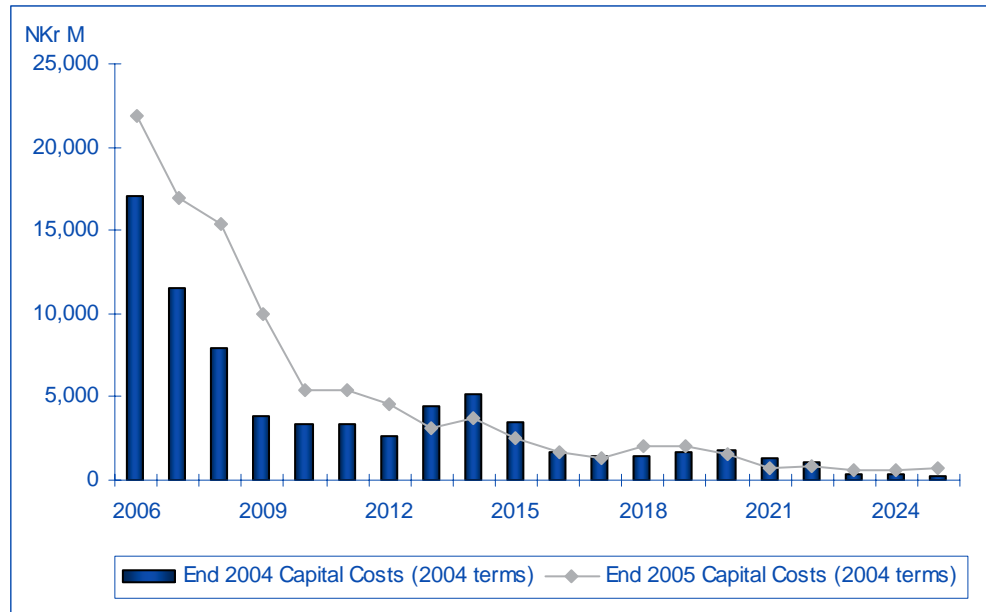
**Chart 7. Gas Production**



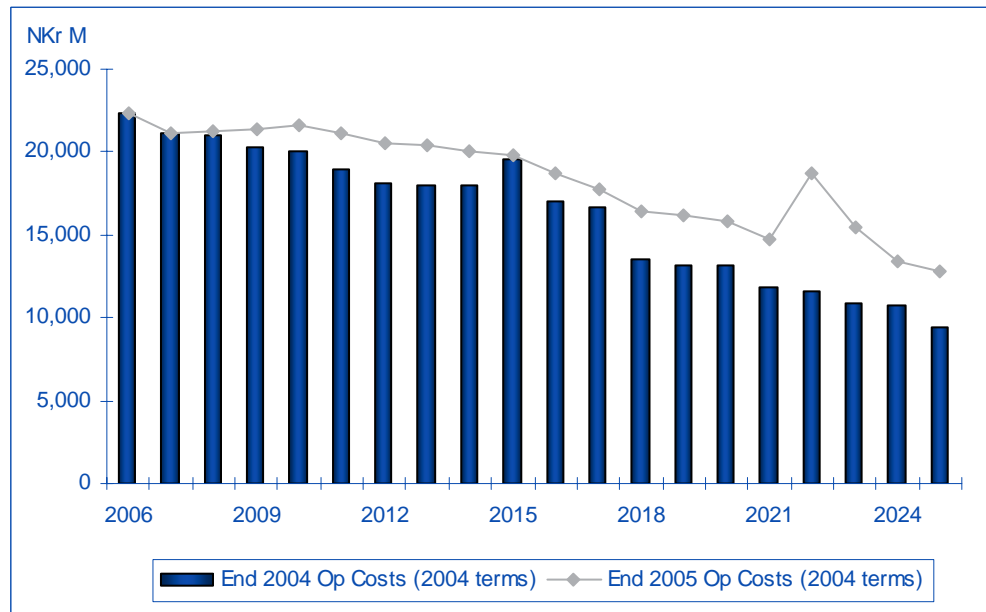
## Comparison of Cost Profiles for Start vs. End Year Datasets

The capital investment profile in chart 8 shows a significant increase in near term expenditure primarily based on the acceleration of enhanced oil recovery programmes and the increase in rig rates in order to offset the declining production profile. Chart 9 shows the operating cost profile from the 2005 dataset is similar, albeit at a higher level, to the previous year's data except for the increase in 2022/2023 where the delay in decommissioning of Troll Oil has an impact (abandonment costs have been treated as an operating cost for modelling purposes).

