

Ways to Reduce Investment Risks – a Norwegian Perspective



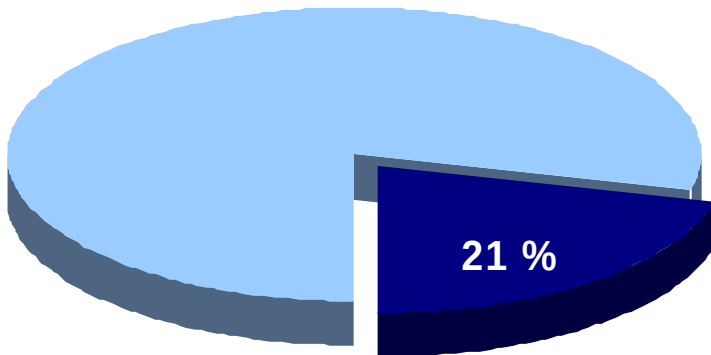
Frode Johansen

Deputy Director General

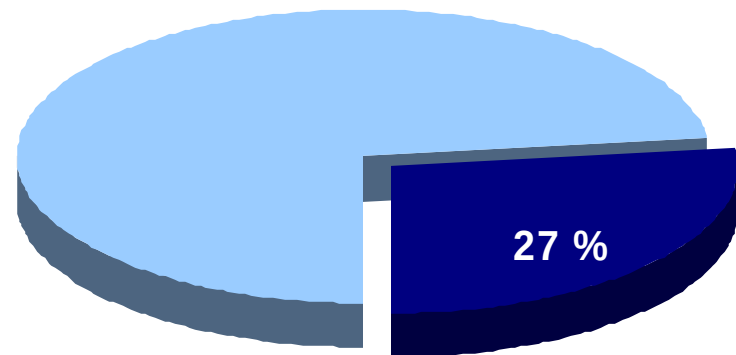
Ministry of Petroleum and Energy, Norway

Norway's largest industry

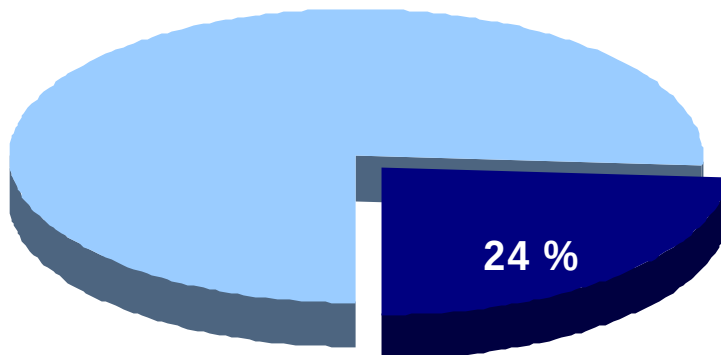
The petroleum sector (2004)



