petoro

SDFI SECOND QUARTER OF 2013

LOWER PRICES AND REDUCED GAS PRODUCTION

Income after financial items for the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf (NCS) totalled NOK 66.3 billion in the first half of 2013. Net cash flow to the government was NOK 67.8 billion, down by NOK 16.7 billion from the same period of last year. The decline from 2012 largely reflects lower oil and gas prices compared with 2012 as well as some reduction in gas sales owing to operational difficulties. The positive trend for health, safety and the environment (HSE) was maintained.

Operating income for the second quarter came to NOK 29.4 billion, compared with NOK 38.3 billion in the same period of 2012. Net cash flow was NOK 30.5 billion, a decline of 27 per cent from the second quarter of last year.

Total oil and gas production for the second quarter averaged 995 000 barrels of oil equivalent per day (boe/d), compared with 1 004 000 for the same period of 2012. Both gas and liquid output in the second quarter were on a par with the corresponding period of last year.

FINANCIAL RESULTS

Operating revenue totalled NOK 97.3 billion for the first half, compared with NOK 110.2 billion in the same period of 2012. Income from oil sales declined by nine per cent from the first half of last year as a result of reduced prices and production. The average oil price for the first half was NOK 622 per barrel, compared with NOK 672 in 2012 – a seven per cent decline. Lower oil prices in the first half of 2013 reflected a weaker market balance, with reduced demand in a number of countries owing to economic challenges and a strengthening of the supply side.

	SECOND QUARTER		FIRST HALF		FULL YEAR
(NOK mill)	**2013**	2012	**2013**	2012	2012
Operating revenue	**45 734**	51 540	**97 354**	110 248	213 885
Total operating expenses	**16 323**	13 271	**31 786**	27 904	61 167
Operating income	**29 411**	38 270	**65 568**	82 344	152 717
Net financial items	**717**	166	**747**	(862)	(2 731)
Income after financial items	**30 127**	38 436	**66 314**	81 482	149 986
Total investment	**9 018**	6 984	**15 958**	13 126	26 399
Net cash flow	**30 482**	41 625	**67 778**	84 496	146 930
Average oil price (USD/bbl)	**103.40**	110.32	**108.94**	115.98	113.27
NOK/USD exchange rate	**5.83**	5.80	**5.71**	5.79	5.80
Average oil price (NOK/bbl)	**603**	639	**622**	672	657
Average gas price (NOK/scm)	**2.28**	2.52	**2.28**	2.37	2.35
Oil/NGL production (1 000 b/d)	**428**	430	**420**	444	430
Gas production (mill scm/d)	**90**	91	**101**	114	112
Total production (1 000 boe/d)	**995**	1 004	**1 058**	1 161	1 132

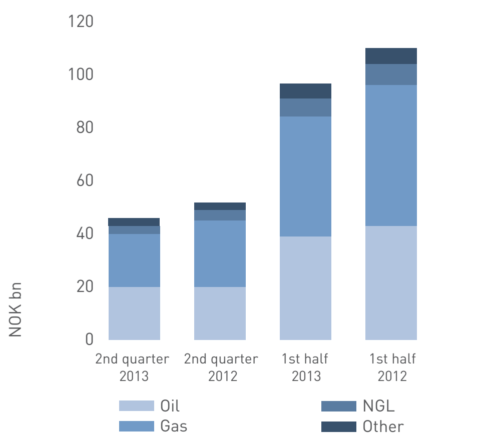
The partners in Oseberg (above) and Gullfaks decided during the second quarter to acquire Category J rigs to drill more production wells and thereby contribute to improved recovery from the fields. (Photo: Øyvind Hagen, Statoil)

Income from gas sales declined by 15 per cent in the first half compared with the same period of 2012 because of lower prices and volumes. Gas revenue for the first half totalled NOK 45.4 billion, compared with NOK 53.3 billion in the same period of last year. The volume of equity gas production sold during the first half was 18.35 billion standard cubic metres (scm) or 638 000 boe/d, compared with 717 000 boe/d in the corresponding period of 2012. Average gas prices were down by NOK 0.09 per scm from last year.

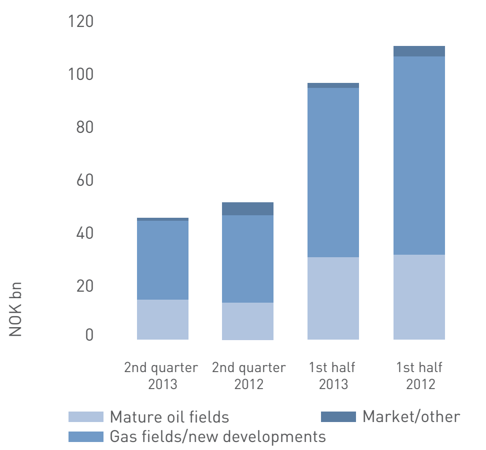
Operating expenses totalled NOK 31.8 billion, compared with NOK 27.9 billion for the second quarter of 2012. This 14 per cent rise reflected the greater cost of buying gas for onward sale, increased transport costs and higher expenses for operating fields and plants. The rise was countered by lower depreciation. Higher costs for operating fields and plants primarily reflected cost accruals and expenses related to a redetermination with consequent redistribution of volumes on Heidrun. As a result of this redetermination process, the SDFI received a larger proportion of produced petroleum and a correspondingly increased share of operating expenses during the period.

Total investment in the first half rose by 22 per cent from the same period of last year to NOK 16 billion. The principal reason was a higher level of development activity. The biggest increases occurred in the Stjerne, Gullfaks South/Statfjord IOR, Draugen and Norne gas export projects.

REVENUE BY PRODUCT



REVENUE BY BUSINESS AREA



ACTIVITIES IN THE SECOND QUARTER

HSE
The board is very satisfied with the positive trend for health, safety and the environment

OWNED RIGS FOR GULLFAKS AND OSEBERG
Petoro has long been a prime mover in pressing for licences with a long-term need for production drilling to be able to own rigs directly as an alternative to chartering them. The aim is to help increase capacity and predictability while reducing drilling costs, which would in turn make it profitable to drill more wells.

The board is accordingly very satisfied that the Gullfaks and Oseberg licensees have acquired two new Category J jack-up rigs. Owned by the licences, these will contribute to improved recovery from and an extended producing life for these fields. The contracts will secure necessary rig capacity at lower cost, which enhances financial robustness, provides additional profitable wells and thereby contributes positively to Petoro's commitment to improving recovery from mature fields.

PETORO'S POSITION STRENGTHENED IN THE FAR NORTH
Through awards in the 22nd licensing round, Petoro has become a licensee in eight new licences in the Barents Sea. This strengthens its position in these waters, and increases its long-term opportunities to exercise a positive influence in ensuring a coherent development of this new core area on the NCS.

When considering the development of Johan Castberg, the licence has resolved to postpone the project in order to assess the effect of cost increases, slightly amended volume estimates and the latest changes to petroleum tax. Petoro believes that a bigger commitment is needed to ensure that the final choice remains an offshore development concept with landing of oil which provides a robust and flexible area solution for the discoveries while simultaneously providing the basis for developing other parts of the Barents Sea.

On the operational side, the challenges faced at the Melkøya gas liquefaction facility continued during the second quarter.

SNORRE DECISION POSTPONED
A decision on the further development of the Snorre field has been postponed until the early autumn. The purpose is to make this project more financially robust.

Stavanger, July 2013
The board of directors of Petoro AS

The *Aker Barents* drilling rig in the Barents Sea. (Photo: Harald Pettersen, Statoil)

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