



**NOK 53 700 000 000**

# NOK 57 billion from SDFI to government in first half

Income after financial items was NOK 53.7 billion for the State's Direct Financial Interest (SDFI) in the first half of 2007, with a net cash flow of NOK 57.4 billion. Comparable figures for the same period of last year were NOK 66.9 billion and NOK 68.2 billion respectively. The decline reflects lower prices and a two per cent fall in oil production. Income after financial items for the second quarter of 2007 was NOK 25.6 billion, compared with NOK 31.4 billion in the same period of last year.

Operating income was NOK 26 billion for the second quarter, compared with NOK 31.9 billion in the same period of 2006, and NOK 54.6 billion as against NOK 67.9 billion for the first six months.

Total production for the first half averaged 1 206 000 barrels of oil equivalent per day (boe/d), a reduction of 21 000 boe/d from the same period of last year. Gas output rose by eight per cent from the first half of 2006. The increase in gas sales derived largely from Troll. Oil production fell by eight per cent, largely because of a shutdown on Kvitebjørn and the general decline in output from a number of mature fields on the Norwegian continental shelf (NCS).

## Financial results

Operating revenue totalled NOK 79.1 billion for the first half, a reduction of 13 per cent from NOK 90.4 billion in the same period of last year. Oil and natural gas liquids accounted for 59 per cent of total operating revenue, compared with 60 per cent in the first half of 2006. The proportion for gas was 35 per cent, up by one percentage point from the first six months of last year. 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 half came to NOK 46.6 billion from average daily sales of 688 000 barrels. Revenues in the same period of last year were NOK 54.7 billion. The quantities of oil and NGL sold declined by nine per cent compared with the first half of 2006.

The average realised oil price in Norwegian kroner was nine per cent lower than in the first six months of last year, at NOK 382 per barrel as against NOK 418. The average oil price in US dollars declined by three per cent.

Gas sales for the first half were up by eight per cent from the same period of last year. Revenues from dry gas totalled NOK 27.4 billion as against NOK 31 billion in the same period of 2006. This reduction reflected lower gas prices. The volume of equity gas production sold during the first half was 15.3 billion standard cubic metres (scm), or an average of 531 000 boe/d as against 491 000 in 2006.

Operating expenses amounted to NOK 24.5 billion for the first half as against NOK 22.6 billion in the same period of last year. This

## FIRST HALF YEAR

(All amounts in NOK mill)	Second quarter		First half year		Full year
	2007	2006	2007	2006	2006
Operating revenue	37 292	42 186	79 100	90 409	174 979
Total operating expenses	11 259	10 264	24 534	22 552	45 146
Operating income	26 033	31 922	54 566	67 857	129 833
Net financial items	(466)	(567)	(899)	(1 004)	(1 365)
Income after financial items	25 567	31 356	53 667	66 854	128 467
Total investment	4 813	6 305	9 367	11 090	22 022
Net cash flow to the state	27 960	31 889	57 423	68 234	126 213
Average oil price (USD/bbl)	68.32	68.22	62.27	64.21	64.50
NOK/USD exchange rate	6.03	6.28	6.13	6.51	6.38
Average oil price (NOK/bbl)	412	428	382	418	412
Oil/NGL production (1 000 b/d)	648	708	675	737	723
Gas production (mill scm/d)	82	71	84	78	75
Total production (1 000 boe/d)	1 164	1 158	1 206	1 227	1 198



increase primarily reflects increased depreciation. Higher operating costs for fields and plants also contributed to the rise.

Investment in the first half declined by 15 per cent from the same period of last year to NOK 9.4 billion. Lower spending in the final phase of the Ormen Lange/Langede and Snøhvit developments was an important factor, partly offset by increased investment in new projects such as Gjøa/Vega.

### ACTIVITIES IN THE SECOND QUARTER Gjøa/Vega and Rev ready for development

Plans for development and operation (PDOs) of Gjøa/Vega and Rev were approved during the second quarter. Gjøa, Vega and Vega South will make an important contribution to overall production and activity on the

NCS, and to development in an area which currently lacks infrastructure. Petoro manages interests of 30 per cent in Gjøa and 40 per cent in Vega. The former is a gas field with a thin oil zone, whilst Vega/Vega South are gas and condensate reservoirs. These fields lie north of Troll in the North Sea. Recoverable volumes for Gjøa are put at roughly 40 billion scm of rich gas and just over 81 million barrels (13 million scm) of oil and condensate. Corresponding figures for Vega/Vega South are 18 billion scm and 25 million barrels (four million scm) of condensate.

Rev is a small field in block 15/12, and its gas and condensate will be piped to Britain's Armada field. Licensees in Rev are Talisman Energy Norge AS and Petoro, with 70 and 30 per cent respectively. Operator Talisman has presented the PDO.

### New production licence near Snøhvit

Through an additional allocation after the latest awards in predefined areas (APA), Petoro has received an SDFI interest of 30 per cent to manage in production licence 448 close to Snøhvit.

