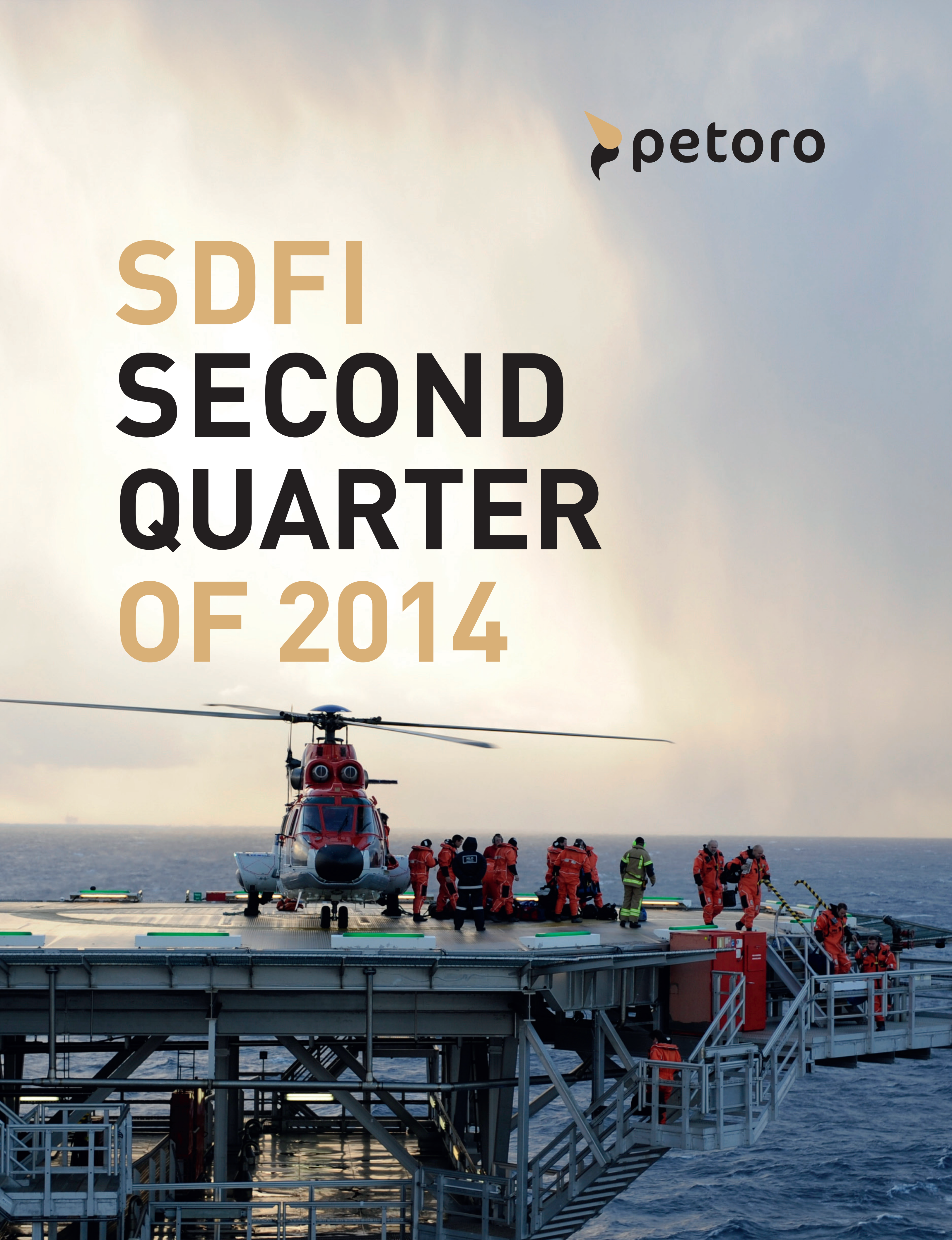
petoro

SDFI SECOND QUARTER OF 2014



PLANNED PRODUCTION CUTS AND LOWER GAS PRICES REDUCE SECOND-QUARTER CASH FLOW TO GOVERNMENT

Income after financial items for the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf (NCS) totalled NOK 25.7 billion in the second quarter of 2014, about 15 per cent lower than in the same period of last year. Net cash flow to the government was NOK 24.8 billion, down roughly 19 per cent from the second quarter of 2013.

An income after financial items of NOK 63.5 billion was achieved for the first half of 2014. Net cash flow to the government was NOK 63.7 billion, down by NOK 4 billion from the same period of last year. This decline in cash flow primarily reflected a lower volume of oil and gas sales and higher investment compared with the first half of 2013.

Total oil and gas production for the second quarter averaged 894 000 barrels of oil equivalent per day (boe/d), 10 per cent lower than in the same period of 2013. Liquid output fell by 13.5 per cent, primarily as a result of planned shutdowns for major turnarounds on a number of fields. While regularity in the first three months of this year was high, reduced production owing to planned offshore maintenance meant that it was lower in the second quarter. If planned maintenance is disregarded, however, regularity also remained high in April-June.
Gas production was reduced by about eight per cent from the same period of last year. The most important reason for this change was a weaker gas market and a consequent fall in output from Oseberg, Troll and Ormen Lange.