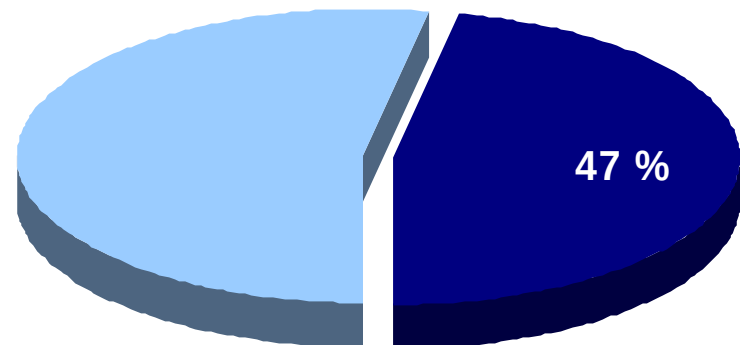
Share of GDP



Share of state revenues



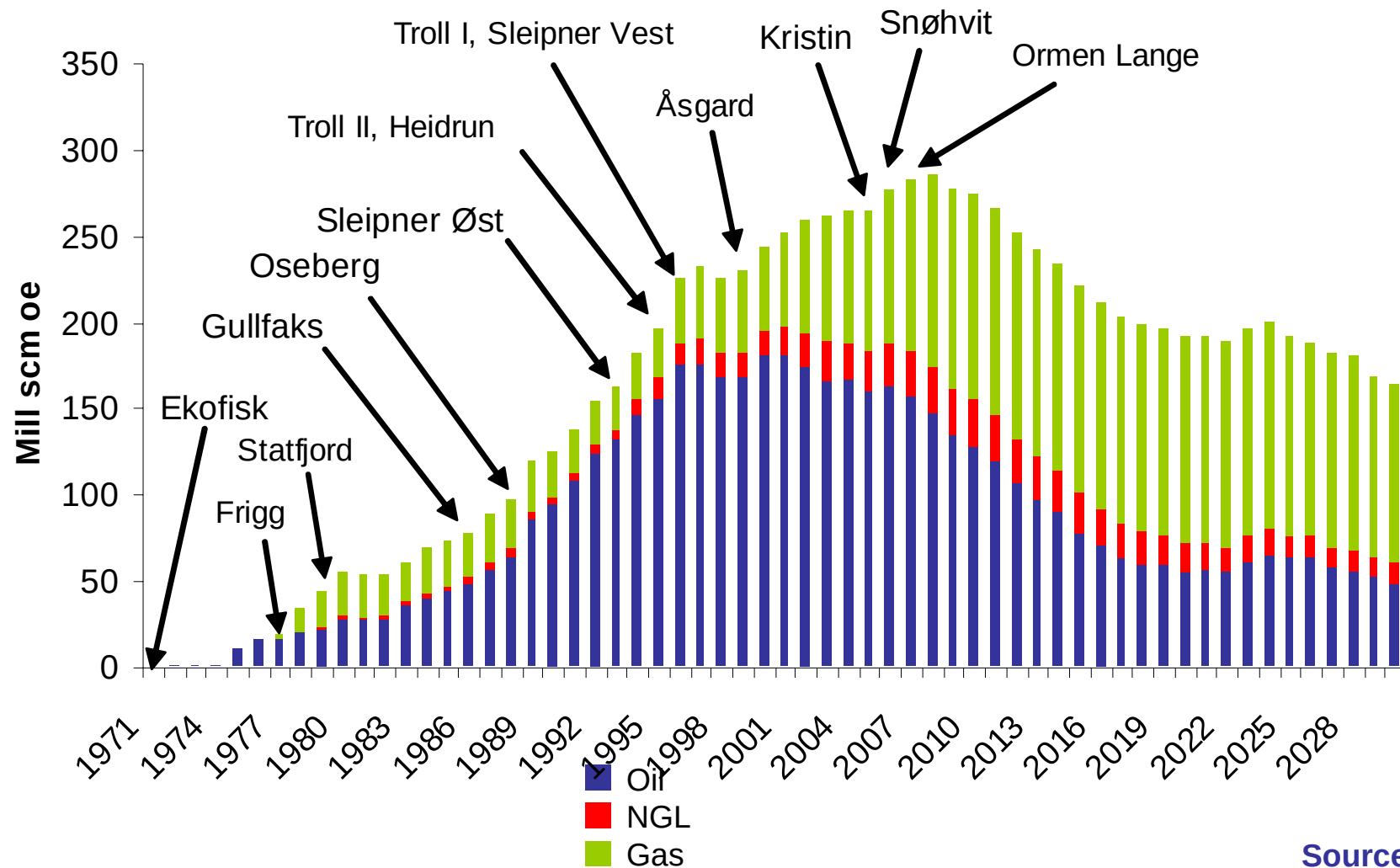
Share of investments



Share of exports

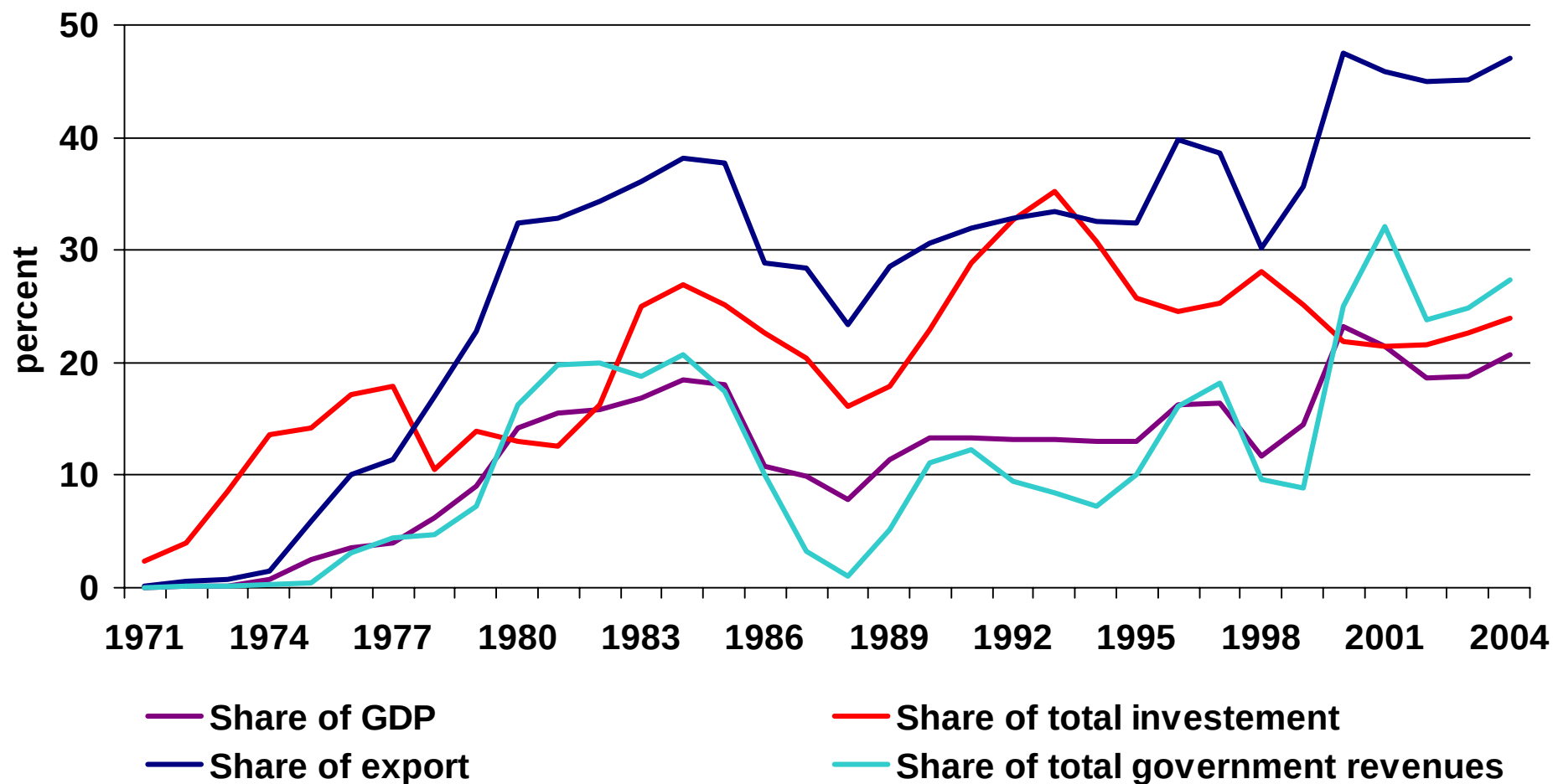
Sources: Statistics Norway, state accounts and Ministry of Finance

Total petroleum production



Source: MPE/NPD

Macroeconomic indicators for the petroleum sector



Source: Statistics Norway, Ministry of Finance



Risks for investors

- Geology
 - Technology
 - Markets
- General economic and political environment
 - Petroleum policy
 - Licensing
 - Taxation
 - Regulations
 - Approvals
 - Access to infrastructure
 - Industrial policies

