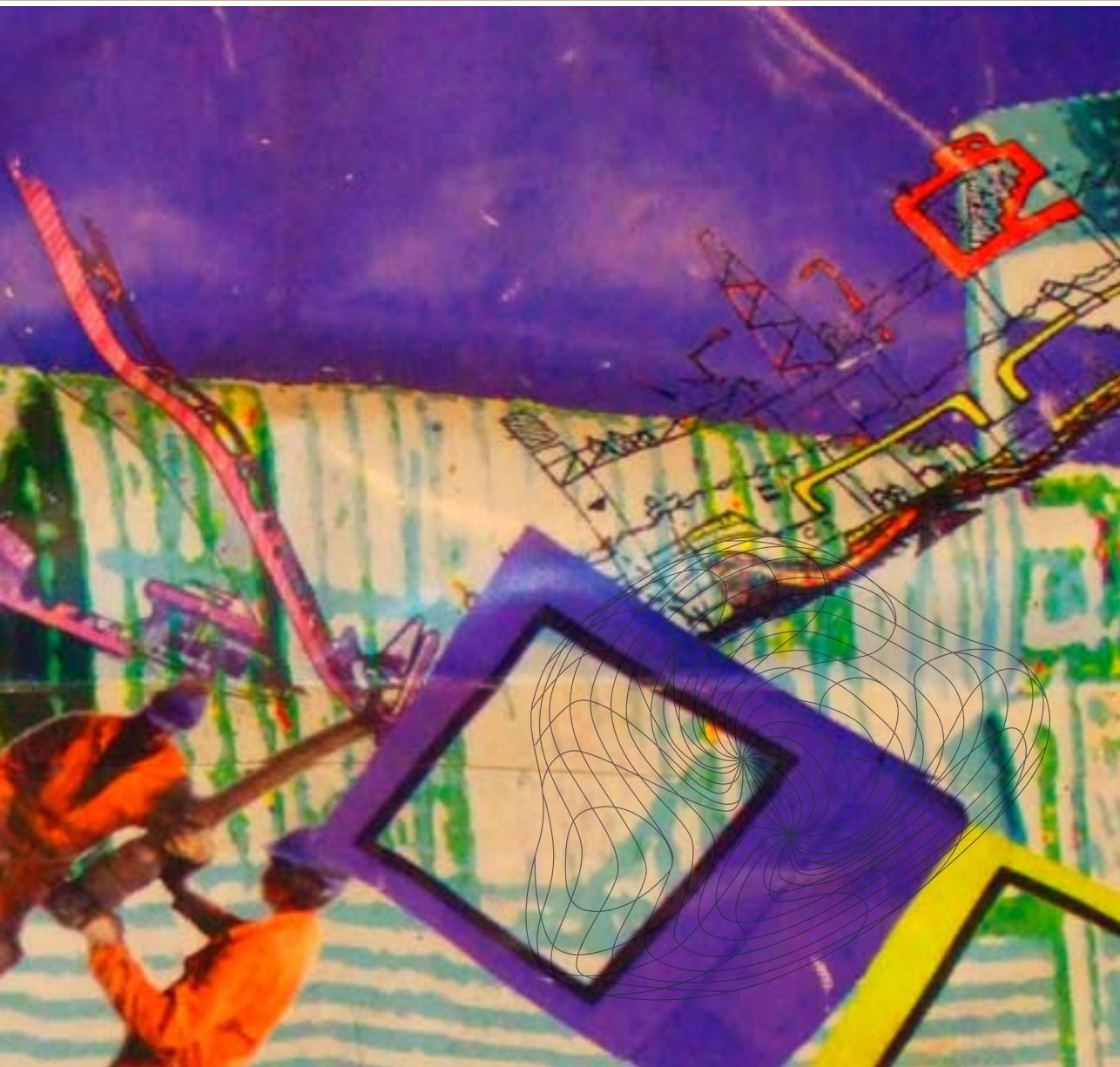


1 The petroleum sector - Norway's largest industry



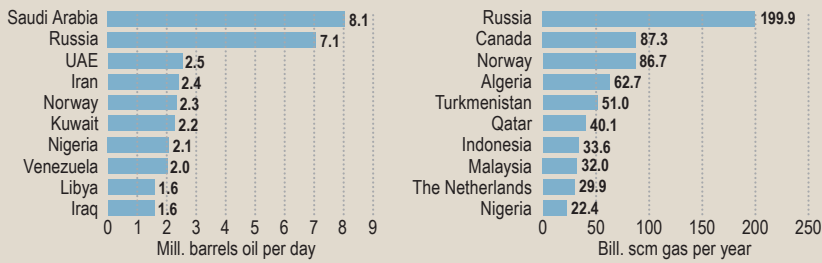


Figure 1.1 The largest oil exporters (oil includes NGL and condensate) and gas exporters in 2007

(Source: KBC Market Services)

In the late 1950s, very few people believed that the Norwegian continental shelf might conceal rich oil and gas deposits. However, the discovery of gas at Groningen in the Netherlands in 1959 caused geologists to revise their thinking on the petroleum potential of the North Sea.

With the Ekofisk discovery in 1969, the Norwegian oil adventure really began. Production from the field started on 15 June 1971, and in the following years a number of major discoveries were made. Today, there are 60 fields in production on the Norwegian continental shelf. In 2008, these fields produced 2.5 million barrels of oil per day (including NGL and condensate) and 99.3 billion standard cubic metres (scm) of gas, for a total production of saleable petroleum of 242.2 million scm oil equivalents (o.e.). In 2007, Norway was ranked as the world's fifth largest oil exporter and the eleventh largest oil producer. In 2007, Norway was the third largest gas exporter in the world. Preliminary indications are that Norway will surpass Canada, becoming the second largest gas producer in the world in 2008.

