petoro

Second quarter of 2006

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First-half profit NOK 66.9 billion, total SDFI value NOK 875 billion

Income after financial items for the State's Direct Financial Interest (SDFI) in the second quarter of 2006 was NOK 31.4 billion, as against NOK 27 billion for the same period of last year. The corresponding figure for the first half year was NOK 66.9 billion, up NOK 14 billion from the first half of 2005.

Operating income for the second quarter of 2006 was NOK 31.9 billion, compared with NOK 26.7 billion in the same period of last year. Operating income for the first six months was NOK 67.9 billion, up by 30 per cent from the first half of 2005.

An external evaluation presented in the second quarter showed that the value of the SDFI rose by NOK 277 billion from the beginning of 2005 to NOK 875 billion at 1 January 2006. The increase at constant prices was NOK 18 billion.

Net cash flow for the first half was NOK 68.2 billion compared with NOK 48.8 billion in the same period of 2005.

The improved results primarily reflect higher oil and gas prices, offset to some extent by reduced output.

Total production for the first half averaged 1 227 000 barrels of oil equivalent per day (boe/d), a reduction of 39 000 boe/d from the same period of last year. This decrease reflects lower oil output from mature fields.

Gas production for the first six months was 78 million standard cubic metres per day (490 000 boe/d) against 74 mill scm/d (468 000 boe/d) for the same period in 2005. The rise in gas sales was largely supplied from Oseberg, Kvitebjørn and Kristin, partly offset by operational problems at the Kollsnes receiving terminal in the first quarter.

Oil output declined by eight per cent, primarily as a result of the general fall in production from several mature fields on the Norwegian continental shelf (NCS). This reduction was strengthened by the shutdown of Visund for repair work from the gas leak on 19 January until the end of May. The loss of production was offset to some extent by increased volumes from newer fields such as Grane, Kvitebjørn and Kristin, as well as by higher output from Norne.

	Second quarter		**First half**		**Full year**
All amounts in NOK million	**2006**	**2005**	**2006**	**2005**	**2005**
Operating revenue	42 186	36 271	90 409	70 870	152 683
Total operating expenses	10 264	9 540	22 552	18 513	39 614
Operating income	31 922	26 731	67 857	52 357	113 069
Net financial items	(567)	243	(1 004)	358	103
Income after financial items	31 356	26 974	66 854	52 715	113 172
Total investment	6 305	5 514	11 090	10 493	21 343
Net cash flow	31 889	26 436	68 234	48 763	99 175
Average oil price (USD/bbl)	68.22	51.09	64.21	48.91	53.03
NOK/USD exchange rate	6.28	6.35	6.51	6.27	6.48
Average oil price (NOK/bbl)	428	325	418	307	344
Oil/NGL production (1 000 b/d)	708	772	737	798	788
Gas production (mill scm/d)	71	67	78	74	73
Total production (1 000 boe/d)	1 158	1 193	1 227	1 266	1 244

Financial results

Operating revenue totalled NOK 42.2 billion for the second quarter, compared with NOK 36.3 billion in the same period of last year. Corresponding figures for the first half were NOK 90.4 billion and NOK 70.9 billion respectively. Oil and natural gas liquids accounted for 61 per cent of total operating revenue, compared with 63 per cent in the first half of 2005. The proportions for gas were 34 and 29 per cent respectively. 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 six months came to NOK 54.7 billion from average daily sales of 760 000 barrels. Revenues in the same period of last year were NOK 45 billion. The quantities of oil and NGL sold declined by 10 per cent compared with the first half of 2005.

The average realised oil price in Norwegian kroner was 36 per cent higher than in the first half of last year, at NOK 418 per barrel as against NOK 307. The oil price in US dollars averaged USD 64.2 per barrel compared with USD 48.9 in 2005.

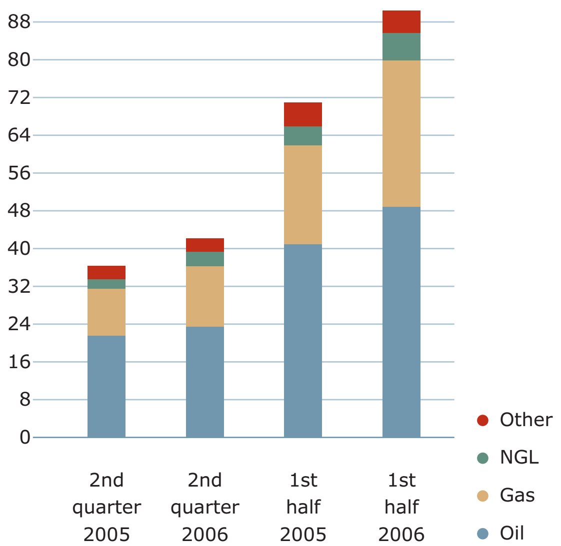
Gas sales for the first six months were up by five per cent from the same period of last year. Revenues from dry gas totalled NOK 31 billion as against NOK 20.9 billion in the same period of 2005. The volume of equity gas production sold during the period was 14.1 billion standard cubic metres, or an average of 490 000 boe/d as against 468 000 in 2005.