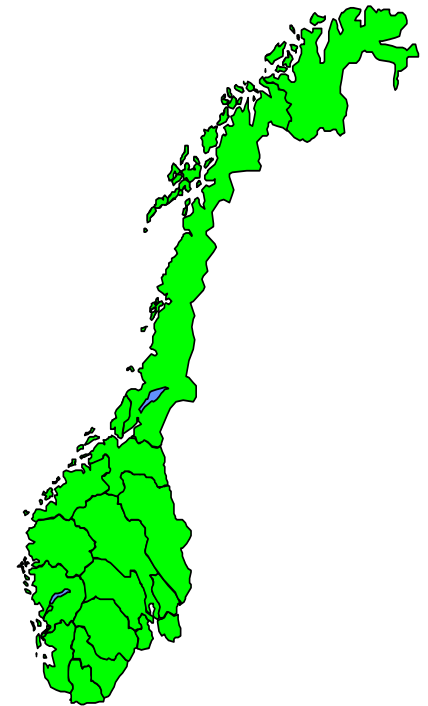
Norway

- 4,6 million people
- Part of European Economic Area
- GDP/capita among the worlds highest
- Stable economic policy and low interest rate environment
- High level of education and high participation in the work force.
- High penetration of new technology in business and society

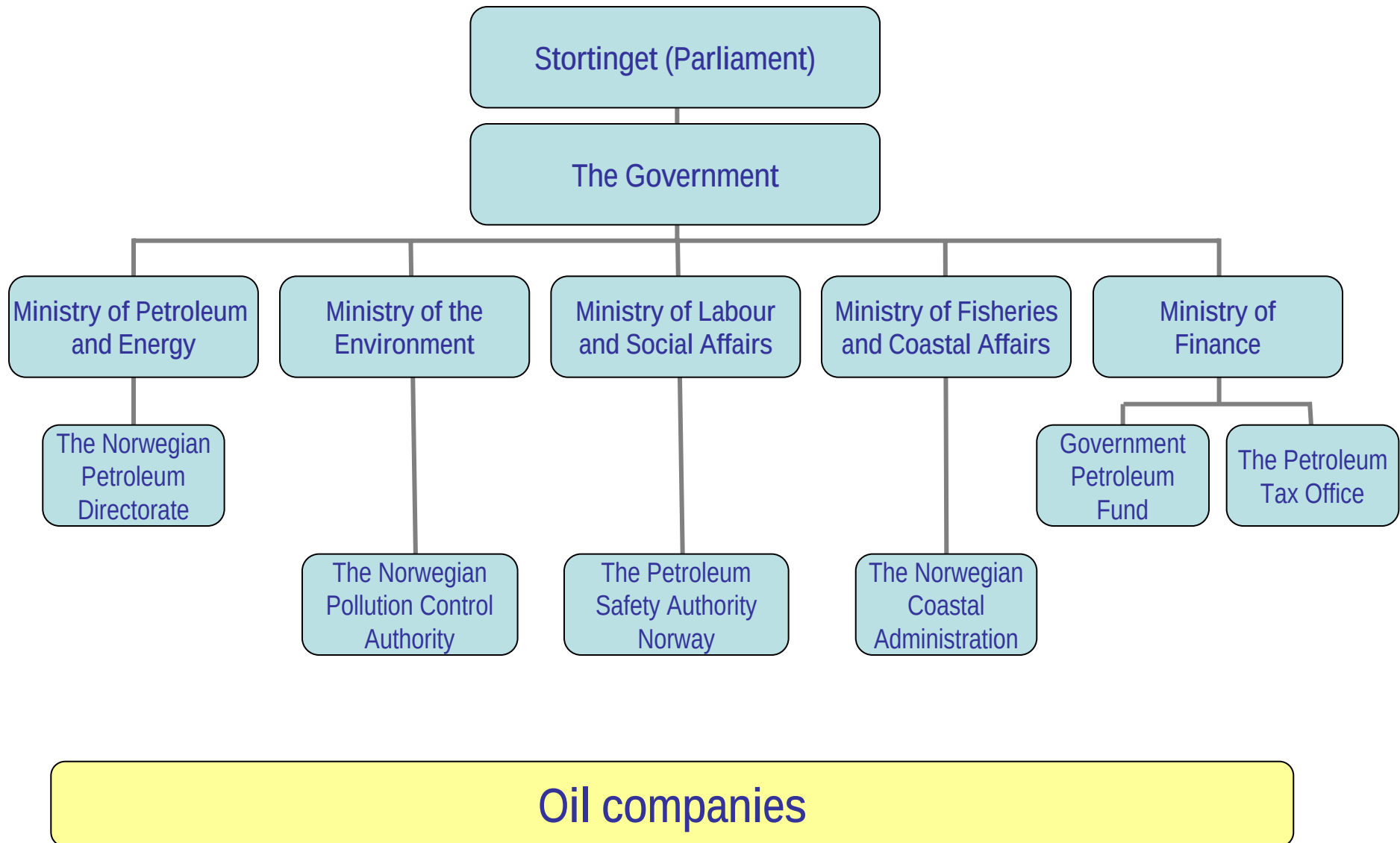


Petroleum Policy – Main Principles

- The right to sub sea petroleum deposits is vested in the State
- The petroleum deposits shall be administered for the benefit of the Norwegian society as a whole
- Goal: Maximize value creation
 - important means for obtaining this goal:
 1. legal/licensing system
 2. resource management
 3. industrial development
 4. tax policy

