
PROGRESS.
Syntroleum
Syntroleum

OURS IS AN INTERNATIONAL BUSINESS — CONVERTING LOW RISK, PREVIOUSLY DISCOVERED, STRANDED INTERNATIONAL NATURAL GAS INTO CLEAN FUELS FOR SALE IN THE GLOBAL FUELS MARKET.

John B. "Jack" Holmes, Jr., President and COO. (left), Kenneth Agee, Chairman and CEO. (right)

TO OUR STOCKHOLDERS:

The gas-to-liquids (GTL) industry moved closer to commercialization in 2003 as it shifted focus from technology development to project execution. Syntroleum, too, moved forward as we restructured and established new priorities. With clearly defined goals, we set a course that we believe will lead to growth and profitability. As a result to date, we have:

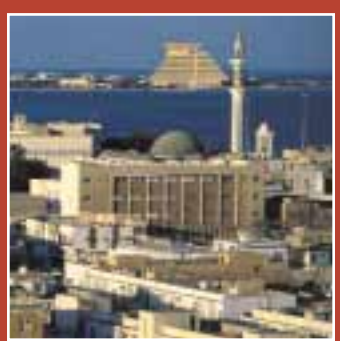
- **Achieved more than a 50% reduction in negative net cash flow;**
- **Built a cash balance to cover two years of operations by monetizing non-core assets, cutting costs and raising over $24 million in equity;**
- **Refocused our GTL strategy, primarily on the GTL Barge, targeting a niche market of stranded gas reserves too small for liquefied natural gas (LNG) or competing GTL technologies; and**
- **Launched an early cash flow initiative to monetize sub-quality gas in the U.S. that we believe can generate recurring revenue in 2004 and beyond.**

2003 also marked the mechanical completion of our $60-million Catoosa clean fuels demonstration facility. This 70-barrel per day plant — which will produce ultra-clean fuels for demonstration in government vehicles — was built with funding from the U.S. Department of Energy and Marathon Oil Company. This is an important milestone for Syntroleum because it represents the last scale-up step prior to building a commercial plant. It will support the design, construction and development of operating procedures for the 90,000 – 120,000 barrel per day GTL plant proposed by Marathon and partners in Qatar, which will use Syntroleum technology under license.

Announcements of large commercial projects in Qatar underscore the accelerating development of the global GTL industry and Syntroleum. Shell, Sasol, Marathon, and ConocoPhillips have all announced plant projects there, totaling approximately 450,000 barrels per day of capacity. Sasol has completed financing for its 34,000-barrel per day plant, which is now under construction and expected to go on stream in early 2006. This industry is no longer speculative. It is happening.

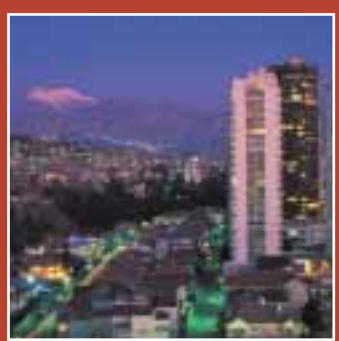
WE ARE ENCOURAGED BY THE MAJOR GTL PROJECT DEVELOPMENTS IN QATAR. IN 2002-2003, IN ADDITION TO QATAR WE ALSO ANNOUNCED OUR INVOLVEMENT IN DEVELOPMENT OF LARGE PROJECTS IN BOLIVIA AND RUSSIA.

مرحبا



Qatar

Holá.



Bolivia

Здравствуйте

Russia

FACTORS CONTRIBUTING TO THE INDUSTRY'S "LIFT-OFF" INCLUDE:

- **Sustained high U.S. natural gas prices that have focused attention on the need to access worldwide natural gas, which has also led to a boom in LNG;**
- **The large resource base of over 2,500 trillion cubic feet of stranded gas reserves, which continues to grow;**
- **Finding, development and production costs for crude oil, which continue to increase while GTL costs come down;**
- **Continued strength in worldwide demand for liquid transportation fuels, which is sustaining high prices; and**
- **Environmental regulations that continue to result in tightened fuel specifications.**

Awareness of these factors is focusing energy-industry attention on GTL as a viable commercial path for monetizing and booking remote gas assets. This bodes well for development of the GTL industry in the years ahead, and for the role Syntroleum intends to play in this development.

