

## **Directors' report, SDFI portfolio Third quarter of 2004**

### **SDFI operating income up 19 per cent**

Operating income for the state's direct financial interest (SDFI) on the Norwegian continental shelf came to NOK 21.9 billion in the third quarter of 2004 compared with NOK 16.7 billion for the same period of last year. The corresponding figures for the first nine months were NOK 60.1 billion and NOK 50.5 billion, an increase of 19 per cent. Net cash flow for the first nine months totalled NOK 59 billion compared with NOK 53.5 billion in the same period of 2003. The improvement in results primarily reflected higher oil and gas prices.

However, overall oil and gas production for the first nine months declined by 0.8 per cent from the same period of last year. Output averaged 1.305 million barrels of oil equivalent per day (boe/d) as against 1 315 million in 2003.

Rising gas sales and the build-up of oil production from Grane compensated only partly for the decline in crude output from several mature fields on the NCS. Strikes and production problems on certain fields helped to strengthen the negative effect.

Total production in the third quarter of 2004 averaged 1.161 million boe/d as against 1.262 million for the same period of last year. This primarily reflected lower oil output, maintenance turnarounds and reduced gas offtake by comparison with the same period of 2003.

### **Activities in the third quarter**

A labour dispute involving members of the Federation of Oil Workers' Trade Unions (OFS) caused a loss of oil production. Several fields were hit by this rig strike through delays to planned exploration and drilling programmes. The effect for the SDFI in the third quarter was a shortfall of 400 000 barrels in the planned level of production, corresponding to NOK 110 million in deferred revenue. Although the strike has now been called off, delays in the drilling programme will have a negative effect on production in the fourth quarter and into 2005.

Kvitebjørn began production on 26 September, within budget and four days ahead of schedule. Rich gas and condensate (light oil) output from this field will be piped to Kollsnes and Mongstad respectively. The SDFI has a 30 per cent interest in Kvitebjørn.

At the same time as the field came on stream, a new plant to process its rich gas was brought into operation at Kollsnes. This facility will also handle rich gas from Visund and future developments in the Tampen/Sogn area of the NCS.

A new cost estimate for the Snøhvit development presented in September showed an increase within the cost overrun which the operator had previously warned about. Challenges are still being faced with the progress of this project.

Problems related to drilling in reservoirs with high pressure and temperature (HPHT) have been encountered on Kristin. Most of these have been overcome with good technical solutions. Work in the licence is focused on ensuring that recoverable reserves are as high as possible.

### **Financial results**

Operating revenue for the first nine months totalled NOK 87.8 billion as against NOK 75 billion in the same period of last year. This increase primarily reflects higher oil prices and increased gas sales compared with 2003. Oil and natural gas liquids accounted for 68 per cent of total operating revenue, unchanged from the same period of last year. Gas contributed 25 per cent as against 24 per cent.

Operating expenses amounted to NOK 27.7 billion as against NOK 24.5 billion for the same period of 2003. This difference primarily reflects the purchase of large gas volumes for onward sale and the acquisition of injection gas for Grane. In addition, expenses were boosted by higher transport costs relating to larger gas sales and increased depreciation as a consequence of new investment and the start-up of additional fields such as Grane and Skirne.

(NOK mill)	Third quarter		First nine months		Whole yr
	2004	2003	2004	2003	2003
Operating revenue	31 495	25 842	87 781	74 968	101 699
Total operating expenses	9 556	9 128	27 724	24 505	33 552
Operating income	21 939	16 714	60 057	50 463	68 147
Net financial items	-696	-168	-442	247	-179
Income after financial items	21 244	16 546	59 616	50 710	67 968
Total investment	4 817	4 411	12 865	11 575	15 338
Net cash flow to the government	20 202	16 696	58 951	53 512	69 005
Average oil price (USD/bbl)	40,85	28,29	35,80	28,50	28,76
NOK/USD exchange rate	6,96	7,35	6,90	7,11	7,07
Average oil price (NOK/bbl)	284	208	247	203	203
Oil/NGL production (1 000 b/d)	852	910	892	930	933
Gas production (mill scm/d)	50	56	66	61	65
Total production (1 000 boe/d)	1 161	1 262	1 305	1 315	1 341

Oil and NGL revenues in the first nine months came to NOK 59.7 million from average daily sales of 901 000 barrels. Revenues were NOK 51 billion for the same period of last year. Quantities of oil and NGL sold declined by five per cent from the same period of 2003.

Average realised oil prices in US dollars rose by 25 per cent compared with the first nine months of last year, to USD 35.80 per barrel as against USD 28.50. The oil price in Norwegian kroner averaged NOK 247 per barrel compared with NOK 203 in 2003.

Gas sales developed positively and increased by comparison with last year. Revenues from dry gas totalled NOK 22.3 billion as against NOK 18.3 billion in the same period of 2003. The volume of equity gas production sold in the first nine months came to 18 billion standard cubic metres, or 413 000 boe/d as against 385 000 last year. Gas production increased by eight per cent compared with the same period of 2003.

Investment in the first nine months rose by 11 per cent from the same period of last year to NOK 12.9 billion, primarily as a result of the Snøhvit and Ormen Lange/Langeded developments and the Kårstø expansion project (KEP2005).

Stavanger, November 2004  
The board of directors of Petoro AS