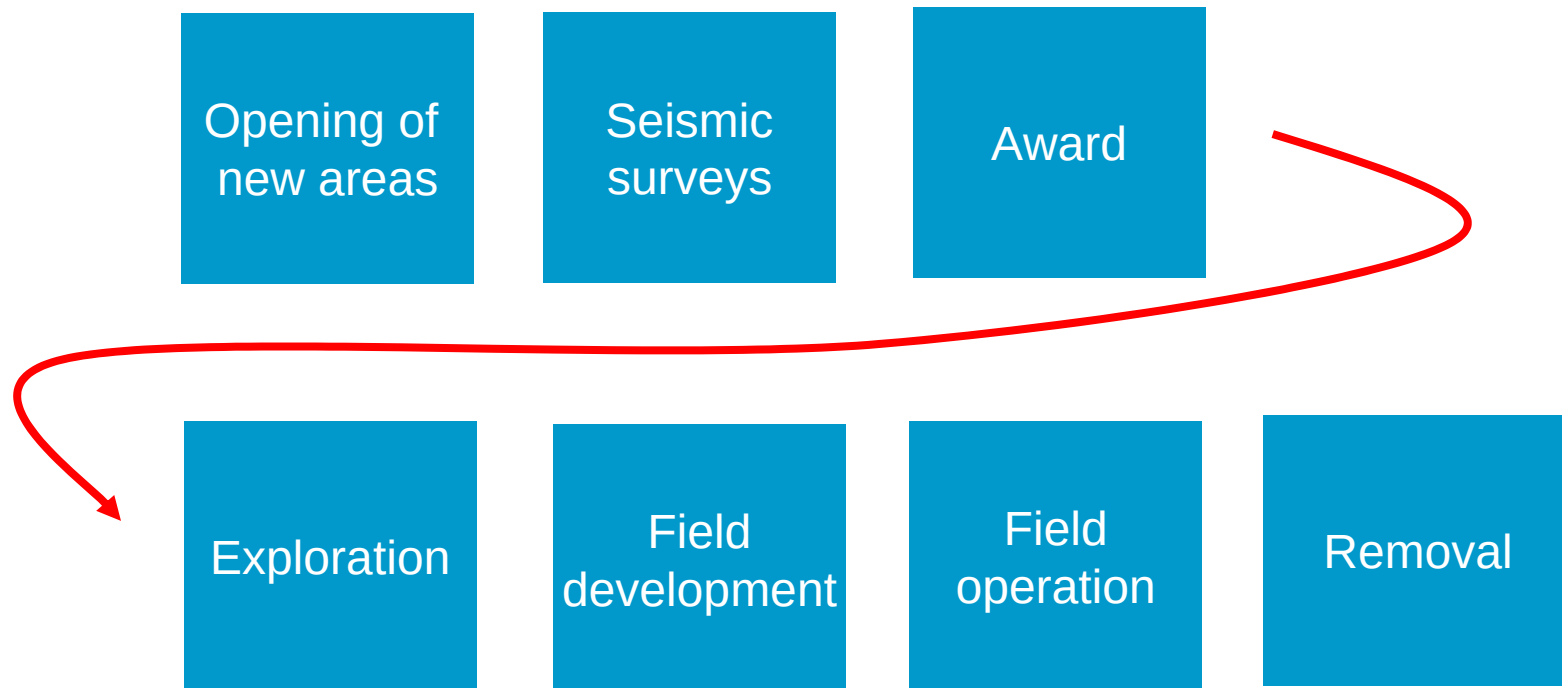


National organization of the petroleum sector

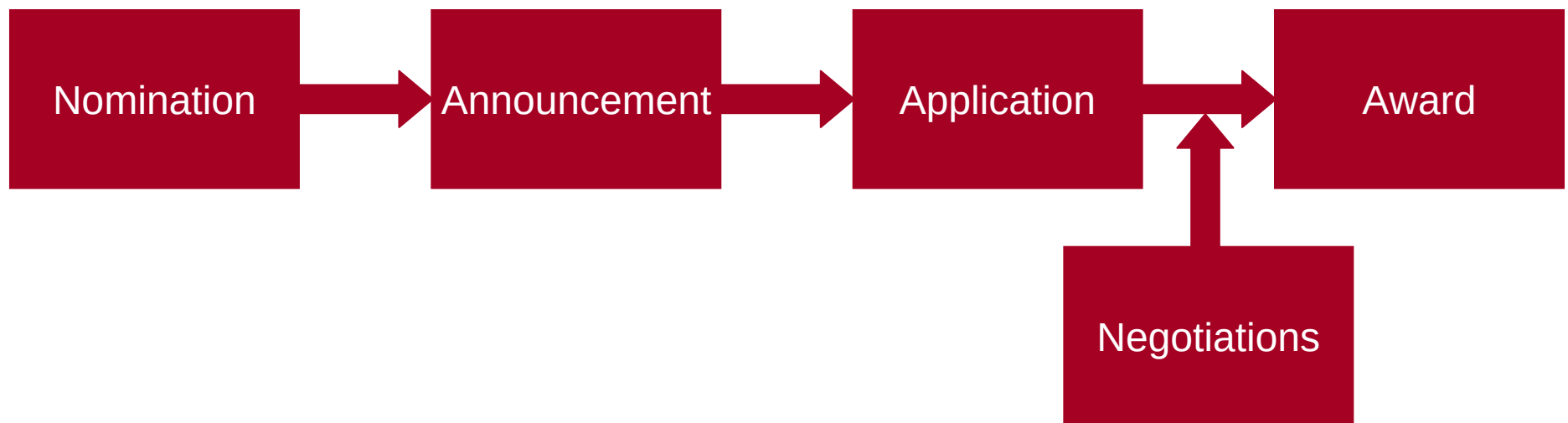


Kilde: OED

The Value Chain



Awarding New Production Licenses

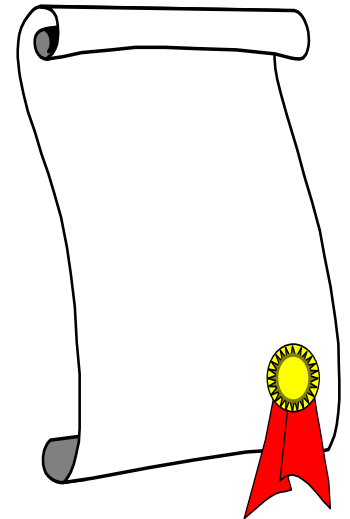


The Production License

Exclusive right to explore for and produce petroleum in a defined area

Contents:

- Licensees and participating interest
- State participation
- Duration of the production license and the extent of the obligation to relinquish
- Conditional upon the licensees' entering into a joint operating agreement and an accounting agreement
- Other conditions





Licensing rounds - Predictability

- Licensing Rounds in Frontier areas:
 - Every second year
- Licensing rounds in mature areas:
 - Yearly
 - System changed in 2003 to increase efficiency (Awards in Predefined Areas)

Plan for Development and Operation (PDO)



- If the licensees decide to develop a petroleum deposit found within the boundaries of the license, the operator has to submit a plan for development and operation to the Ministry
- The plan shall contain economic, resource, technical, safety related and commercial aspects of the development
- A separate impact assessment study is required for a public hearing
- The PDO is considered by the Ministry of Petroleum and Energy, Norwegian Petroleum Directorate and the Ministry of Labour and Government Administration (HSE issues).
- < 10 billion NOK - Government approval
- > 10 billion NOK – Parliament approval
- Production from each field is approved by the government annually

Upstream pipeline network

- Independent operator - Gassco
- Uniform ownership (Gassled)
- Regulated access regime for gas transportation
- Companies individually produce, transport and market their gas to optimize upstream and downstream portfolio





Regulations relating to the use of facilities by others

- Draft regulations submitted in August 2005
- The objective is to achieve efficient use of existing facilities

A framework for the formulation of tariffs and other terms, thereby making the negotiating process more efficient.

