pet/rep08rel 1

Stavanger, 2 March 2009
Press release from Petoro
Tittel:

NOK 155 bn to Norwegian government from SDFI
Record result despite oil price fall in 4Q

Net income for the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf came to a record NOK 159.9 billion in 2008, compared with NOK 112.6 billion the year before.

Net cash flow transferred to the government amounted to NOK 155.4 billion, which represented an increase of NOK 43.1 billion from 2007.

The fourth quarter also yielded good earnings as a result of high gas prices and production. Oil prices fell sharply towards the end of the year.

Total operating revenue was NOK 214.6 billion compared with NOK 167.7 billion in 2007. Overall daily production amounted to 1 148 000 barrels of oil equivalent (boe), a slight decline from 1 202 000 million in 2007.

Great satisfaction with last year's performance is expressed Kjell Pedersen, chief executive of Petoro AS, the company which manages the SDFI.

"A cash flow of NOK 155 billion to our owner, the Norwegian state, is an almost inconceivable amount. It primarily reflects high prices, of course, but also good underlying operating results.

"Another reason I'm particularly pleased with last year is that our employees have to a great extent met the targets we set for ourselves in 2008."

He feels that the industry should seek a balanced response to the sharp fall in oil prices, and notes that it will try to preserve its flexibility in the current conditions.

"It's very necessary that both oil companies and suppliers take some action in the short term – particularly with an eye to cutting costs.

"At the same time, we must succeed in keeping our eyes raised so that we don't lose the long-term perspective in a world which will need new supplies of energy."

Mr Pedersen notes that Petoro has identified a number of projects which are profitable even at today's prices, and even more of them if a rather higher price curve is assumed.

"Over the next decade, these projects could require capital spending in the order of NOK 400 billion. The SDFI would in that case account for more than NOK 100 billion of that sum.

"We at Petoro will press for the development of profitable projects and ensure timely decisions in an industry where strict capital discipline could otherwise lead to postponements."

His biggest dissatisfaction is that only one out of every 10 barrels produced from the SDFI portfolio has been replaced with new reserves.

"That reflects a portfolio which comprises large holdings in big mature fields where the level of production remains high, and a lower share of new smaller discoveries," Mr Pedersen notes.

More about the results

Since the whole cash flow from the SDFI goes directly to the government, no tax is paid on its activities. Its net income accordingly corresponds to pre-tax income in other companies.

The principal reason why net income rose by NOK 47.3 billion from the year before was the substantially higher realised oil and gas prices.

The average price for oil from the SDFI portfolio in 2008 was NOK 528 per barrel, compared with NOK 418 in 2007. In US dollars, the oil price for the portfolio was USD 98 per barrel. Oil prices fell sharply towards the end of the year.

The average gas price for the year was NOK 2.40 per standard cubic metre (scm) as against NOK 1.63 in 2007.

Operating revenues during the fourth quarter were up 19 per cent from the same period of 2007 to NOK 58.2 billion. That reflected a substantial increase in gas prices and volume.

Many sales contracts link gas to oil prices in a way which means that the former lag three-six months behind changes in the latter.

The decline in oil revenues for the fourth quarter came to NOK 6.5 billion as a result of declining prices.

Costs contributed to an improvement in income for this period compared with the year before, when extraordinary restructuring costs were incurred in relation to the StatoilHydro merger.

Lower oil production and higher operating costs in 2008 offset the positive price effect to some extent. Output fell again on many mature oil fields in the portfolio during the year.

Production of oil and natural gas liquids (NGL) declined by eight per cent from 2007, while gas output was stable. Measured in oil equivalent, the proportion of gas in total sales exceeded the share of crude for the first time during 2008.

Revenue from dry gas sales totalled NOK 90 billion compared with NOK 57.8 billion in 2007. A number of fields increased their gas output during the year. In particular, the build-up of production from new fields such as Ormen Lange and Snøhvit had a big effect.

Gas production for 2008 amounted to 31.5 billion scm, corresponding to an average of 541 000 boe per day. That compares with 540 000 boe per day in 2007. Gas revenues from Troll alone accounted for more than 40 per cent of the total.