As we manage our business in the face of all this, we must look at long term, mid term and short term time horizons. Long-term, we are focusing on large international projects, especially those developed by major oil companies that will use Syntroleum technology under license. Mid-term, we are focused on projects in which we intend to participate as an equity partner and use our GTL Barge concept. Short-term, our focus is on conventional projects that will generate near term cash flow through processing sub-quality natural gas in the U.S. for sale into pipeline systems.

LONG TERM

We are encouraged by major GTL project developments in Qatar, where we are actively supporting our licensee Marathon and their partners in their planned project. Also, in 2002 – 2003 we announced our support and involvement in development of large projects in Bolivia and Russia. These projects target gas reserves in excess of 5 trillion cubic feet, similar to reserve requirements for LNG plants. While these world-scale projects take time to develop and finance, they represent major opportunities for Syntroleum's long-term growth and remain a key component within our overall business strategy.

MID TERM

While these longer-term world-scale projects progress, we plan to concentrate efforts on smaller-scale stranded gas opportunities where Syntroleum's air-blown process has unique advantages. This process, with its relatively small plant footprint, enables a Syntroleum GTL plant to be barge-mounted. The GTL Barge permits targeting smaller reserves of discovered gas in the 1-3+ Tcf range, gas that would not be economic to exploit with other GTL processes or LNG. Also, compared to land-based mega-projects, a GTL Barge project has relatively lower total capital cost — thus providing Syntroleum with opportunities to participate as an equity partner.

2,500 T
CUBIC FEET OF

1 TCF = 100 MILLION BARRELS OF GTL FUELS

RILLION
STRANDED GAS

Catoosa Clean Fuels Demonstration Facility

Central to our strategy is to link our GTL Barge with acquisition of gas reserves to form an integrated field-plant development, with Syntroleum holding ownership in both the plant and the producing field supplying gas to the plant. To move forward requires a GTL Barge design, the resources to finance and build the plant, and an upstream initiative to acquire natural gas reserves.

For the GTL Barge, over the past year Syntroleum engineers evaluated numerous options for cost savings and optimization. These efforts have resulted in numerous patent applications and an effective, low cost, mobile design that can move from location to location. The design calls for building the plant in a shipyard instead of on location, which will better control quality and construction cost. Finished fuel production cost for the GTL Barge are estimated to be around $10.50 per barrel, compared to the three-year industry average cost of $11.50 per barrel for crude oil finding, development and production. Over a 20-year life cycle, one GTL Barge could produce about 140 million barrels of liquid product.

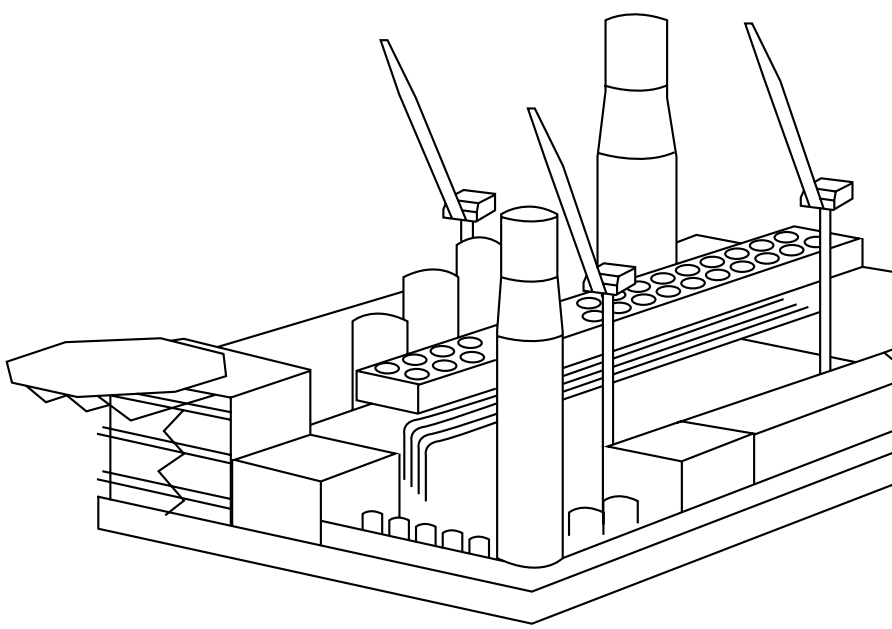
Efforts have begun to secure resources to finance and build the GTL Barge through a recently signed memorandum of understanding with Dragados Industrial S.A. and TI Capital. Dragados is a subsidiary of the ACS group, one of the largest engineering procurement and construction contractors in Europe; and TI Capital is the finance arm of a Middle East based crude oil transportation and marketing company. The parties intend to form a joint venture that would finance, build, own and operate GTL Barges, worldwide.

