

Second quarter 2005



Substantial revenues – important milestones

Operating income for the State's Direct Financial Interest (SDFI) came to NOK 26.7 billion for the second quarter of 2005 compared with NOK 18.8 billion in the same period of last year. The corresponding figure for the first half-year was NOK 52.4 billion, a 38 per cent increase from January-June 2004. Net cash flow for the first half was NOK 48.8 billion compared with NOK 38.7 billion for the same period of last year. These improvements largely reflect higher oil and gas prices, countered to some extent by reduced production. Important milestones were passed, such as the start to laying the Langeled gas pipeline and the shipment of the Snøhvit gas process plant from Spain to Hammerfest.

Oil and gas production for the second quarter averaged 1.19 million barrels of oil equivalent per day (boe/d), compared with 1.32 million for the same period of last year. The decline is wholly attributable to reduced oil output. Gas sales during the quarter were stable compared with April-June 2004.

Overall oil and gas production for the first six months was eight per cent lower than in the same period of last year, averaging 1.27 million boe/d compared with 1.38 million boe/d in 2004. Oil output declined by 13 per cent, primarily as a result of the gas leak and shortage of gas injection capacity on Snorre, as well as delays with well activities on a number of fields. The general decline in production from several mature fields on the Norwegian continental shelf (NCS) has been offset to some extent by increased volumes from Grane and Kvitebjørn. Gas production during the first half was on a par with the same period of last year. Higher gas sales from Kvitebjørn, Troll and Skirne were offset by lower sales from mature fields in the portfolio. Gas sales for the year as whole are expected to increase from 2004.

Financial results

Operating revenue totalled NOK 36.3 billion for the second quarter as against NOK 27.4 billion in the same period of last year, and NOK 70.9 billion for the first half compared with

NOK 56.3 billion in 2004. Oil and natural gas liquids (NGL) accounted for 63 per cent of total operating revenue, compared with 65 per cent for the first half of last year. The corresponding proportions for gas were 29 and 28 per cent. Remaining revenues derived from participation in pipelines and land-based plants, with Gassled as the largest contributor.

Oil and NGL revenues in the first half came to NOK 45 billion from average daily sales of 843 000 barrels. Revenues in the same period of last year were NOK 36.5 billion. The quantities of oil and NGL sold declined by eight per cent compared with the first half of 2004.

The average realised oil price in Norwegian kroner for the first half was 34 per cent higher than in the same period of last year, at NOK 307 per barrel as against NOK 229. The oil price in US dollars averaged USD 48.91 per barrel compared with USD 33.31 in 2004.

Gas sales were stable in the first half compared with last year. Revenues from dry gas totalled NOK 20.9 billion as against NOK 15.8 billion in the same period of last year. The volume of equity gas production sold during the first half averaged 13.5 billion standard cubic metres per day, or 468 000 boe/d as against 465 000 in 2004.

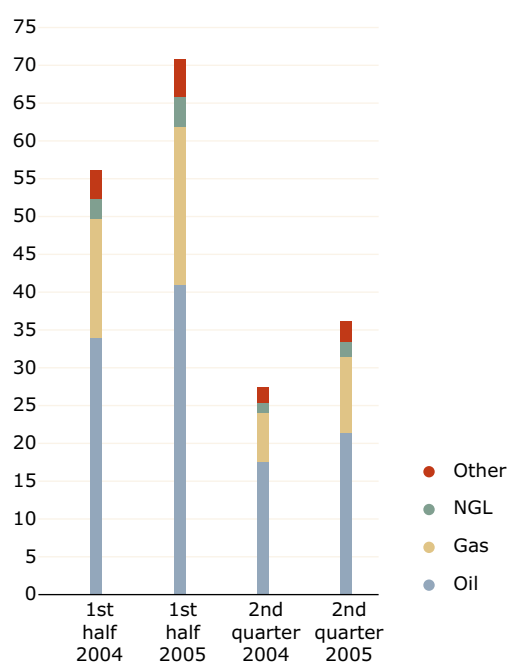
Operating expenses amounted to NOK 18.5 billion for the first half as against NOK 18.2 billion in the same period of last year. This increase reflects higher costs of purchasing gas for onward sale. Revenues from the sale of such purchased gas were correspondingly greater.

Investment in the first half rose by 30 per cent from the same period of last year to NOK 10.5 billion as a result of increased activity in the Ormen Lange/Langed project, development of the Norne satellites and expanded production drilling.

