Third quarter 2005

Installing the Ormen Lange templates. Photo:Heine Schølberg/Hydro

Results continue to improve for government's oil and gas portfolio

The State's Direct Financial Interest (SDFI) managed by Petoro has once again produced good quarterly results. Operating profit for the third quarter of 2005 came to NOK 28.3 billion, compared with NOK 21.9 billion in the same period of last year. The corresponding figure for the first nine months was NOK 80.7 billion, a 34 per cent increase from January-September 2004. Net cash flow over the same period was NOK 73.3 billion compared with NOK 59 billion. Several projects important for future production from the Norwegian continental shelf (NCS) were also brought in.

Oil and gas production for the third quarter averaged 1 195 000 barrels of oil equivalent per day (boe/d), an increase of 34 000 boe/d from the same period of last year. This rise is wholly attributable to higher gas sales.

Overall oil and gas production for the first nine months averaged 1 242 000 boe/d compared with 1 305 000 boe/d in 2004. Gas production during the first nine months was up by seven per cent from same period of last year. The increase in gas sales was largely supplied from Kvitebjørn, Troll and Skirne, while sales from mature fields in the portfolio were down. Oil output declined by 11 per cent, primarily as a result of the general decline in production from several mature fields on the NCS. In addition come the effects of delayed well activities on a number of fields. The decline has been reinforced by the loss of production from Snorre. The fall in output was offset to some extent by increased volumes from new fields such as Grane and Kvitebjørn.

Financial results

Operating revenue totalled NOK 36.2 billion for the third quarter as against NOK 31.5 billion in the same period of last year, and NOK 107.1 billion for the first nine months, an increase of 22 per cent from NOK 87.8 billion in 2004. Oil and natural gas liquids accounted for 66 per cent of total operating revenue, compared with 68 per cent for the first nine months of last year. The corresponding proportions for gas were 27 and 25 per cent. Remaining revenues derived from participation in pipelines and land-based plants, with the SDFI's interest in Gassled as the largest contributor.

Oil and NGL revenues in the first nine months came to NOK 70.7 billion from average daily sales of 810 000 barrels. Revenues in the same period of last year were NOK 59.7 billion. The quantities of oil and NGL sold declined by 10 per cent compared with the first nine months of 2004.

The average realised oil price in Norwegian kroner for the first nine months was 35 per cent higher than in the same period of last year, at NOK 333 per barrel as against NOK 247. The oil price in US dollars averaged USD 52.5 per barrel compared with USD 35.8 in 2004.

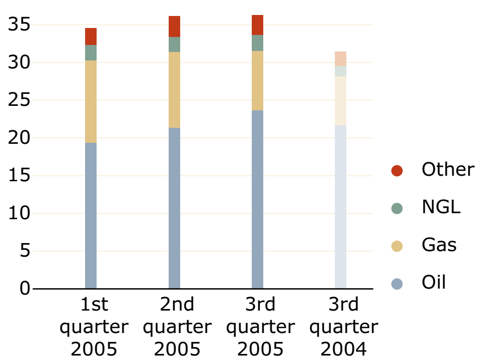
Gas sales for the first nine months rose by seven per cent compared with last year. Revenues from dry gas totalled NOK 28.8 billion as against NOK 22.3 billion in the same period of last year. The volume of equity gas production sold during the first nine months totalled 19.3 billion standard cubic metres, or 444 000 boe/d as against 413 000 in 2004.

Operating expenses amounted to NOK 26.5 billion for the first nine months as against NOK 27.7 billion in the same period of last year. The decline primarily reflects lower depreciation as a result of smaller volumes. This was partly offset by the increased cost of buying injection gas for Grane.

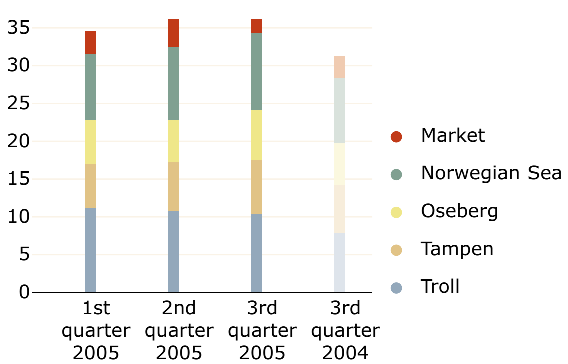
Investment in the first nine months rose by 24 per cent from the same period of last year to NOK 16 billion, primarily as a result of increased activity in the Ormen Lange/Langeled project.

	Third quarter		First nine months		Full year
All amounts in NOK mill	**2005**	**2004**	**2005**	**2004**	**2004**
Operating revenue	36 332	31 495	107 202	87 781	120 807
Total operating expenses	8 018	9 556	26 531	27 724	37 154
Operating income	28 314	21 939	80 671	60 057	83 653
Net financial items	(121)	(696)	237	(442)	(1 310)
Income after financial items	28 194	21 244	80 909	59 616	82 343
Total investment	5 485	4 817	15 978	12 865	17 780
Net cash flow	24 508	20 202	73 271	58 951	81 401
Average oil price (USD/bbl)	60.35	40.85	52.47	35.80	37.57
NOK/USD exchange rate	6.51	6.96	6.35	6.90	6.77
Average oil price (NOK/bbl)	393	284	333	247	254
Oil/NGL production (1 000 b/d)	797	852	797	892	886
Gas production (mill scm/d)	63	50	71	66	70
Total production (1 000 boe/d)	1 195	1 161	1 242	1 305	1 324

