petoro

SDFI THIRD QUARTER OF 2014

LOWER PRICES AND REDUCED GAS SALES CUT CASH FLOW

Net cash flow from the State's Direct Financial Interest (SDFI) on the Norwegian continental shelf came to NOK 19.5 billion in the third quarter, down roughly 35 per cent from the same period of 2013. This decline reflected a reduced volume of gas sales and lower oil and gas prices.

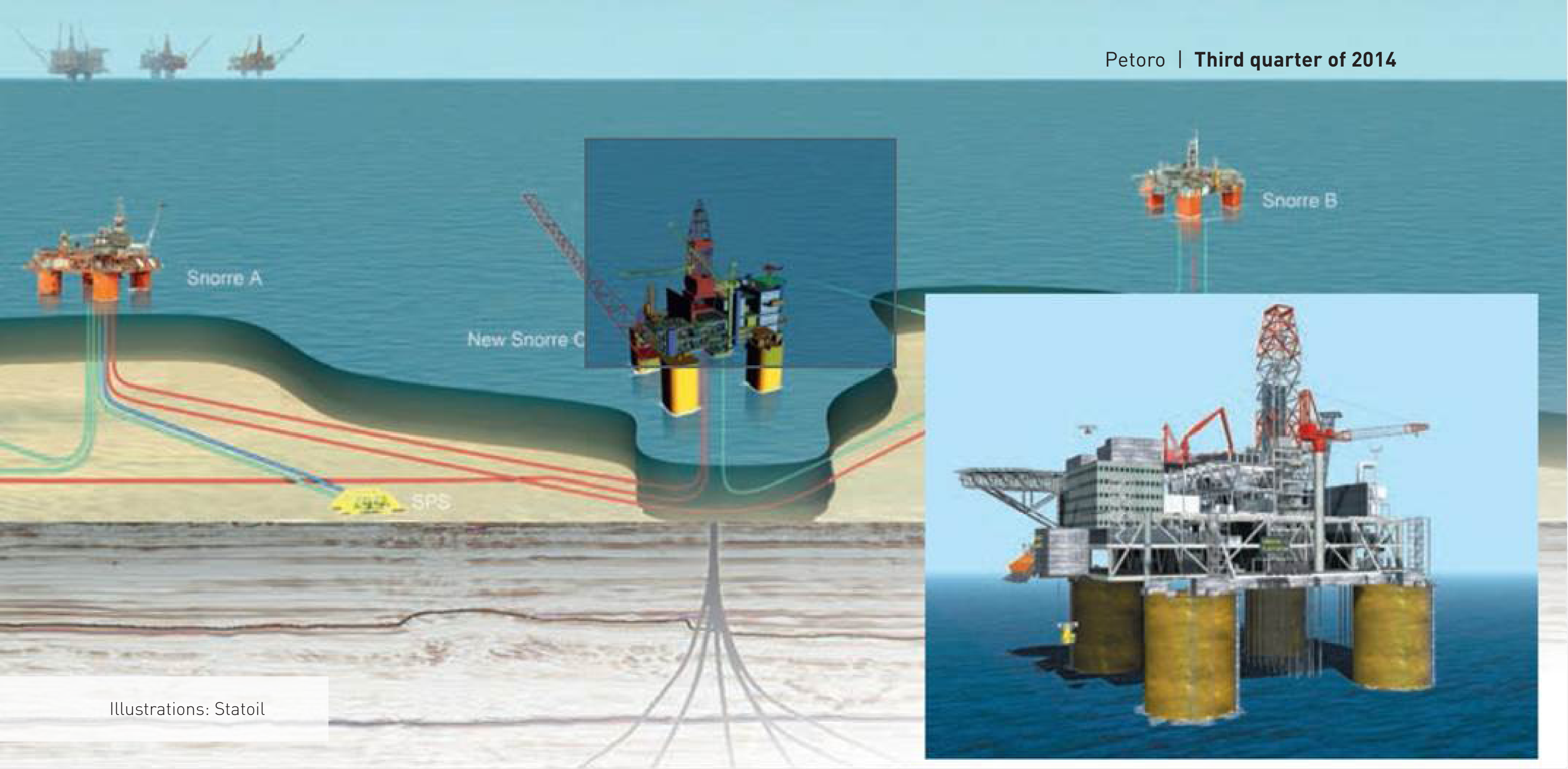
Income after financial items for the third quarter was NOK 24.8 billion, a reduction of about 15 per cent from the same period of 2013. Total oil and gas production averaged 849 000 barrels of oil equivalent per day (boe/d), 10.8 per cent lower than in the third quarter of last year. Liquid output rose somewhat but gas production fell by roughly 20 per cent, primarily as a result of a weaker gas market.

Income after financial items for the first nine months of 2014 was NOK 88.4 billion. Net cash flow to the government was NOK 83.3 billion, down by NOK 14.5 billion from the same period of last year. This decline in cash flow primarily reflected lower sales volumes and prices for gas and increased investment.

FINANCIAL RESULTS FOR THE FIRST NINE MONTHS

Total oil and gas production for the first nine months averaged 950 000 boe/d, compared with 1 022 000 boe/d in the same period of 2013. Oil and NGL output fell by three per cent, primarily as a result of planned shutdowns in the second quarter for major turnarounds on fields which included Oseberg, Veslefrikk and Grane. Gas output was down about 10 per cent from the same period of last year. Production of gas has been deferred in 2014 to enhance value.

