

SDFI THIRD QUARTER OF 2010



CHALLENGES ON MATURE FIELDS

Income after financial items from the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf (NCS) for the first nine months of 2010 totalled NOK 74.5 billion. Net cash flow to the government was NOK 78.4 billion, just under NOK 1 billion higher than in the same period of 2009. Overall, oil prices lay considerably above last year, while gas prices were lower. Gas sales were strong during the first nine months, but oil production from mature fields in the portfolio developed negatively. That confirms the need Petoro sees for a substantial restructuring of the industry and how important it is that the company increases its commitment in cooperation with the operators to improving the long-term position.

Operating income for the third quarter came to NOK 22 billion, compared with NOK 21.1 billion in the same period of 2009. Net cash flow for the quarter was NOK 22.4 billion, up by NOK 2 billion from the corresponding period of last year.

Total oil and gas production for the third quarter averaged 810 000 barrels of oil equivalent per day (boe/d), compared with 911 000 for the same period of 2009. Gas production was seven per cent lower than in the third quarter of last year because of a number of maintenance shutdowns. Output of oil and natural gas liquids (NGL) fell by 15 per cent, primarily reflecting maintenance shutdowns as well as the decline in production from mature fields in the SDFI portfolio. Reduced

rig capacity on Troll also meant a substantial decline in oil output compared with the same quarter of 2009.

FINANCIAL RESULTS

Operating revenue totalled NOK 113.1 billion for the first nine months, compared with NOK 117.2 billion in the same period of 2009. Reduced income from gas sales reflected an 18 per cent fall in prices, a change to the principle for recognising income related to the SDFI's participation in Statoil Natural Gas LLC (SNG) in the USA, and provision for unrealised losses from margin operations in the UK. Gas revenues for January-September totalled NOK 46.8 billion, compared with NOK 57 billion in the same period of last year. The volume of equity gas production sold during the first nine

THIRD QUARTER

	THIRD QUARTER		FIRST NINE MONTHS		FULL YEAR
	2010	2009	2010	2009	2009
All amounts in NOK million					
Operating revenue	34 777	33 555	113 121	117 215	154 186
Total operating expenses	12 762	12 472	37 319	39 094	50 222
Operating income	22 015	21 082	75 802	78 121	103 964
Net financial items	(950)	(1 008)	(1 322)	(2 937)	(3 312)
Income after financial items	21 065	20 074	74 480	75 185	100 652
Total investment	4 899	6 314	14 793	18 401	22 179
Net cash flow	22 378	20 378	78 416	77 484	96 992
Average oil price (USD/bbl)	75.60	67.80	76.98	55.78	60.53
NOK/USD exchange rate	6.34	6.19	6.10	6.53	6.28
Average oil price (NOK/bbl)	479	420	469	364	380
Oil/NGL production (1 000 b/d)	411	484	469	543	537
Gas production (mill scm/d)	63	68	92	84	85
Total production (1 000 boe/d)	810	911	1 048	1 068	1 074



The improved recovery committee appointed by the Ministry of Petroleum and Energy, in which Petoro also participated, proposed 44 measures in the third quarter. These are critical for realising the big value potential offered by improved recovery of Norway's remaining offshore resources.

months was 25.1 billion standard cubic metres (scm) or 579 000 boe/d, an increase of 10 per cent from 525 000 boe/d in the corresponding period of 2009.

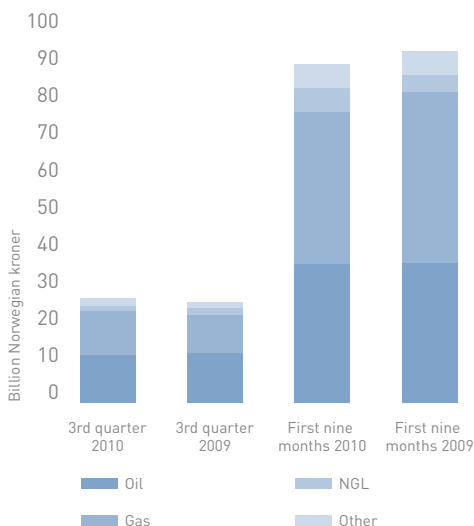
Income from oil sales increased by eight per cent from the first nine months of last year, reflecting substantially higher prices. The latter averaged USD 76.98 per barrel, an increase of 38 per cent from the same period of 2009. The average oil price in Norwegian kroner for the first nine months was up 29 per cent from the same period of 2009, at NOK 469 per barrel compared with NOK 364.