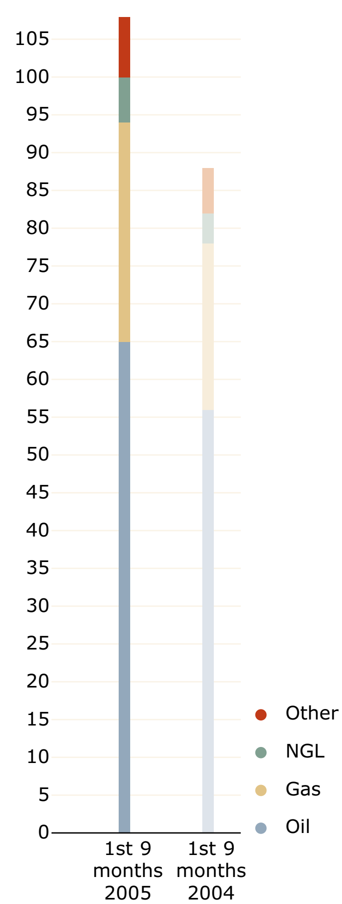
Revenue by product
NOK bn



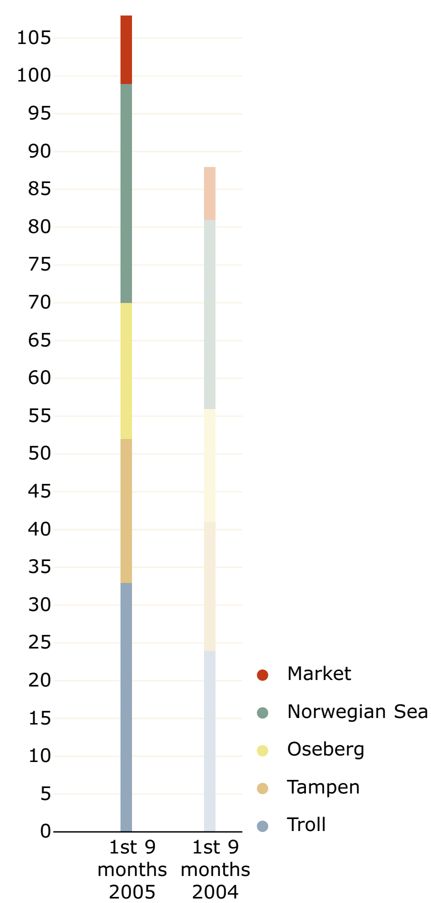
Revenue by area
NOK bn



Revenue by product
NOK bn



Revenue by area
NOK bn



Activities in the third quarter

Promising discoveries were made during the period in both mature areas and more recently-awarded production licences. The oil strikes near Vigdis, Oseberg South and Troll Oil will probably be tied back to existing installations and could in that case come on stream in the near future. Discoveries were also made in Peon (PL318) and Stetind (PL 283), but further appraisal drilling and testing will be needed to determine whether these resources are commercial.

Two subsea templates and a connection unit were installed in 850 metres of water on Ormen Lange in the Norwegian Sea. The heavy-lift ship *Thialf* positioned these facilities on the seabed within a tolerance of +/- one metre.

Progress for the Snøhvit project was reviewed, resulting in a NOK 7 billion increase in the cost framework. The total price tag is now expected to be NOK 58 billion. Gas production is due to start on 1 June 2007, with regular deliveries planned from 1 December of the same year. That is eight months behind the earlier schedule.

Laying of pipelines and umbilicals to tie the seabed installations on Snøhvit with the process plant on land has been completed. This work was done on schedule and to budget. When the *Apache* pipelayer finished installing the two final lines on 24 September, a total of 723 kilometres had been laid between field and land. In addition come infield pipelines and cables linking the various subsea structures.

The Kristin field in the Norwegian Sea is due to come on stream during November, compared with the original planned date of 1 October. This delay has been caused by problems with completing the field installations, and particularly by improvements to lifeboats.

The KEP2005 expansion project at Kårstø north of Stavanger has been completed, increasing processing capacity by 20 per cent to 88 million cubic metres of gas per day in order to handle gas from Kristin. Ranked as one of Norway's largest industrial projects on land, this development was finished on schedule and below budget.

The pre-compression project on Troll A in the North Sea was completed, increasing daily production capacity from 85 to 110 million cubic metres. As the gas in Troll is produced, pressure in the reservoir declines and pressure support is required to boost the gas through the pipelines to the Kollsnes gas processing plant. To maintain production, two compressors have been installed on the platform at a cost of NOK 3.6 billion.

The Visund gas project has been completed on schedule and below budget. Annual gas exports from the North Sea field are expected to total about two billion cubic metres until 2011 and then rise to five billion cubic metres. These volumes will be piped via a tie-in with the Kvitebjørn pipeline to the Kollsnes plant and on to European markets. The project has cost NOK 1.8 billion.

The Q template on Åsgard in the Norwegian Sea came on stream in late August, improving recovery from the field by about 18 million barrels of oil. One production well has been drilled at present, and a further well is due to penetrate the Garn reservoir. The wellstream from the Q template is being sent to the Åsgard A production ship through two parallel pipelines about 13 kilometres long. NOK 1.8 billion has been invested in the first phase of the project.

Stavanger, October 2005
The board of directors of Petoro AS

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