	THIRD QUARTER		**FIRST NINE MONTHS**		**FULL YEAR**
(NOK mill)	**2014**	2013	**2014**	2013	2013
Operating revenue	**39 073**	45 981	**132 386**	143 335	194 308
Total operating expenses	**13 877**	15 839	**42 673**	47 625	61 854
Operating income	**25 195**	30 142	**89 713**	95 710	132 455
Net financial items	**(352)**	(783)	**(1 353)**	(36)	362
Income after financial items	**24 843**	29 359	**88 359**	95 674	132 817
Total investment	**9 333**	9 458	**28 429**	25 417	35 444
Net cash flow transferred to the government	**19 536**	30 050	**83 279**	97 828	124 825
Average oil price (USD/bbl)	**102.19**	112.46	**107.32**	110.06	110.36
NOK/USD exchange rate	**6.20**	6.02	**6.11**	5.80	5.86
Average oil price (NOK/bbl)	**634**	677	**655**	639	647
Average gas price (NOK/scm)	**1.84**	2.34	**2.21**	2.26	2.31
Oil/NGL production (1 000 b/d)	**401**	395	**399**	412	413
Gas production (mill scm/d)	**71**	89	**87**	97	99
Total production (1 000 boe/d)	**849**	952	**950**	1 022	1 034



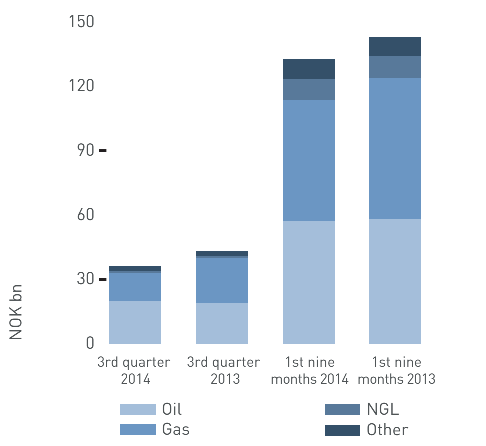
Illustrations: Statoil

Operating revenue totalled NOK 132.4 billion for the first nine months of 2014, compared with NOK 143.3 billion in the same period of last year.

Income from oil sales fell by three per cent from the first nine months of 2013. The decline in the volume sold was countered by a higher oil price per barrel in Norwegian kroner. In Norwegian kroner the realized oil price was NOK 655 which is NOK 16 higher than last year. Oil prices in US dollars fell by about two per cent over the same period.

Income from gas sales declined from NOK 66.4 billion in the first nine months of 2013 to NOK 56.4 billion, or roughly 15 per cent, as a result of a lower sales volume and reduced gas prices.

REVENUE BY PRODUCT



The average gas price for the first nine months was down two per cent from the same period of last year. Including the purchase of gas from third parties, the volume of sales was almost 13 per cent lower than in the same period of 2013 because of deferred production.

Operating expenses for the first nine months totalled NOK 42.7 billion, compared with NOK 47.6 billion in the same period of 2013. This 10 per cent decline primarily reflected reduced volume and lower purchases of gas for onward sale. That was attributable in turn to a weaker gas market, deferred production and less need for optimisation. The fall in costs meant a corresponding loss of income.

Total investment in the first nine months was NOK 28.4 billion, up by 12 per cent from the same period of 2013. Increased development spending of NOK 2.5 billion related primarily to the on-going Martin Linge, Valemon, Polarled and Gassled projects. Operating investment and production drilling were on a par with the same period of 2013.

ACTIVITIES IN THE THIRD QUARTER

THE SHARP RISE IN COSTS
for the industry has imposed tighter capital constraints in the companies, boosted requirements for profitability and required stricter prioritisation of projects. That means increased challenges for realising the reserve potential in mature fields which, by their nature, become more marginal as time passes. Stricter prioritisation also challenges investment in projects related to new fields and discoveries in the SDFI portfolio. This is reinforced by increased uncertainty over oil and gas prices and the greater attention being paid to the climate challenge. Overall, this represents a substantial dynamic in the business environment.

SNORRE
is an example of an important project on a mature field. It has been postponed several times. Petoro is concerned that future progress goes according to plan. This means a decision on continuation in the first quarter of next year, with a view to making a final investment decision in 2016.

RECORD INVESTMENT GROWTH IN THIRD QUARTER
Capital spending for 2014 as a whole looks to exceed the record set last year. Investment growth is somewhat lower than expected, in part because the operators have reviewed their modification portfolios and reduced the scope of these for 2014. How much of the reduction reflects cancellations and how much involves postponements is uncertain, which makes it difficult to assess the consequences of this for production and costs in the short and long terms.

DRILLING PROGRESS – INITIATIVE TO IMPROVE DRILLING EFFICIENCY YIELDING RESULTS
Improvement in drilling activity occurred in the third quarter, with about 15 wells being drilled during the year. If drilling progress shows the same positive trend for the rest of the year, a further one or two wells could be completed during December. Petoro sees this as an indication that Statoil's initiative to improve drilling efficiency is yielding results.

NOK 322 MILLION FOR PETORO AS IN 2015 GOVERNMENT BUDGET
The government has proposed an appropriation of NOK 322 million in its budget for 2015 as an administration grant to Petoro AS.

SUMMATION
Results for the third quarter show a substantial reduction in cash flow compared with the same period of 2013. A further weakening in the oil price for the fourth quarter, persistently lower gas prices and a reduced volume of gas sales mean a decrease in oil and gas revenue. Petoro has made a special effort to secure the execution of time-critical projects, and will continue to follow up the progress of important developments.

Petoro's most important response to the challenges facing the industry is to strengthen the profitability of SDFI projects. The company supports the industry's improvement initiatives, while also questioning whether these are sufficiently ambitious. Petoro will follow up the effectiveness of the measures being taken in the licences in order to secure the value of the portfolio.

Stavanger, October 2014
The board of directors of Petoro AS