SDFI second quarter of 2022:

petoro

Cash flow of NOK 234 billion from SDFI as of the 2nd quarter

Increased production of gas to Europe and solid operational performance combined with strong energy prices resulted in a new record-high cash flow from the State's Direct Financial Interest (SDFI) of NOK 121 billion in the 2nd quarter. Net cash flow from oil and gas activities so far this year amounted to NOK 234 billion, an increase of 180 billion compared with the same period last year.

	As of 2nd quarter		Full year
(NOK million)	2022	2021	2021
Cash flow	**234,428**	**54,075**	**186,058**
Operating revenue	**277,854**	85,612	286,141
Operating expenses	**48,357**	29,361	62,711
Operating profit	**229,498**	56,251	223,430
Financial items	**1,254**	(742)	(1,296)
Net income	**230,752**	**55,509**	**222,135**
Investments	**13,426**	**12,323**	**25,896**
Average oil price (USD/bbl)	**111**	64	70
NOK/USD exchange rate	**9.03**	8.45	8.60
Average oil price (NOK/bbl)	**1,005**	542	603
Average gas price (NOK/scm)	**9.97**	2.27	4.78
Production (thousand boe per day)	**1,048**	**996**	**1,026**
Oil, condensate and NGL (thousand boe per day)	364	378	388
Gas (million scm per day)	109	98	101
Sales (thousand boe per day)	**1,084**	**1,061**	**1,085**

Hammerfest LNG. Photo: Harald Pettersen, Equinor

Financial results as of the 2nd quarter of 2022

Net income after financial items as of the 2nd quarter amounted to NOK 231 billion, an increase of 175 billion from the same period last year. The increase was caused by significantly higher prices for oil and gas, as well as increased sales of gas from Troll, Åsgard and Martin Linge.

Total production amounted to 1,048 thousand barrels of oil equivalent per day (kboed), an increase of 52 kboed compared with the same period last year.

Gas production amounted to 109 million standard cubic metres (mill. scm) per day, an increase of 11 per cent compared with the same period last year. The increase was mainly caused by increased gas extraction on Troll and Åsgard; production from Martin Linge, which started up last year; as well as Snøhvit, which resumed production on 2 June following the fire at Hammerfest LNG in 2020. Natural production decline on certain fields, as well as utilization of flexible production for price optimization at Oseberg, have partially offset the increase. The average realised gas price was NOK 9.97 per scm, compared with NOK 2.27 in the same period last year. The persistently high gas prices are mainly due to strong demand, continued relatively low volumes in storage, and uncertainty associated with access to adequate gas volumes in Europe following reduced volumes from Russia and the maintenance shutdown on Nord Stream 1.

Liquids production totalled 364 kboed, a reduction of 13 kboed compared with the same period last year. The reduction in liquids production was primarily caused by natural production decline on several mature fields, as well as the turnaround on Grane during the 2nd quarter. Production from Martin Linge, as well as improved recovery from Vigdis, have partly offset this reduction. The average realised oil price was USD 111, compared with USD 64 per barrel in the same period last year. However, the increase measured in Norwegian kroner was somewhat strengthened by a weakened NOK exchange rate, leading to an achieved oil price of NOK 1,005, compared with NOK 542 per barrel during the same period last year. The increase in oil prices compared with the previous year was caused by strong growth in demand, which was not matched by equivalent growth in supply. Russia's ongoing invasion of Ukraine and the prohibition against Russian imports in large parts of the Western world have also resulted in additional price pressure in an already strong oil market.

Total operating expenses amounted to NOK 48 billion, NOK 19 billion higher than the same period last year. This change was caused by increased costs to purchase third party gas, as well as increased production expenses. The increased costs for purchasing third party gas were mainly caused by higher gas prices and continued purchases of replacement gas to cover existing delivery obligations in connection with the shutdown of Hammerfest LNG. Production expenses totalled NOK 10.5 billion, NOK 2.5 billion higher than the corresponding period last year. The increase was mainly caused by higher electricity prices and environmental taxes, as well as more maintenance activities on certain fields.

Investments totalled just over NOK 13 billion, about NOK 1 billion higher than the same period last year. Investments have increased on Ormen Lange due to the Phase III project and on Snøhvit in connection with preparations for and safe start-up of Hammerfest LNG. More drilling activity on Heidrun, Valemon and Statfjord Nord has also contributed to the increased investments. The increase was partly offset by reduced development investments following the completion of Martin Linge.

Observations and incidents during the 2nd quarter

- Ten serious incidents have been registered so far this year, compared with six during the corresponding period last year. This yields a serious incident frequency of 0.8 for the last 12 months, which is an increase from 0.7 at year-end. The personal injury frequency was 3.9 as of the 2nd quarter, compared with 3.8 at year-end.

- Petoro and its partners Vår Energi, Spirit Energy and Equinor (operator) have decided to develop the Halten Øst project in the Norwegian Sea. The joint venture submitted a plan for development and operation (PDO) to the Minister of Petroleum and Energy on 25 May. The recoverable reserves were estimated at about 100 million barrels of oil equivalent, about 60% of which is gas that will be sent to Europe. This plan means that the licensees will invest around NOK 9 billion to develop several minor discoveries in the Åsgard area in the Norwegian Sea. Halten Øst involves developing a total of six gas and condensate discoveries, as well as options to develop an additional three prospects. Production is scheduled to start in 2025.

- On 2 June, production resumed at Hammerfest LNG after extensive repair and improvement work following the fire in September 2020. The ramp-up to full production is currently under way in a controlled and incremental process. During normal production, Hammerfest LNG supplies around 6.5 billion cubic metres per year, which accounts for more than 5% of Norwegian gas exports.

- On 17 June, the joint ventures in the Troll and Oseberg licences entered into a study agreement to explore potential options for receiving electricity from a new floating offshore wind farm called Trollvind, about 65 kilometres west of Kollsnes. The intent is to install a capacity of about 1 GW and annual generation of ~4.3 TWh, with start-up in 2027, to supply most of the power needed to operate the Troll and Oseberg fields. The installations that are already electrified are currently supplied from the Bergen area, an area that needs more electricity. Trollvind is now being further matured in the partnerships with a view toward an investment decision in 2023.

- On 11 May, Petoro published its first sustainability report, where the company has set a goal of reducing greenhouse gas emissions from SDFI production by 55% by 2030 compared to 2005.

- A recent valuation as of 1 January 2022 valued the State's Direct Financial Interest in petroleum activities (SDFI) at NOK 1,584 billion, an increase of NOK 540 billion since the last valuation in 2020. At the same time, the SDFI portfolio has delivered a net cash flow of NOK 245 billion over the last two years. The valuation was undertaken by Rystad Energy on assignment from the Ministry of Trade, Industry and Fisheries.

- Seven exploration wells were completed during the 2nd quarter, four of which resulted in discoveries. The total preliminary calculation of the size of the Hamlet, Snøfonn, Skavl and Overly discoveries is between 9.6 and 13.9 million scm of recoverable o.e. These discoveries are now being considered for possible tie-back to adjacent fields.

PETORO AS
P O BOX 300 Sentrum
NO-4002 Stavanger

Tel: 51 50 20 00
Mail: post@petoro.no
Web: petoro.no