The commercial companies will still be the ones responsible for seeking good solutions for both parties.



E&P Companies on the NCS

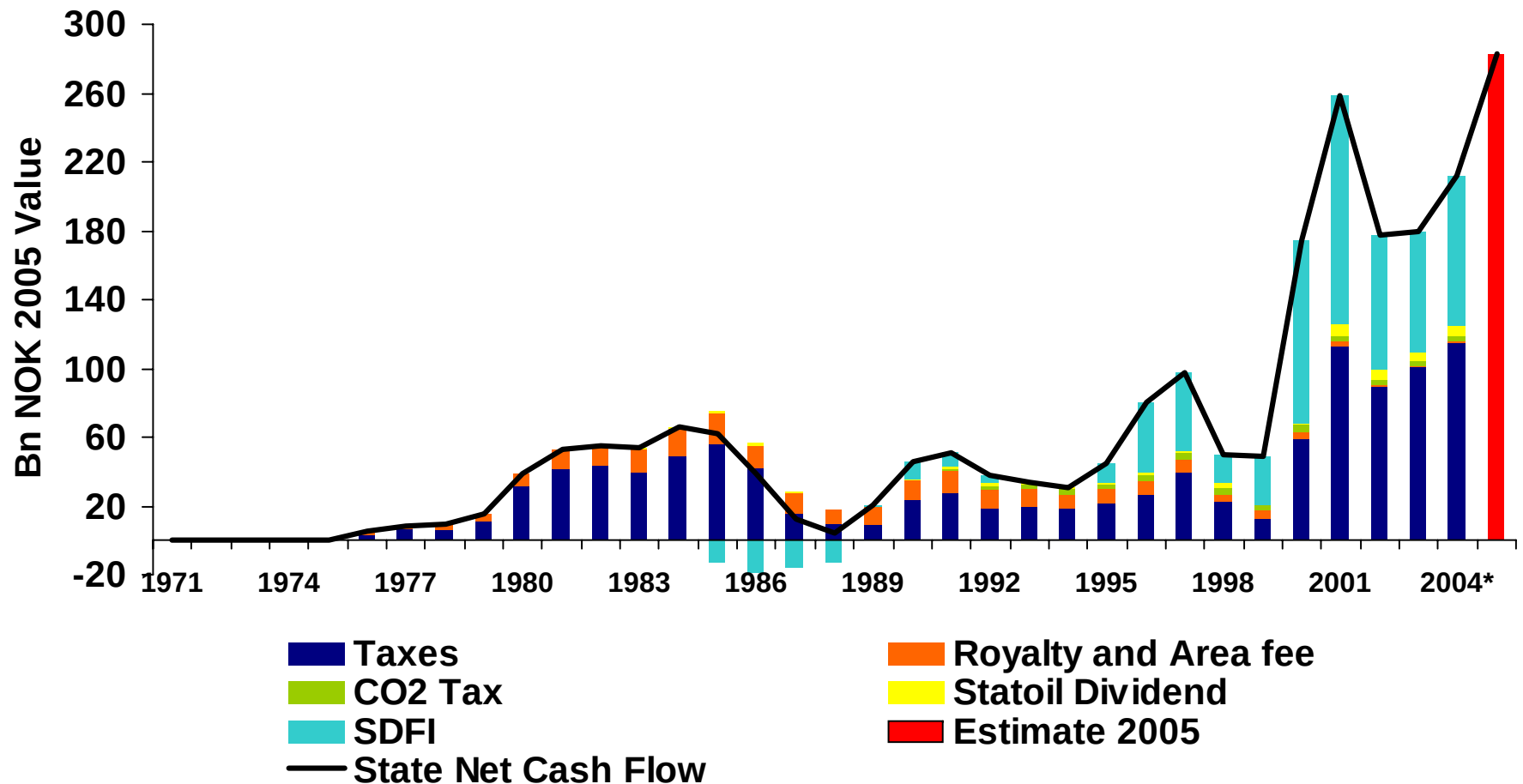
- Always a strong presence of international E&P companies: BP, Shell, Exxon, Mobil, Conoco, Phillips, Agip, Total, Elf, etc.
- Norwegian companies: Statoil, Hydro, etc.
- Historically some preference was given to Norwegian companies, both state owned and private - in order to build their competence
- Today Norwegian and international companies compete on equal terms