	SECOND QUARTER		**FIRST HALF**		**FULL YEAR**
(NOK mill)	**2014**	2013	**2014**	2013	2013
Operating revenue	**40 069**	45 734	**93 313**	97 354	194 308
Total operating expenses	**14 123**	16 323	**28 796**	31 786	61 854
Operating income	**25 946**	29 411	**64 517**	65 568	132 455
Net financial items	**(232)**	717	**(1 001)**	747	362
Income after financial items	**25 714**	30 127	**63 516**	66 314	132 817
Total investment	**9 543**	9 018	**19 096**	15 958	35 444
Net cash flow transferred to the government	**24 825**	30 482	**63 743**	67 778	124 825
Average oil price (USD/bbl)	**111.44**	103.40	**110.13**	108.94	110.36
NOK/USD exchange rate	**5.98**	5.83	**6.06**	5.71	5.86
Average oil price (NOK/bbl)	**667**	603	**668**	622	647
Average gas price (NOK/scm)	**2.06**	2.28	**2.35**	2.28	2.31
Oil/NGL production (1 000 b/d)	**370**	428	**399**	420	413
Gas production (mill scm/d)	**83**	90	**96**	101	99
Total production (1 000 boe/d)	**894**	995	**1 001**	1 058	1 034

Drilling progress from fixed installations behind schedule – here from the Oseberg field. Photo: Harald Pettersen, Statoil

FINANCIAL RESULTS FOR THE FIRST HALF

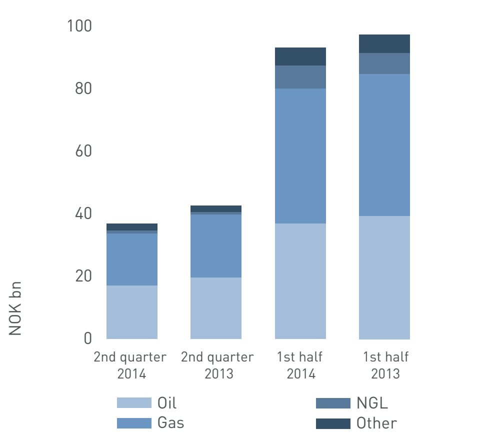
Operating revenue totalled NOK 93.3 billion for the first half of 2014, compared with NOK 97.4 billion in the same period of last year. Income from oil sales fell by 6.5 per cent from the first half of 2013. The decline in the volume sold was countered by a higher oil price in Norwegian kroner, averaging NOK 668 per barrel, following an increase in the USD/NOK exchange rate from NOK 5.71 to NOK 6.06. Oil prices in US dollars increased by one per cent from the first half of last year.

Income from gas sales declined by about five per cent from the same period of 2013 because of a lower volume of sales. The average gas price was three per cent higher than in the first half of last year, but this did not fully offset the reduction in sales volume. First-half income from gas sales was NOK 43.3 billion compared with NOK 45.4 billion in the same period of 2013. The volume of equity gas production sold during the first half was 17.3 billion standard cubic metres (scm) or 602 000 boe/d, representing a reduction of about five per cent from last year.

Operating expenses totalled NOK 28.8 billion, compared with NOK 31.8 billion for the first half of 2013. This 9.4 per cent decline primarily reflected reduced purchases of gas for onward sale. The fall in costs meant a corresponding drop in income.

The high level of investment in the Norwegian state's own oil and gas portfolio continued in the second quarter of 2014. Total investment in the first half was NOK 19.1 billion, up by 20 per cent from the same period of 2013. It rose for the second quarter by about six per cent from April-June last year to NOK 9.5 billion. Increased spending on development related primarily to the current projects on Martin Linge, Valemon, Svalin and Polarled, and in Gassled.

REVENUE BY PRODUCT



ACTIVITIES IN THE SECOND QUARTER

NEW VALUATION OF SDFI PORTFOLIO
According to a new valuation conducted for the Ministry of Petroleum and Energy by Rystad Energy, the SDFI at 1 January 2014 is estimated to be worth some NOK 1 234 billion. This is virtually unchanged from two years ago. During the intervening period, the government received a total cash flow of NOK 272 billion from the SDFI. The report contains a separate assessment of Petoro's contribution to value added, which states: "Overall, Rystad Energy recognises the contributions made by Petoro, and believes that Petoro does a good and important job in administering the state's interests".

DRILLING BEHIND SCHEDULE
It now appears that only 14 of the 18 wells originally planned on Petoro's most important fixed installations will be drilled during the year. At the same time, Petoro sees examples on some fields that Statoil's initiative to improve drilling efficiency is yielding results. But it is too early to conclude that the work will result in a long-term and adequate improvement.

CONTINUED WORK ON JOHAN CASTBERG
Petoro supported the decision taken by the partnership in the second quarter to continue work on alternative development solutions for the Johan Castberg field in the Barents Sea up to the summer of 2015. Basing this work on a balanced maturing of the alternative concepts is important, since the development solution for Johan Castberg represents a key element in creating an infrastructure which can contribute to greater flexibility and additional profitable developments in the Barents Sea.

Stavanger, August 2014
The board of directors of Petoro AS