**Chart 8. Capital Investment**



**Chart 9. Operating Costs**



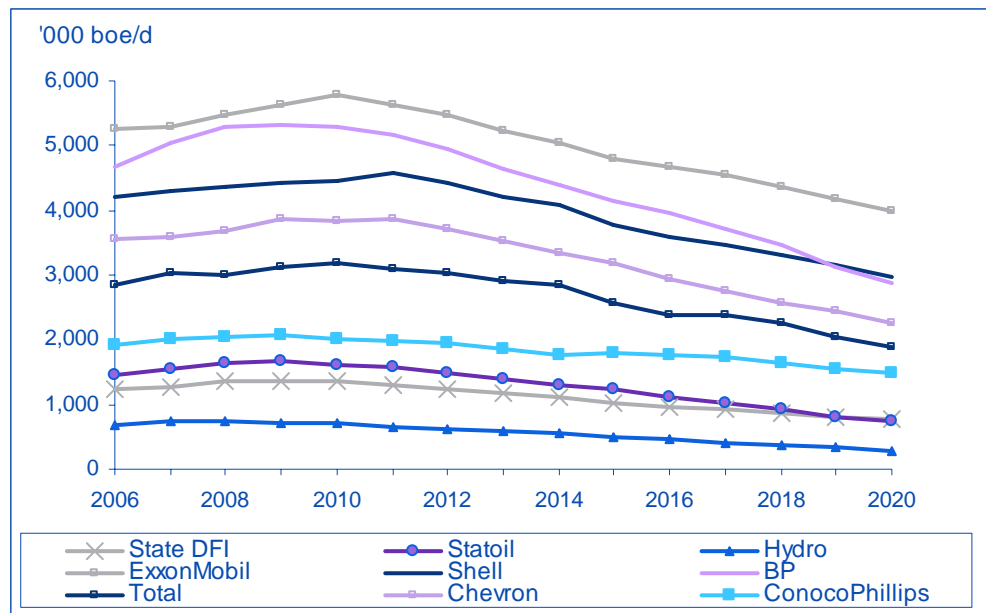
## Benchmarking of Future Production Profile

In charts 13 and 14 we benchmark the forward production profile and reserves/production (R/P) ratio of the State DFI portfolio against a peer group consisting of the main Norwegian players Statoil and Norsk Hydro and the major international players ExxonMobil, Shell, BP, Total and Chevron. The production profiles are based on output from each company's current portfolio of commercial fields and do not take account of likely additional production from finds that are categorised as technical discoveries or from future discoveries that might be made.

The SDFI's future production profile continues to demonstrate a very similar trend to Norsk Hydro in terms of global production, which reflects the heavy weighting of Norway within Hydro's portfolio. Statoil's profile shows a moderate rise over the short term due to increased output from its West African, Azerbaijan and deep water Gulf of Mexico assets, but its decline in the longer term steeper than for the State DFI. This pattern of near term increases followed by relatively sharp declines is mirrored by all the major international players.

This slower decline in the long term partly reflects the SDFI's interests in long-life gas projects such as Ormen Lange and Snøhvit. We would, however, expect this picture of longevity for the SDFI's production stream to be slowly eroded over time when compared to the major oil companies, given the maturing nature of the single continental shelf that the portfolio is exposed to.

