petoro

THE SDFI PORTFOLIO
THIRD QUARTER OF 2011

HIGH CASH FLOW AND RESERVE REPLACEMENT IN THIRD QUARTER

Net cash flow to the government from the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf (NCS) in the first nine months was NOK 97.3 billion, an increase of NOK 18.8 billion from the same period of last year. Investment decisions, including gas compression on Troll, led to a substantial increase in SDFI reserves.

Income after financial items for the SDFI in the first nine months of 2011 totalled NOK 94.5 billion. Operating income for the third quarter came to NOK 29.5 billion, compared with NOK 22 billion in the same period of 2010. Net cash flow for the quarter was NOK 29.3 billion, up by NOK 7 billion from the same period of last year. The increase primarily reflects higher oil and gas prices than in 2010.

Total oil and gas production for the third quarter averaged 879 000 barrels of oil equivalent per day (boe/d), compared with 810 000 for the same period of 2010. Gas production rose by 15 per cent from the third quarter of last year, which was affected by shutdowns for major turnarounds. Output of oil and natural gas liquids (NGL) rose by 10 000 barrels per day, primarily as a result of increased production from Troll and the contribution from new fields Gjøa and Vega.

FINANCIAL RESULTS

Operating revenue totalled NOK 135.2 billion for the first nine months, compared with NOK 113.1 billion in the same period of 2010. Income from oil sales increased by 19 per cent from the first nine months of last year, reflecting higher prices. The average oil price in Norwegian kroner for the first nine months rose 34 per cent from 2010 to NOK 627 per barrel, compared with NOK 465 last year. The rise in oil prices reflected not only a strengthening in demand but also uncertainty on the supply side as a result of the unrest in north Africa and the Middle East.

Income from gas sales rose by 18 per cent in the first nine months compared with the same period of 2010 as a result of higher prices. Gas revenue for the first nine months totalled NOK 56 billion, compared with NOK 46.8 billion in the same period of last year. The volume of

THIRD QUARTER

	THIRD QUARTER		FIRST NINE MONTHS		FULL YEAR
All amounts in NOK million	**2011**	**2010**	**2011**	**2010**	**2010**
Operating revenue	42 404	34 777	135 187	113 121	159 270
Total operating expenses	12 946	12 762	39 495	37 319	52 045
Operating income	29 458	22 015	95 691	75 802	107 225
Net financial items	107	-950	-1 143	-1 322	-1 846
Income after financial items	29 565	21 065	94 548	74 480	105 379
Total investment	4 840	4 899	15 764	14 793	19 533
Net cash flow	29 330	22 378	97 263	78 416	103 572
Average oil price (USD/bbl)	116,89	75,60	114,18	76,98	79,38
NOK/USD exchange rate	5,39	6,34	5,50	6,10	6,07
Average oil price (NOK/bbl)	630	479	627	469	482
Oil/NGL production (1 000 b/d)	421	411	432	469	470
Gas production (mill scm/d)	73	63	88	92	97
Total production (1 000 boe/d)	879	810	983	1 048	1 080

Ekofisk, September 2011

Petro participates with a 30 per cent holding in the substantial Aldous Major South oil discovery in the North Sea. Estimates suggest that, together with the nearby Avaldsnes find, this could be the third largest oil field on the NCS after Statfjord and Ekofisk.

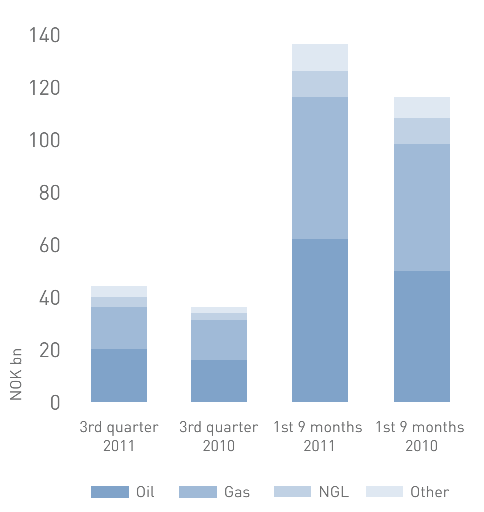
equity gas production sold during the first nine months was 23.9 billion standard cubic metres (scm) or 551 000 boe/d, compared with 579 000 boe/d in the corresponding period of 2010. This represented a reduction of five per cent.

Operating expenses totalled NOK 39.5 billion, compared with NOK 37.3 billion for the first nine months of 2010. This rise primarily reflected the higher cost of buying gas for onward sale. Increased revenues from the sale of this gas are included in operating income. Operating costs for fields and plants were on a par with the same period of last year.