The significance of the petroleum sector in the Norwegian society

Petroleum activities have contributed significantly to economic growth in Norway and to the financing of the Norwegian welfare state. Through nearly 40 years of operations, the industry has created values in excess of NOK 7000 billion in current terms. In 2008, the petroleum sector accounted for 26 per cent of national value creation. The value created by the petroleum industry is three times higher than in land-based industries and around 23 times the total value creation of the primary industries.

Tax revenues from the production companies and direct ownership (SDFI – the State's Direct Financial Interest), ensure that the State receives much of the values created from the petroleum activities. In 2008, the State's net cash flow from the petroleum sector amounted to approximately 34 per cent of total revenues. After more than 35 years of production, the sector has generated net revenues to the State in the order of NOK 3750 billion in current terms. The State's revenues from petroleum activities are allocated to a separate fund, the Government Pension Fund – Global. By the end of 2008, the value of this fund was NOK 2275 billion.

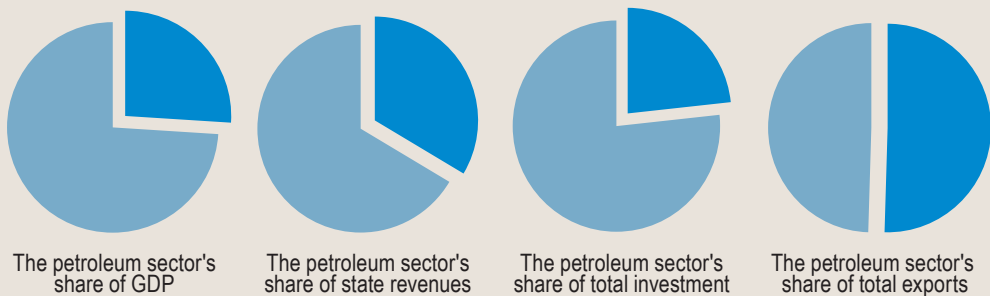


Figure 1.2 Macro-economic indicators for the petroleum sector

(Source: Statistics Norway/The Ministry of Finance)