**Chart 13. Future Production – Comparison with Companies' Global Profiles**



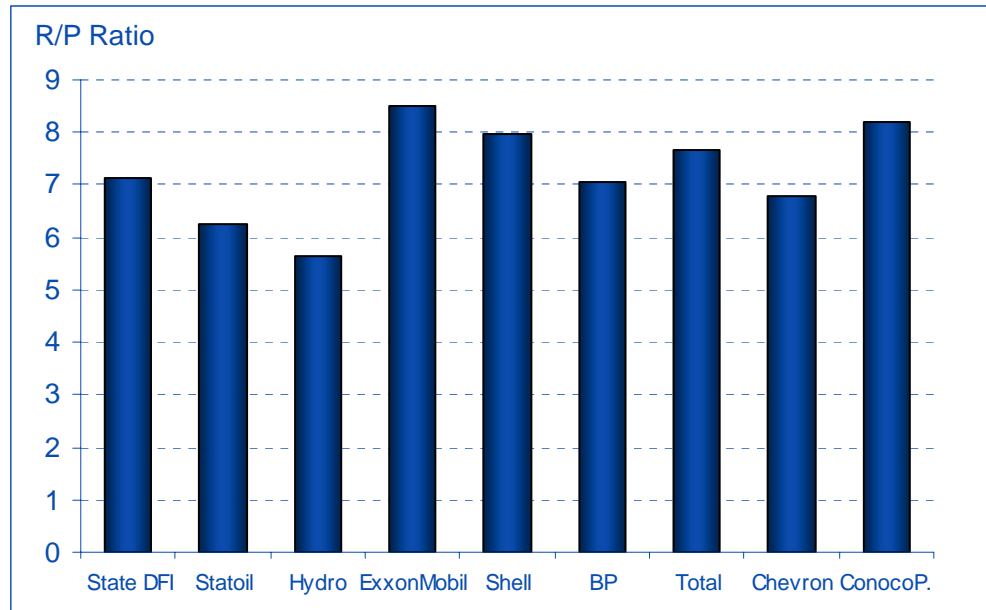
\* Source Wood Mackenzie CAT product

## Reserves/Production (R/P) Ratios

R/P ratios, calculated in terms of the number of years the current production level can be sustained, before the portfolio of commercial reserves is exhausted, are a commonly applied measure of the future health of a company's inventory of assets.

The SDFI's position, with an R/P ratio of 7.1 years, is in line with the international players, most of which currently have ratios of between seven to eight years. ConocoPhillips and ExxonMobil have relatively healthy figures above eight years. Norsk Hydro is the only company amongst the peer group with a figure of below six years because of its reliance on domestic production compared to Statoil who has a greater increase in production from its international portfolio.

**Chart 14. Reserves/Production (R/P) Ratios**



\*Source Wood Mackenzie CAT product

## Key Industry Trends in 2005

In this section of the report we reflect on the main trends that were seen in the upstream oil and gas industry during 2005 and the start of 2006. The issues have been grouped under two headings, to reflect those that impacted the industry globally as opposed to others that were more local to the North Sea area.

### Global Themes

The most important theme throughout 2005 which acted as a catalyst to many other global themes was the significant rise in the oil price. The average price of Brent crude in 2005 was US\$54.80/bbl; significantly higher than the average for 2004 which was \$38.22/bbl. Looking back at 2005 we observed a year of shock and adjustment. The shock was caused by the convergence of trends during 2004 which laid the groundwork for a steep price run up during 2005. The price increase partly reflected the belief world oil demand would continue to grow at the record rate seen in 2004 and that non-OPEC supply had peaked. A short term convergence of tight supply and strong demand made peak oil theory credible during 2004 and 2005. Yet, oil demand growth slowed in 2005 and non-OPEC production is recovering, setting up 2006 to see more equilibrium in the market.

Fiscal instability continued to be an important theme throughout 2005 linked with the continuing trend of increasing oil prices. Notable changes have occurred in Latin American countries. Venezuela has replaced marginal field contract terms with new Hydrocarbon Laws and from 2006 the government introduced a 60% PDVSA equity for operating service agreements as well as increasing the royalty rate. In Bolivia, prior to nationalising the interests of the international oil companies, royalty was increased by 32%, while in Ecuador a 60% windfall tax was levied from the start of 2006. The theme of fiscal instability was also evident in the North Sea with the UK's Chancellor announcing a number of changes to oil taxation. Throughout 2005, changes to fiscal regimes have generally resulted in higher government takes.

Access to new exploration opportunities throughout 2005 has become more competitive. Evidence shows that a greater number of companies are bidding for licence opportunities with established international players diversifying into new markets and national oil companies expanding overseas. Smaller E&P companies have greater access to exploration funding through capital markets such as the AIM. The result is likely to lead to an increase in the competition for the most prospective acreage with increased exploration budgets for many companies. The combination of these effects may make the ability to replace reserves a more challenging objective in the future. The continuation of this trend was evident by the enormous bonuses offered for deepwater blocks in Angola's 2005/2006 exploration bid round.

The Gulf of Mexico (GOM) is a region indicative of how higher oil prices are increasing the cost of acreage. More companies in competition with each other are bidding increasingly higher amounts for the acreage on offer. The fear of failing to acquire licences is greater than the fear of over paying. In some parts of the GOM, an increase of up to 20% in the US\$/acre has been paid during 2005 relative to the same areas within the last three years.

Throughout 2005 global rig rates continued the trend of rising costs. With high oil prices and the tight rig availability market, the pressure to drill production wells will over pure exploration wells will continue.

Within the North Sea the development of new large scale investment projects and the increase in enhanced oil recovery projects is putting pressure on the available labour market. The likely outcome is additional cost in order to train a new work force in order to fulfil maintenance contracts.