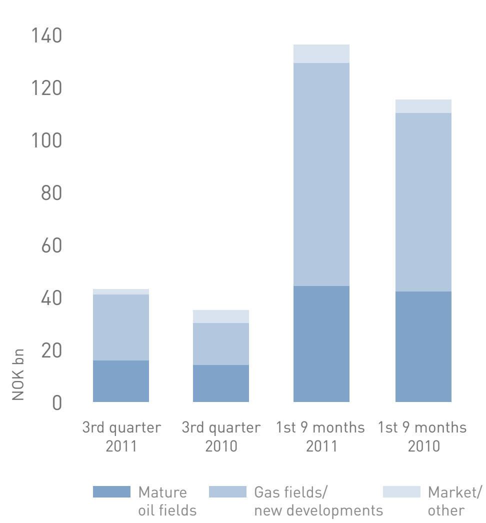
Total investment in the first nine months rose by about seven per cent from the same period of last year to NOK 15.8 billion. Increased production drilling on Troll, Heidrun and Åsgard, accounted for a substantial part of this rise.

Reserves increased by 426 million boe during the first nine months, the biggest rise since the decision to develop Ormen Lange in 2003. The largest contributions came from Troll, where the decision to install a third and fourth compressor on Troll A was taken in the third quarter, and Åsgard in the form of spending decisions for subsea compressors.

REVENUE BY PRODUCT



REVENUE BY BUSINESS AREA



ACTIVITIES IN THE THIRD QUARTER

ALDOUS/AVALDSNES COULD BE BIGGEST FIND SINCE 1980S

Petoro has a 30 per cent holding in the substantial Aldous Major South discovery in North Sea production licence 265. Operator Statoil upgraded its resource estimate to 900-1 500 million barrels of recoverable oil equivalent on 21 October, following an appraisal well. This represented a doubling of the volume estimate previously communicated. The reservoir has a sandstone thickness of more than 60 metres.

Communication has been confirmed between Aldous Major South and the Avaldsnes discovery in PL 501. Operator Lundin Petroleum estimated in late September that Avaldsnes could contain 800-1 800 million barrels of recoverable oil from much thinner sandstone layers covering a large area. If so, the overall discovery would be in the order of 1 700-3 300 million barrels. It would rank as the third largest discovery on the NCS after Statfjord and Ekofisk should resources prove to lie in the upper part of the estimate range. The SDFI has 30 per cent of Aldous Major South (PL 265), but no holding in Avaldsnes. Establishing a joint pre-unit at an early stage will be important for managing optimum appraisal and development of the field.

MAJOR DECISIONS NEEDED ON RECOVERY FROM MATURE FIELDS

Petoro secured acceptance in the third quarter for a proposal that a wellhead platform should form part of the continued planning for further development of the Snorre field. A potential exists for recovering almost two billion barrels of oil in the form of remaining reserves in and improved recovery from Petoro's three priority fields – Gullfaks, Snorre and Heidrun. The company estimates that the number of production wells drilled must be doubled or tripled from today's level in order to secure the estimated reserves.

This is difficult to achieve solely with the use of existing drilling facilities. That is partly because the equipment must be used for purposes other than drilling new wells, such as well workovers and plugging abandoned wells. Restrictions on the number of well slots also make it difficult to drill sufficient new producers. Wellhead platforms with new facilities would make it possible to achieve a radical increase in the pace of drilling.

Petoro is also working for the adoption of enhanced oil recovery (EOR) methods on mature fields. The partners in Heidrun have resolved to test low-salinity water injection (LSWI) and the injection of water containing nanoparticles. These methods contribute in their different ways to improving recovery. Petoro is satisfied that a pilot test has been implemented, and will continue to work to avoid the postponement of important pilots.

Neither booked reserves nor improved recovery can be attained automatically. Necessary action must be taken while the mature fields still have sufficient production and revenues to invest in measures which make a difference. Important capital spending decisions must be taken over the next few years.

INVESTMENT IMPROVES RECOVERY FROM TROLL

A good example of measures to improve gas recovery is the decision taken by the partners in the Troll licence during the third quarter to invest NOK 11 billion in two new compressors on this field's A platform. These units will make it possible to maintain high production capacity for a long time to come and to produce gas from the field right up to about 2060. This decision makes a significant contribution to the increase in reserve replacement during the first nine months. Another example of an important decision for recovery from Troll is the deployment of four mobile drilling rigs on the field. This will slow the decline in crude production and ensure high oil recovery from Troll.

PETORO APPROPRIATE UP NOK 17.2 MILLION

The government's proposed budget calls for an increase of NOK 17.2 million in the appropriation for Petoro. When Ola Borten Moe, minister of petroleum and energy, presented his part of the budget in a press conference at Petoro on 6 October, he said that this rise reflected both a recognition of the work being done by the company and the follow-up of existing fields promised by the government in the petroleum White Paper published before the summer holidays.

Petoro has a long list of assignments it wants to pursue over the next few years to secure reserves in and improve recovery from mature fields. The government's budget proposal means that the company can now get to grips with part of this list and work for specific activities to be undertaken in the licences.

Stavanger, October 2011
The board of directors of Petoro AS

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