Operating expenses totalled NOK 37.3 billion, compared with NOK 39.1 billion for the first nine

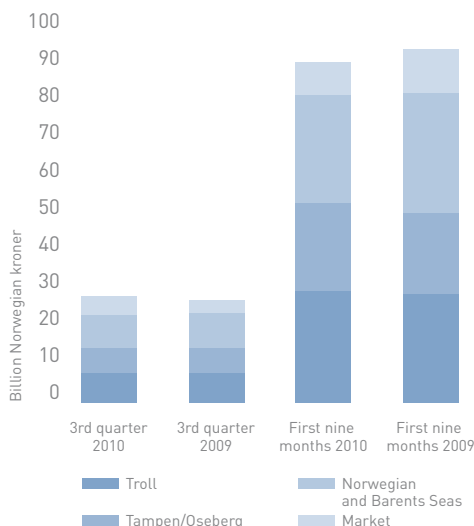
months of 2009. The change to net recording for the SDFI's participation in SNG is the most important reason for this decline, and is also presented as reduced income. In addition, exploration expenses were halved compared with the first nine months of 2009. Operating costs for fields and plants were up by three per cent from the first nine months of 2009, as were costs for basic operation and maintenance.

Total investment in the first nine months fell by 19 per cent from the same period of last year to NOK 14.8 billion. Reduced development activity on Gjøa/Vega and delayed phasing of costs for further field development on Ormen Lange were the principal reasons for this fall in capital spending.

REVENUE BY PRODUCT



REVENUE BY BUSINESS AREA



PETORO INCREASES COMMITMENT TO MATURE FIELDS

Long-term production forecasts for the mature fields are being constantly downgraded, while cost estimates rise. To be able to recover the expected volumes within the commercial life of these fields, Petoro has demonstrated that the number of production wells being drilled must triple from today's level. However, historical data show that the number of producers drilled on the mature fields has halved over the past eight years. Drilling costs have doubled within a few years. It has been accepted on a number of fields that producing the expected volumes within their commercial lifetime will be unrealistic, which has led to their reserves being written down.

The big mature fields face a number of important decisions in the next few years related to production strategy, new wells, rig upgrades and long-term infrastructure development. Understanding, analysing and deciding on good long-term solutions for the fields are becoming ever more demanding. One of the principal challenges relates to reservoir uncertainty and understanding.

Petoro will focus its attention on creating confidence in the reserve base which underlies decisions to invest in a field. Using Heidrun as a starting point, the company will pursue a change in work processes for reservoir monitoring and for identifying new drilling targets. As an initiative towards the Heidrun operator, Petoro will seek more frequent updating of the reservoir model as the basis for assessing remaining drilling targets. This work is also highly relevant for other mature fields in the SDFI portfolio.

The pace of drilling on a number of fields in the SDFI portfolio needs to be speeded up substantially. Measures which will be considered include solutions for faster drilling from existing rigs, subsea-completed wells and investment in new fixed wellhead platforms. As an alternative to expensive and time-consuming upgrades of drilling facilities on the fixed installations, Petoro will assess modularised drilling rigs which are simple to assemble, disassemble and move, and which thereby provide flexibility in relation to the uncertainty in remaining drilling programmes and utilisation on other platforms.

Important work related to drainage strategy and infrastructure adjustments is being done in the Gullfaks and Snorre partnerships, which will lay a basis for the long-term development of the fields. Petoro is actively involved in these efforts.

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PETORO

Stavanger, October 2010
The board of directors of Petoro AS