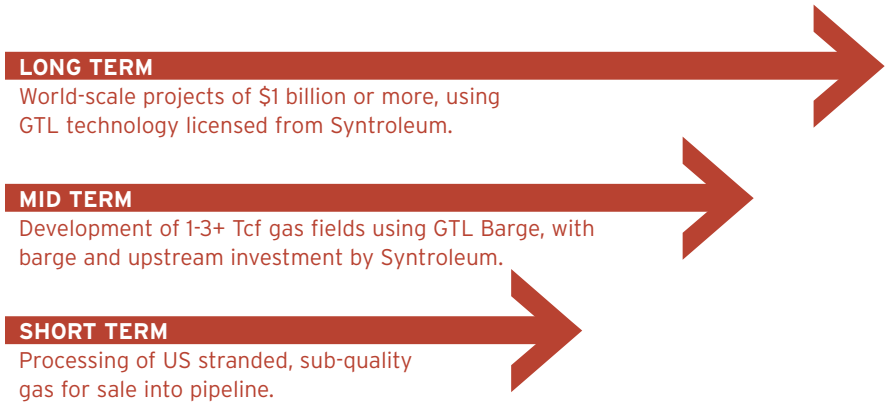
Our initiative to acquire gas targets smaller reserves in the 1-3+ Tcf range. Initial screening of hundreds of such gas fields has identified 40 as good matches for the GTL Barge. Full development of just those 40 fields with GTL Barges could result in 8 billion barrels of liquid product. To acquire these gas reserves requires partnering with an upstream group that has proven experience in regions of the world where 1-3+ Tcf fields are known to exist. We have recently signed an agreement for Sovereign Oil & Gas to work exclusively with Syntroleum to acquire and develop stranded natural gas fields worldwide. Sovereign's principals have a proven record of success in finding, acquiring and bringing partners into exploration and production projects worldwide, with particular focus on West Africa. We are moving aggressively on all fronts to bring the GTL Barge concept to reality — with Syntroleum holding equity in multiple GTL Barges, as well as in the upstream development of the gas fields that will be acquired to supply them.

WE BELIEVE THAT THE GTL BARGE CAN BE USED TO EXPLOIT ALREADY DISCOVERED GAS IN SMALLER FIELDS THAT WOULD OTHERWISE REMAIN UNDEVELOPED.

SIZE OF THE PRIZE

FULL DEVELOPMENT OF JUST 40 FIELDS WITH GTL BARGES COULD RESULT IN 8 BILLION BARRELS OF LIQUID.





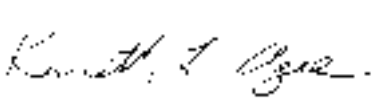
SHORT TERM

In the short term we need to focus on continued cost control along with generating recurring cash flow until both long-term large plants and mid-term GTL Barges can generate meaningful revenues. To meet this requirement, Syntroleum is pursuing more conventional gas development and monetization activities where results could be more immediate. We have identified a number of U.S. sub-quality gas deposits where we can employ our technical strengths in gas gathering and gas processing to upgrade the gas to meet the standards for sales into the domestic pipeline system. A majority of the proceeds from our recent sale of equity are budgeted for investment in these short-term sub-quality gas projects, with the goal of achieving production and cash flow by the third quarter.

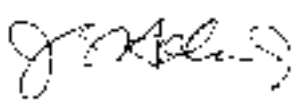
SUMMARY

In summary, the outlook for GTL has never been better and the same can be said for Syntroleum. Ours is an international business — converting low risk, previously discovered, stranded international natural gas into clean fuels for sale in the global fuels market. Long term, we are supporting our licensees who are pursuing major projects that will generate license fees to the company. Medium term we are positioned for success with the GTL Barge, which will allow Syntroleum to participate in integrated GTL projects that include acquisition and development of stranded gas fields. And, short-term, gas-processing projects in the U.S. should generate cash flow to help fund the company.