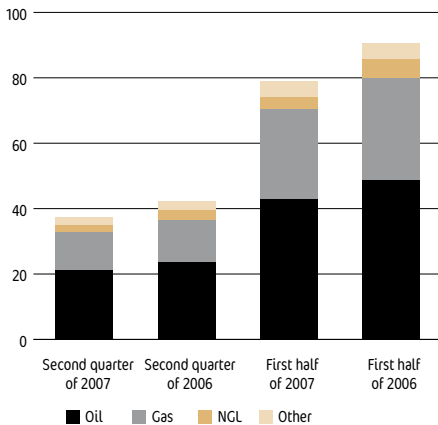
### Integrated operation

A report from the Norwegian Oil Industry Association (OLF) in 2005 identified a potential gain of NOK 250 billion from more effective use of information technology and changed work processes on the NCS – known as e-operation or integrated operation. Petoro has recently carried out a new comparison of the ability of operators to realise this potential.

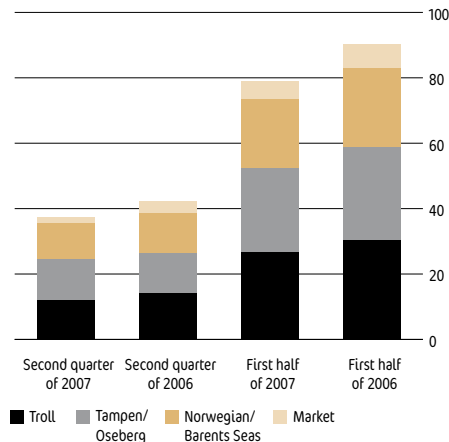
This investigation aims to encourage faster implementation of integrated operation

## INCOME

Revenue by product  
(NOK bn)



Revenue by business area  
(NOK bn)



by enhancing its visibility and sharing best practice between operators. It shows that a broad range of activities related to integrated operation have been initiated and significant strides made since the previous study in 2004. Operators are already creating substantial value from the changed way of working through increased revenues and reduced costs.

Statoil and Hydro occupy a dominant position on the NCS. It is therefore gratifying that these companies are now among the leaders in securing the benefits of integrated operation. Petoro nevertheless takes the view that many activities are still in the initial phase, and that a big potential for improvement continues to exist. Operators must accordingly keep up the pressure to realise gains and ensure lasting changes.

### **Kvitebjørn**

Production from the field has been reduced since December 2006 to ensure acceptable drilling of the remaining wells. Because of the complexity of these operations and for safety reasons, the field was shut down on 1 May. It is expected to resume production during the year.

### **Ormen Lange/Langeled**

The first development phase is approaching completion, and is expected to come on stream as planned in the autumn of 2007. The operator has notified the joint venture that a substantial cost increase must be expected in phase II. According to the operator, this primarily reflects the heavy pressure on costs and competition over resources being experienced in today's market.

### **New rig capacity**

A number of rig charters were awarded in late 2006 and the first half of 2007 in licences where Petoro has interests. Through these contracts, the company is involved in securing rig capacity for improved recovery while helping to renew the fleet of such units on the NCS. Charters have been placed for four newbuildings – two with Awilco for Troll, one with Aker Drilling for the Norwegian Sea, and one with Odfjell on Gullfaks. In addition, the Ormen Lange licence has extended the charter with Seadrill for the *West Navigator* drill ship.

### **Strengthening Petoro**

In connection with the revised national planning budget, the government resolved to remove the ceiling on Petoro's workforce. The reason given was that specifying a maximum number of own employees is not normal practice for state-owned companies. Staffing is usually regulated through the company's budget and through in-house priorities set within the specified budgetary framework. The Ministry of Petroleum and Energy took the view that the same should apply to Petoro, and that the company could have greater flexibility with regard, for instance, to the relationship between employing personnel or buying external services. Petoro is accordingly no longer capped at 60 employees, but its workforce must be financed within the applicable budget framework.

The effect of the merger between Statoil and Hydro's petroleum business on Petoro's management of the SDFI portfolio was touched on in Recommendation no 243 to the Storting (parliament) from its standing committee on energy and the environment concerning Proposition no 60 (2006-2007) to the Storting on the merger. Where issues are central for the SDFI and where the other companies have different interests from Petoro or choose not to allocate resources, the recommendation indicates that – after the merger – Petoro must consider to a greater extent whether to carry out independent analyses, establish alternative proposals, quality-assure the operator's work and carry out its own studies on selected strategic questions. One consequence of this involves a strengthening of Petoro.

### **Changes to the Petoro board**

Gunnar Berge was elected as the new chair of Petoro AS by the general meeting of 26 June 2007. He resigned as director-general of the Norwegian Petroleum Directorate on the same day. Mr Berge succeeded Bente Rathe, who resigned from the board after serving as its chair since 2002 and a director since the company was created in 2001. Per Arvid Schøyen and Mari Thjomøe were elected as new directors of Petoro AS. In addition to the above-mentioned directors, the board comprises Hilde Myrberg as new deputy chair and Nils-Henrik M von der Fehr. The worker directors are Britt Bjelland and Ove Skretting.

*Stavanger, July 2007*

*The board of directors of Petoro AS*

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