Overall revenue from oil and natural gas liquids was NOK 112.8 billion, compared with NOK 98.5 billion in 2007. The sales volume totalled 222 million barrels, or 607 000 barrels per day.

Liquids production fell by eight per cent from 2007, primarily because of an anticipated decline from the mature oil fields in the SDFI portfolio.

Operating expenses rose by NOK 3.5 billion to NOK 56.7 billion. This increase reflected the higher cost of purchasing gas for onward sale. That activity also yielded more gas revenue.

The cost of operating fields, pipelines and land-based plants was on a par with 2007. Excluding extraordinary restructuring in 2007, these expenses rose by seven per cent.

That largely reflected higher prices in the supplies market from the high level of activity, as well as bigger maintenance and modification requirements on the older fields in the portfolio.

Total investment in the SDFI portfolio was NOK 21.3 billion as against NOK 20.5 billion in 2007. The biggest outlays in 2008 related to the Gjøa and Vega developments, which also accounted for most of the increase in capital spending.

Important events in 2008

Licence awards in 2008 resulted in Petoro receiving responsibility for 12 new holdings in production licences.

The level of exploration activity was high during the year, with the number of wells almost doubling from 2007. Petoro participated in 26 exploration wells, which resulted in 16 technical discoveries.

However, a number of these finds are small, and a good deal of work remains to be done before it can be determined whether they are commercial.

Maturing reserves is an important area for Petoro. But only 36 million boe in supplementary reserves were identified for the SDFI portfolio in 2008. That compares with a production of 420 million boe during the year.

After reaching an historic peak of more than USD 140 per barrel in the summer, oil prices slumped to some USD 40 per barrel late in the year. That has created great uncertainty about prospects for prices and activity in the oil industry.

Following the StatoilHydro merger, Petoro – as the other major licensee on the NCS – has experienced increased expectations from the other players about its role on important commercial issues.

One result during 2008 was that Petoro chaired negotiations by the Snorre licence on a solution for future transport, storage and export of petroleum from the field.

In collaboration with the other Snorre partners, Petoro secured an extension to the agreement with Statfjord which is considerably better for the Snorre licence than the former deal.

Petoro also took on a leading role in the collaboration with five other major oil companies concerning the allocation of restructuring costs following the merger.

The outcome was agreement between StatoilHydro and the six companies on a lower level of costs for the partners than would have resulted from the operator's original claim. This solution was approved by the other partners in licences operated by StatoilHydro.

During 2008, Petoro established four scenarios for Barents Sea South as the basis for its continued work on this part of the NCS. On the basis of these scenarios, the company has pressed for increased collaboration with other companies to maintain a high level of activity in the area.

This is intended both to secure supplementary resources for a second process train at the Snøhvit terminal on Melkøya and to achieve positive commercial development of the northernmost NCS.

During 2008, Petoro strengthened its capacity and expertise in the sub-surface area. This has led in part to a close collaboration with the operators of a number of fields in the portfolio – including Gullfaks, where Petoro is the only partner.

(Financial results in NOK mill)

	Fourth quarter		Full year	
	2008	2007	2008	2007
Operating revenue	58 225	48 770	214 585	167 724
Total operating expenses	15 311	16 960	56 742	53 231
Operating income	42 914	31 810	157 843	114 493
Net financial items	2 796	(67)	2 063	(1 852)
Income after financial items	45 711	31 743	159 906	112 641
Total investment	6 017	5 694	21 320	20 539
Net cash flow	36 507	28 721	155 420	112 281
Average oil price (USD/bbl)	56.54	87.31	97.99	71.44
NOK/USD exchange rate	6.44	5.58	5.39	5.85
Average oil price (NOK/bbl)	364	487	528	418
Average gas price (NOK/scm)	2.90	1.73	2.40	1.63
Oil and NGL production (1 000 b/d)	614	664	607	661
Gas production (mill scm/d)	104	96	86	86
Total production (1 000 boe/d)	1 270	1 267	1 148	1 202

Further information and portrait photographs from: www.petoro.no

Contact:
Sveinung Sletten, vice president external affairs

pet/rep08rel 4

Tel: +47 51 50 20 24.
Mobile: +47 95 07 55 54
E-mail: sveinung.sletten@petoro.no