Operating expenses amounted to NOK 22.5 billion for the first half as against NOK 18.5 billion in the same period of last year. The increase primarily reflects the increased cost of buying gas for onward sale. Depreciation also rose because of new investment in mature fields. Operating expenses were further boosted by the high cost of injection gas on Grane and the start-up of Kristin and Urd.

Investment in the first six months rose by six per cent from the same period of last year to NOK 11 billion. Higher capital spending includes the effect of an accounting change in the capitalisation of long-term vessel charters for transporting liquefied natural gas from Snøhvit.

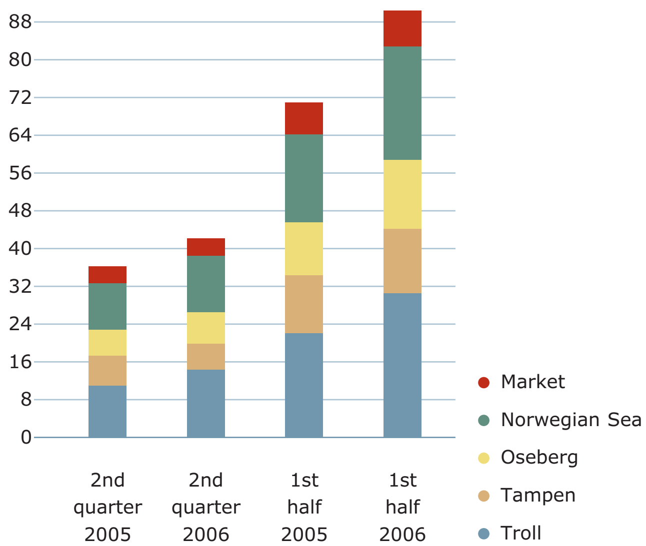
Revenue by product

NOK bn

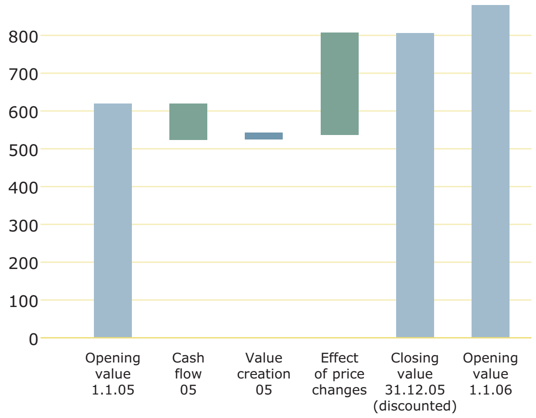


Revenue by business area

NOK bn



Activities in the second quarter



This figure presents the development in the portfolio's value from 1 January 2005. The closing value is shown both discounted to 1 January 2005 for the sake of comparison and at 1 January 2006 (NOK 875 million).

Value of the portfolio: A value of NOK 875 billion was placed on the SDFI at 1 January 2006 in an assessment carried out by Wood Mackenzie for the Ministry of Petroleum and Energy. This figure represents an increase of NOK 277 billion since the beginning of 2005. The report says that NOK 259 billion of the rise reflects higher price assumptions, while the remaining NOK 18 billion is attributed to such factors as improved production profiles, upgraded reserve estimates and reduced costs. Troll, Draugen, Åsgard and Gullfaks contributed the biggest value increases during 2005. This year's valuation is the latest in a series of positive assessments. The portfolio's value has risen by about NOK 75 billion in constant prices over the past four years.

The Visund platform was shut down on 19 January after a leak in the flare piping. Work to bring this installation back on stream was well executed, and production resumed on 29 May. The maintenance turnaround planned for the second half of 2006 has been cancelled since part of the work was carried out during the shut-down, and some of the lost production is therefore likely to be recouped.

Two small discoveries close to Gullfaks in the North Sea mean that additional volumes of oil and gas can be tied back to this field. The operator estimates that the discoveries contain a total of 15 million barrels of recoverable oil equivalent. Although the volumes concerned are relatively small, their development will represent good economics. Petoro manages 30 per cent of this licence.

An appraisal well on the Valemon discovery was drilled from the Kvitebjørn platform as an extension to a production well for the latter field. Proving gas and condensate, this well confirmed that Valemon is a possible candidate for future development. Field development studies are under way, but it is too early to say anything about whether the discovery can be developed. Petoro manages a 30 per cent interest.

Carbon injection: The report submitted to the Ministry of Petroleum and Energy in June described value chains for early injection of carbon dioxide in six fields on the NCS. In this context, Petoro's role was to identify the candidate fields. The report is being considered by the authorities.

Reserves in Åsgard were downgraded during the second quarter by redefining about 200 million barrels of oil from "reserves" (resource class 3) to "resources" (resource class 4). This followed a reassessment of the length of tail production on the field. The joint venture's ambition is to return this volume to resource class 3 through new solutions for tail production.

Stavanger, July 2006
The board of directors of Petoro AS

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