The value of the asset market throughout 2005 continued to show a strong correlation to the forward long term Brent price. Acquisitions completed at the beginning of 2005 were trading at a level around US\$30/bbl, by the end of the year this cost had increased to around US\$40/bbl. As a consequence of a strong cash flow, generated with oil prices peaking at above US\$70 /bbl, a number of the majors embarked on share buy-back programmes some of which equalled to the global market capitalisation of mid-cap oil companies. Many mid-cap organisations are attractive potential suitors but the relative subdued nature in the asset market suggests that upstream companies are waiting for acquisition prices to weaken before new deals are struck.

Global exploration drilling by the super-majors throughout 2005 generally focused on legacy core areas. However, reserves replacement in the near to mid term will come under increasing pressure. All of the super-majors are tending to focus exploration efforts towards adding reserves through known resources areas. Examples of which are; BP's 50% acquisition of TNK and the companies expansion into the Lower 48, Total's expansion into Qatar gas and heavy oil in Canada and Venezuela, Shell's global LNG and Canadian Heavy oil expansions.

### North Sea Area Themes

Exploration activity was a major theme across the North Sea region throughout 2005. The UK recorded 45 completed exploration wells, the highest level of activity since 1987. In contrast, ten exploration wells were drilled in Norway and only six in The Netherlands. However the commercial success rates in The Netherlands and in Norway were better than had been observed for a number of years. The success rate in the Dutch sector was 67% (40 mmboe discovered) and in the Norwegian continental shelf, five out of the ten exploration wells encountered an estimated 570 mmboe, representing a reserves replacement ratio of around 40%. In the UK less than 160 mmboe were discovered: a replacement ratio of less than 11%.

Licensing activity in Norway remained buoyant. The annual Awards in Predefined Areas in 2005 was the most successful licensing round of mature acreage since the creation of the North Sea Awards in 1999. In the UK 152 licences were awarded to 99 companies, marking the biggest offer since the first round in 1964. In the remainder of the North Sea area licensing activity was at relatively low levels.

The global theme of fiscal changes was also evident in the UK with the Chancellor of the Exchequer announced a 10% increase in the rate of Supplementary Charge to the North Sea oil taxation regime. This change represented the second significant tax increase in the last three years. The increased tax rate may discourage companies from investing in the UK for the longer term, particularly if prices fall to historical levels of below US\$30/barrel. However, given the current high price environment, the rationale for the Government increasing the tax rate is understandable. No other major fiscal changes occurred throughout the rest of the countries in the North Sea.

The level of capital expenditure in Norway (excluding E&A) is estimated to have been Nkr 81.5 billion, around Nkr 14 billion higher than 2004. This was mainly due to continuing activity on new developments such as Ormen Lange, Langeled and Snøhvit. Going forward, capital spending will be dominated by Ormen Lange, Snøhvit, and Ekofisk and by the expansion of the Troll gas field. The overall forecast of expenditure is expected to decline significantly over the next five years with smaller incremental projects becoming more significant. However, given the good exploration performance during 2005 and large undeveloped discoveries such as Viktoria, we would expect this declining trend to slow in the longer term. In the UK, thirteen separate developments received full Government approval during 2005, with associated recoverable reserves of 243 mmboe. Capital cost associated with these developments is estimated at £946 million (Nkr 11 billion). Development activity in the Dutch sector remained buoyant. Estimated capital expenditure in 2005 was €1,320 million (Nkr 10.5 billion). However, most of this is attributed to the ongoing onshore Groningen redevelopment project.

In the current high price environment companies are generally cash rich and have little incentive to sell assets. The lack of commercial assets available has hampered some companies' attempts to build portfolios. The UK was characterised by a relatively small number of high profile deals. An estimated £3.75 billion (Nkr 43.8 billion) of commercial assets changed hands. In Norway, the asset market continued at a subdued level with only 12 deals in the sector with a value estimated at Nkr 3.9 billion. One company that successfully enlarged its portfolio on the Norwegian shelf was Talisman.



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The number of new entrants to the Norwegian shelf increased with the introduction of four new companies. More are expected to be pre-qualified throughout 2006. The rising number of companies is adding to the pressures already present in the skilled labour market. The majority of companies are placing this challenge at the top of their list of concerns in order to progress their organisational goals. The same concerns are present in the UK sector where large onshore construction projects such as the new Wembley stadium, Heathrow airport expansion and the preparations for the London Olympics are absorbing a work force that would have traditionally been employed in the offshore sector. Fulfilling maintenance schedules across the North Sea area will be a priority for most with a migrant work force predominantly from eastern Europe expected to fill the labour gap.

