petoro

SDFI

SECOND QUARTER OF 2010

GAS PRODUCTION UP FOR THE SDFI PORTFOLIO

Income after financial items from the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf (NCS) for the first half of 2010 totalled NOK 53.4 billion. Net cash flow to the government was NOK 56 billion, on a par with the same period of 2009. Overall gas prices have declined substantially compared with last year, but improved towards the end of the first half. A possible strengthening in the market balance, combined with higher gas output from the SDFI portfolio, provides the basis for a more optimistic view of revenues from this commodity over the full year.

Operating income for the second quarter came to NOK 24.8 billion, compared with NOK 24.4 billion in the same period of 2009. Net cash flow for the quarter was NOK 25.9 billion, up by NOK 2.1 billion from the corresponding period of last year.

Total oil and gas production for the second quarter averaged 1 060 thousand barrels of oil equivalent per day (kboe/d), compared with 1 004 for the same period of 2009. Gas production was 25 per cent higher than in the second quarter of last year because of increased offtake under long-term sales contracts. Output of oil and natural gas liquids (NGL) fell by 12 per cent, primarily reflecting the general decline in production from mature fields in the SDFI portfolio, such as Heidrun and Draugen. Reduced rig capacity on Troll also meant a substantial decline in oil output compared with the same quarter of 2009. This was partly offset by increased output from Kvitebjørn after the production problems experienced there last year.

FINANCIAL RESULTS

Operating revenue totalled NOK 78.3 billion for the first half, compared with NOK 83.7 billion in the same period of 2009. Income from oil sales increased by 15 per cent from the first half of last year, reflecting higher prices. The average oil price in Norwegian kroner for the first half was 37 per cent higher than in 2009, at NOK 465 per barrel compared with NOK 340.

Revenues from equity gas sales for the first half were down 27 per cent compared with the same period of 2009, primarily because

SECOND QUARTER

	SECOND QUARTER		FIRST HALF		FULL YEAR
All amounts in NOK million	**2010**	**2009**	**2010**	**2009**	**2009**
Operating revenue	36 872	37 522	78 344	83 660	154 186
Total operating expenses	12 024	13 083	24 557	26 621	50 222
Operating income	24 848	24 439	53 787	57 039	103 964
Net financial items	132	(575)	(372)	(1 929)	(3 312)
Income after financial items	24 980	23 865	53 415	55 110	100 652
Total investment	5 398	6 415	9 894	12 087	22 179
Net cash flow	25 936	23 876	56 038	57 106	96 992
Average oil price (USD/bbl)	78.53	57.68	77.58	50.48	60.53
NOK/USD exchange rate	6.13	6.52	5.99	6.73	6.28
Average oil price (NOK/bbl)	481	376	465	340	380
Oil/NGL production (1 000 b/d)	466	529	498	573	537
Gas production (mill scm/d)	95	75	107	92	85
Total production (1 000 boe/d)	1 060	1 004	1 169	1 149	1 074

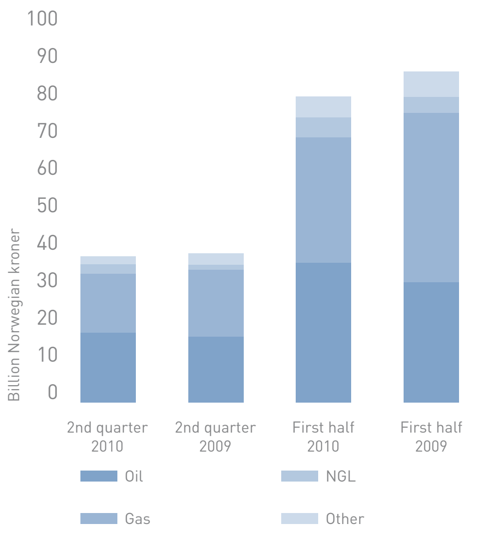
European buyers took out more gas under their long-term contracts with Norway during the second quarter, contributing to a 25 per cent increase in production compared with the same period of last year. The Europipe receiving terminal at Dornum (above) is one of the gateways for these sales.

of reduced prices. Gas revenues in January-June totalled NOK 32.3 billion, compared with NOK 44.2 billion in the same period of last year. The volume of equity gas production sold during the first half was 19.3 billion standard cubic metres (scm) or 671 kboe/d, an increase of 17 per cent from 575 kboe/d in the corresponding period of 2009. Gas prices showed an improvement towards the end of the first half. Combined with the rise in production, this could herald higher gas revenues for 2010 as a whole.