All amounts in NOK mill	Second quarter		First half		Full year
	2005	2004	2005	2004	2004
Operating revenue	36 271	27 355	70 870	56 286	120 807
Total operating expenses	9 540	8 590	18 513	18 168	37 154
Operating income	26 731	18 765	52 357	38 118	83 653
Net financial items	243	134	358	254	(1 310)
Income after financial items	26 974	18 899	52 715	38 372	82 343
Total investment	5 514	4 295	10 493	8 048	17 780
Net cash flow	26 436	19 283	48 763	38 749	81 401
Average oil price (USD/bbl)	51.09	35.18	48.91	33.31	37.57
NOK/USD exchange rate	6.35	6.82	6.27	6.87	6.77
Average oil price (NOK/bbl)	325	240	307	229	254
Oil/NGL production (1 000 b/d)	772	899	798	913	886
Gas production (mill scm/d)	67	67	74	74	70
Total production (1 000 boe/d)	1 193	1 320	1 266	1 378	1 324

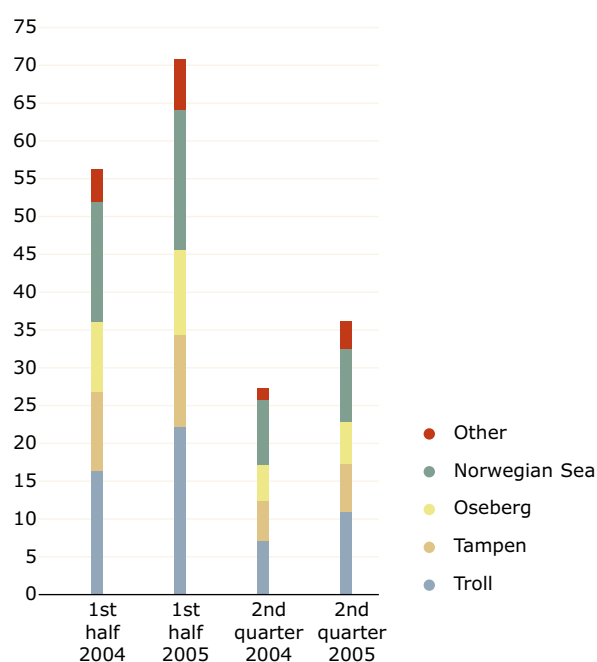
Revenue by product

NOK bn



Revenue by area

NOK bn



Activities in the second quarter

It was decided in late June to submit a plan for development and operation (PDO) of the Oseberg Delta discovery in the Oseberg area of the North Sea. This field will be developed with a subsea installation tied back to the Oseberg centre, and production is scheduled to start on 1 October 2007. The SDFI has about 20 million boe of the field's reserves, and its share of the investment comes to roughly NOK 600 million. In addition, the J structure on Oseberg South came on stream in June. This was rather later than planned owing to the rig strike in the autumn of 2004.



Preparing the Snøhvit process plant for shipment from Spain. Photo: Øyvind Hagen, Statoil.



Towing out the Kristin platform. Photo: Trond Sigvaldsen, Statoil.

Snorre and Vigdis resumed normal production in the second quarter after the gas leak last November. The 2005 estimate for Snorre output has been reduced by about 30 per cent because production was shut down for part of the first quarter as a result of this incident. Output was also constrained by capacity restrictions on gas injection and the shutdown of production wells. This is also expected to have negative consequences for 2006 production.

The Kristin platform was installed on the field in early April. Completing and commissioning this installation and tying back subsea installations have progressed on schedule. While drilling and completion activities have presented substantial challenges, they have so far kept to the updated

timetable. Kristin is a combined gas and condensate field with a daily production capacity of 126 000 barrels of condensate and just over 18 million cubic metres of rich gas. Regular gas deliveries are expected to begin on 1 October 2005. Petoro has an 18.9 per cent holding in Kristin.

An important milestone was passed by the Snøhvit project when the process plant was shipped from southern Spain to Melkøya outside Hammerfest in late June. It was carried on *Blue Marlin*, the world's largest heavy-lift vessel. The plant was built as an integrated unit on a barge with a deck area measuring 154 by 54 metres at the Dragados Offshore yard in Cadiz. Snøhvit will be the first substantial development on the NCS with no installations visible above the sea surface. Twenty wells are being drilled through templates placed on the seabed in 250-345 metres of water. The unprocessed wellstream will be transported to land through a 143-kilometre pipeline. Regular gas deliveries are expected to start on 1 October 2006. Special carriers will ship the liquefied natural gas (LNG) to the USA and southern Europe, the principal markets for gas from Snøhvit.

Laying the 1 200-kilometre Langeled system, which will rank as the world's longest submarine pipeline, began on 22 April. This facility will transport gas from the Ormen Lange field in the Norwegian Sea via the Sleipner Riser platform to the UK. Its capacity of more than 70 million cubic metres per day corresponds to 20 per cent of British gas consumption. The southern leg, from Sleipner Riser to the UK, is due to start delivering gas in the autumn of 2006. This is one year before Ormen Lange comes on stream. Most of the northern leg, from Sleipner Riser to Nyhamna in Aukra local authority on the Norwegian west coast, will be laid in the spring of 2006. That part of the system is due to be ready to transport gas in the autumn of 2007.

Stavanger, July 2005

The board of directors of Petoro AS