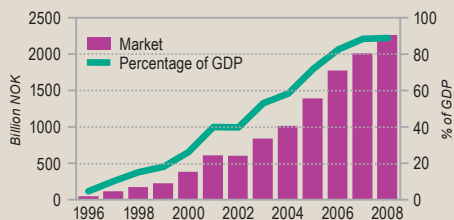


Figure 1.3 Size of the Government Pension Fund - Global - as of 31 December 2008 and as a percentage of GDP
(Source: Statistics Norway/Norges Bank)

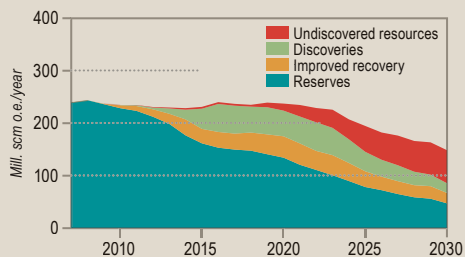


Figure 1.4 Production forecast
(Source: Norwegian Petroleum Directorate/Ministry of Petroleum and Energy)

The petroleum revenues are gradually phased into the economy to cover the structural, oil-corrected deficit in the fiscal budget. The funds are phased in approximately in step with the development in the expected real return on the Fund.

In 2008, crude oil, natural gas and pipeline services accounted for half of the value of Norway's exports. Measured in NOK, the value of petroleum exports was 600 billion in 2008, 15 times higher than the export value of fish.

Since the petroleum industry started its activities on the Norwegian continental shelf, enormous sums have been invested in exploration, field development, transport infrastructure and land facilities; at the end of 2008 more than NOK 2100 billion (current terms) had been invested. Investments in 2008 amounted to approximately NOK 130 billion, or 23 per cent of the country's total real investments.

Future trends

We have produced about 38 per cent of the expected total resources on the Norwegian continental shelf. The remaining resources represent a huge potential value creation for many years to come.

Figure 1.4 shows a production forecast for the Norwegian continental shelf. It is based on the Norwegian Petroleum Directorate's estimate of recoverable petroleum resources and presupposes that the authorities and the industry will implement the necessary measures to recover the remaining volumes.

Petroleum production is expected to remain steady over the next few years. The production of oil and other liquids will fall gradually. Gas export on the other hand is expected to increase and to reach a level between 115 to 140 billion scm within the next decade. From representing approximately 40 per cent of the total Norwegian petroleum production in 2008, the share attributed to gas production will

increase considerably in the future. In the longer term, the number and size of new discoveries will be a critical factor for the production level.

The level of activity on the Norwegian continental shelf has grown considerably in recent years, and the investment level is expected to reach a record high in 2009. Recent developments in the world economy make this year's forecasts subject to more than the usual uncertainty. The robust investment activity in spite of the financial crisis is a result of the fact that 2009 investments are largely driven by decisions that have already been made and contracts that have already been signed. The effects of the negative economic trend are expected to manifest themselves in more force later on.

The oil price is a very important factor as regards the activity level and revenues to the state. The price of oil has increased substantially in recent years, peaking at more than USD 140 per barrel in mid-2008. Since then, deterioration of the world economy has caused demand for oil to dwindle, and thus a sharp drop in prices. At the beginning of 2009, oil sold for slightly more than USD 40 per barrel. When growth in the world economy resumes, there is reason to believe that demand for oil will again start to rise. Future oil price developments will also depend on how much oil the OPEC production cartel pours into the market in the years to come.

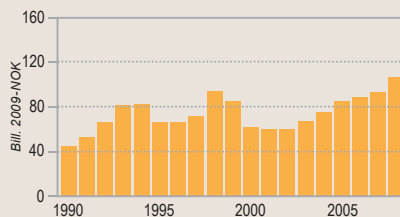


Figure 1.5 Historical investments (excluding investments in exploration)
(Source: Norwegian Petroleum Directorate/Ministry of Petroleum and Energy)