## Methodology and Assumptions

The SDFI portfolio has been valued by Wood Mackenzie based on the methodology outlined below and in accordance with assumptions which are also set out in this section.

### Standard Valuation Methodology

Wood Mackenzie's standard methodology for valuing oil and gas assets is designed to determine the price that would be paid by a willing buyer of assets in an open market transaction.

Since the value of the SDFI portfolio is calculated on a pre-tax basis, the valuation is not intended to reflect the price that could be achieved in the marketplace, as any buyers would be subject to Norwegian upstream taxation. The values we have calculated in this report are simply those which are arrived at using a mechanistic approach based upon field data provided by Petoro and economic assumptions provided by the MPE.

### Commercial Fields, Pipelines and Onshore Assets

The SDFI portfolio contains interests in a number of "commercial fields" – defined by Wood Mackenzie as being those in production, under development or where government consent for the development is likely within the next 2-3 years. It also has an interest in a number of offshore pipelines which transport produced oil and gas to the market and in several onshore industrial projects directly related to its upstream activities.

The principal methodology used by Wood Mackenzie to value the commercial fields, pipelines and onshore projects within the SDFI portfolio has been to construct a cashflow analysis for each field, pipeline and onshore project.

The cashflows have been run on the oil (and gas) price scenario pertaining to the relevant start or end year position and discounted using a 7% discount rate in real terms to derive a net present value ("NPV") for each asset.

### Valuation Price Scenarios

The valuation of the assets has been undertaken on two different oil/NGL/gas price scenarios (as supplied by the MPE):

- ❑ one case, which is that used in the 2005 National Budget submission (autumn 2004) and which is relevant to the valuation of the SDFI portfolio as at 1 January 2005 (start year);
- ❑ a second case, which is that used in the 2006 National Budget submission (autumn 2005) and which is relevant to the valuation of the SDFI portfolio as at 1 January 2006 (end year);

These scenarios are outlined in more detail in Table 3.

### Data Sources

Petoro has provided all the field data and 2005 cash flow items that we have used to form our conclusions on the valuation of the assets included in this report. The data consists of, inter alia, production, sales volumes and cost profiles for individual fields and infrastructure projects.

The information is based on Revised National Budget data 2006 as reported by the operator, but some projects are adjusted by Petoro due to different perceptions. Petoro has also provided access to its personnel to discuss matters arising from our examination of the data.

## Upstream - Key Assumptions

### Oil, NGL and Gas Prices

We have valued Petoro's oil and gas assets in this report using two sets of oil/NGL/gas price assumptions (as supplied by the MPE) which are those used in the 2005 and 2006 National Budget submissions respectively. The key oil price assumptions are set out in the following table:

**Table 3. Oil Price Assumptions in real (2006) Terms**

Scenario	2005 Budget	2006 Budget	% Change
	Oil Price Nkr/bbl	Oil Price Nkr/bbl	
2005	233.2	356.0	53%
2006	212.9	350.0	64%
2007	192.7	310.0	61%
2008	182.5	290.0	59%
2009	182.5	270.0	48%
2010	182.5	260.0	42%
2011	182.5	250.0	37%
2012	182.5	240.0	32%
2013	182.5	230.0	26%
2014*	182.5	220.0	21%

\*Oil prices are flat in real terms thereafter

Differentials to the Brent price (as supplied by Petoro) have been applied to specific fields in order to reflect crude quality/price differences beyond that of the portfolio average.

### Inflation

All the data has been compiled and run in real terms.

### Exchange Rate

All the data has supplied and run in Nkr.

### Discount Date

Future cash flows have been discounted to 1 January 2005 or 1 January 2006 as appropriate.

### Discount/Inflation Rates

The discount rate used for valuing all the assets is 7% per annum in real terms. Inflation rates used to discount costs where applicable to 2005 terms is 1.4%

### Corporate Overheads

A forward estimate of corporate overheads (as provided by the MPE) over and above those applicable to specific assets has been modelled as a separate 'item' within the SDFI portfolio. This comprises three items: Petoro's Budget from the MPE, insurance provisions and costs related to Statoil's marketing of oil and gas.

### Resource Classification

The resource classification attributed to the assets that make up the SDFI portfolio is based on the resource category up to and including RK4F (Resources in the planning phase). Resources in class RK5A (reserves in existing discoveries) are not included in the main valuation section. Resources in categories RK5F and RK7F are described in Appendix 3.