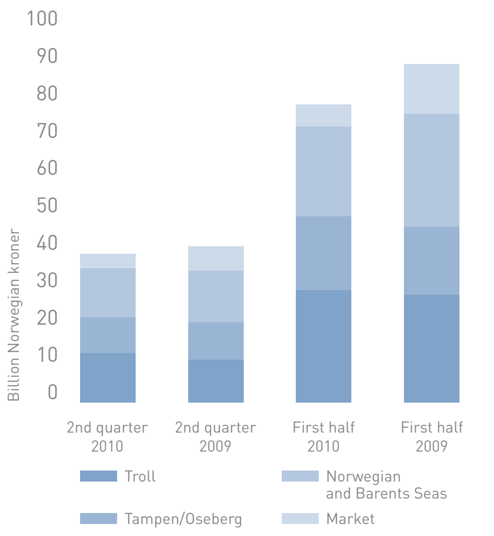
Operating expenses totalled NOK 24.6 billion, compared with NOK 26.6 billion in the first half of 2009. A change in the accounting principle for SDFI participation in Statoil Natural Gas LLC (SNG) in the USA to net recording of the share of any profit/loss was the most important reason for this reduction. In addition, exploration expenses were almost halved in the first six months compared with the same period of 2009, when 14 exploration wells were completed as against seven during January-June this year. Operating costs for fields and plants were on a par with the first half of 2009. The same applied to costs for basic operation and maintenance.

Total investment in the first half fell by roughly 18 per cent from the same period of last year to NOK 9.9 billion. Reduced development spending accounted for the whole decline. Lower spending in the final phase on Gjøa and further development of Ormen Lange accounted for the biggest reductions in the level of capital spending compared with 2009.

REVENUE BY PRODUCT



REVENUE BY BUSINESS AREA



Melvear&Lien The Idea Entrepreneur. Photo: Anne Lise Norheim, small photos in collage: Statoil, photo page 3: Hans Peter Heikens / Statoil

PETORO'S NEW STRATEGY ADOPTED IN THE SECOND QUARTER OF 2010

The board adopted a new strategy for Petoro during the second quarter, with attention focused on issues of great commercial value and where the company has the biggest opportunity to exert influence.

This strategy is in three parts.

REALISE THE POTENTIAL IN AND CLOSE TO LARGE MATURE FIELDS

The big fields in the SDFI portfolio have a substantial remaining reserve potential, but realising this will be demanding. These large fields are operated by Statoil, with the major international companies and Petoro as partners. The issues facing the mature regions are of such scope and complexity that developing and exchanging views on different solutions will be essential. The limited extent to which partners conduct their own studies to establish alternatives to the operator's proposals is a challenge. That makes Petoro's partner role very important and strengthens the need for a commitment by the company.

Petoro's efforts to realise the potential in and close to large fields will be focused on extending the producing life of priority installations through technological choices, effective drainage methods and an increase in the number of production wells completed each year. This work will help to achieve a change in the way fields are operated. The company will also work for integrated area solutions by giving priority to selected installations as field centres and ensuring that discoveries are phased in at the right time.

The best opportunity for Petoro to exert its influence is early in decision-making processes where the company – either alone or in collaboration with other partners – has done its own work as the basis for its independent views and positions.

INTEGRATED AND TIMELY DEVELOPMENT OF THE GAS VALUE CHAIN

Changes to the energy market in general and the gas market in particular make it challenging to realise the value creation potential for this commodity. Activities related to facilitating sufficient flexibility in the gas value chain are accordingly expected to become more extensive and to represent an important area for Petoro's work in the time to come.

The company's role in infrastructure development as the largest partner in Gassled occupies a key place and will become more demanding. Expected production developments and the technical integrity of plants call for significant decisions related to Gassled's processing facilities over the next five years.

SEEK COMMERCIAL OPPORTUNITIES ON VØRING AND IN BARENTS SEA SOUTH

The development of immature areas is characterised by smaller-sized discoveries which challenge profitability. Differing priorities among the companies can get in the way of integrated area solutions.

Barents Sea South and Vøring in the Norwegian Sea rank as the most important immature areas in the SDFI portfolio in terms of resource potential and maturity. Securing optimum development of these parts of the NCS calls for parallel exploration and maturing of resources in an integrated area perspective, where several fields are viewed in parallel in order to achieve profitability.

The challenge in Barents Sea is to achieve profitability for a further development of Snøhvit train two. Vøring is characterised by differences in the level of maturity, from the early interpretation of prospects to individual discoveries which have come a long way in the maturation process.

Petoro will contribute to continued exploration activity and maturation of resources through a prioritisation of exploration rigs, while simultaneously ensuring that developments in these areas take care of the SDFI's resources.

Stavanger, July 2010
The board of directors of Petoro AS

PETORO AS, P O Box 300 Sentrum, NO-4002 Stavanger. Tel: +47 51 50 20 00. Fax: +47 51 50 20 01. post@petoro.no **www.petoro.no**