We are alive and well at the launch of the commercial GTL industry. And we remain confident about your company's future.



Kenneth Agee
Chairman and Chief Executive Officer



Jack Holmes
President and Chief Operating Officer

Kenneth Agee, Chairman and Chief Executive Officer, Syntroleum Corporation
Graduating with a degree in chemical engineering from Oklahoma State University in 1980, Ken Agee spent 15 years working in refining and gas processing operations with Texaco, Cities Service and Transok Pipeline. Interested in alternate ways for monetizing natural gas, he began researching Fischer-Tropsch chemistry in 1983. He founded Syntroleum Corporation in 1984 to devote full time to his research, which led to the numerous patents and development of the Syntroleum Process for converting natural gas into synthetic liquid hydrocarbons. His single-minded dedication has been the driving force that has resulted in Syntroleum's commercially ready process that will help to enable the conversion of the world's large deposits of stranded natural gas into ultra-clean liquid fuel.

John B. "Jack" Holmes, Jr., President and Chief Operating Officer, Syntroleum Corporation
Graduating with a degree in chemical engineering from the University of Mississippi, Jack Holmes spent 33 years working in engineering, operations and executive management with Humble Oil & Refining (now ExxonMobil), Texas International, Zilkha Energy, Sonat and El Paso Energy. He was responsible for discovery and development of the Khalda concession in Egypt and built Khalda Petroleum Company with Egyptian General Petroleum Company. He has broad international experience in all facets of the energy business, including exploration and development of crude oil and natural gas, transportation, refining, LNG and product marketing. Jack joined Syntroleum in 2002 and has been instrumental in leading its commercialization efforts.

BOARD OF DIRECTORS

Kenneth L. Agee
Chief Executive Officer and
Chairman of the Board of Syntroleum

Jack B. Holmes, Jr.
President and Chief Operating Officer
of Syntroleum

Alvin Albe, Jr.
Executive Vice President of the TCW Group, Inc., a financial and business management firm in Los Angeles

Frank M. Bumstead
President of Flood, Bumstead, McCready & McCarthy, Inc., a financial and business management firm in Nashville, Tennessee.

Robert A. Day
Chairman of the Board and Chief Executive Officer of Trust Company of the West, an investment management company, and Chairman and President of M.E. Keck Foundation, a philanthropic organization.

Ziad Ghandour
Founder and Principal of TI Capital, the Los Angeles financing arm of the Middle East-based Falcon Group. The Falcon Group owns and operates tankers transporting crude oil and refined products worldwide.

P. Anthony Jacobs
Retired in 1999, previously President and Chief Executive Officer of Lab Holdings, Inc., a company engaged in the laboratory testing business.

Robert Rosene, Jr.
President of Seminole Energy Services, L.L.C., a natural gas marketing and gathering company in Tulsa, Oklahoma.

James R. Seward
President and Chief Executive Officer of Seward & Company LLC, a financial advisory firm in Prairie Village, Kansas.

J. Edward Sheridan
Founder and President of Sheridan Management Corporation in Washington, DC, a company that provides support services to businesses and industries with global markets for their products and services.

SENIOR OFFICERS

Kenneth L. Agee
Chief Executive Officer and
Chairman of the Board

Jack B. Holmes, Jr.
President and Chief Operating Officer

Jeff Bigger
Senior Vice President and
Chief Technology Officer

Carla S. Covey
Vice President and Controller

Richard L. Edmonson
Vice President, General Counsel
and Corporate Secretary

Kenneth R. Roberts
Senior Vice President, Business Development

Ronald E. Stinebaugh
Vice President of Corporate Finance/Acquisitions

Larry J. Weick
Senior Vice President and
Chief Financial Officer

CORPORATE DATA

Form 10-K
The annual report on form 10-K, as filed with the Securities and Exchange Commission, is available upon written request to Investor Relations.

Shares Traded
Nasdaq Stock Market
(Ticker Symbol "SYNM")

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