The State's direct financial interests (SDFI)

- A cash-flow-system – not a legal entity
- The Government holds shares directly in oil and gas fields, pipelines and land-based plants
- The arrangement is a field-specific instrument, the share is adapted to the profitability and resource potential of the individual production license at the time when licenses are awarded

Net cash flow to the State from petroleum operations

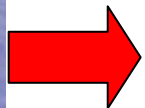


Sources: National accounts, White Papers no. 31 (2004-2005) and no. 1 (2005-2006)

The Petroleum Tax System

Key Considerations

- The resource owner to receive a fair part of the economic rent
 - Taxes
 - SDFI (State Direct Financial Investment)
- The government take system to be neutral on company decisions on
 - Investments
 - Daily operations
 - Shutting down/abandonment



If a decision is economic viable before tax - it shall also be after tax - and vice versa



The Norwegian Petroleum Tax System Advantages

- Stability
- Low risk - Companies can with a large degree of certainty regain a large part of their investments and other costs
 - Full consolidation at company level
 - Favorable depreciation rules and uplift
 - Favorable rules for companies outside tax position
- Opportunities - The tax system is close to a “sleeping partner”
 - Companies can take a high participating interest and achieve technical control of a project
 - Companies can take part in large investment projects

An active policy to attract new companies

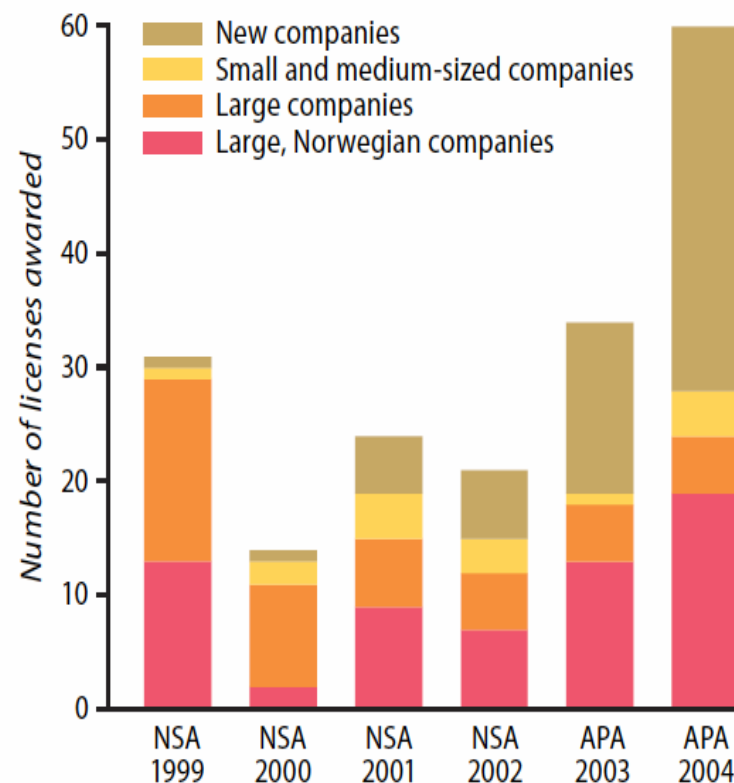
Pre-qualified/new companies since 2000:

Sumitomo	OER	Petoro
Paladin	Talisman	Mærsk
Aker Energy *	Ruhrgas	Anadarko
Dong	Kerr McGee	CNR
Pelican *	Pertra	Lasmo*
GdF	Oranje Nassau	Revus
Lundin	Endeavour	Centrica
DNO	BG Norge	Wintershall
Energy	Altinex	Noble

* Companies which do no longer exist as separate entities

Under consideration:

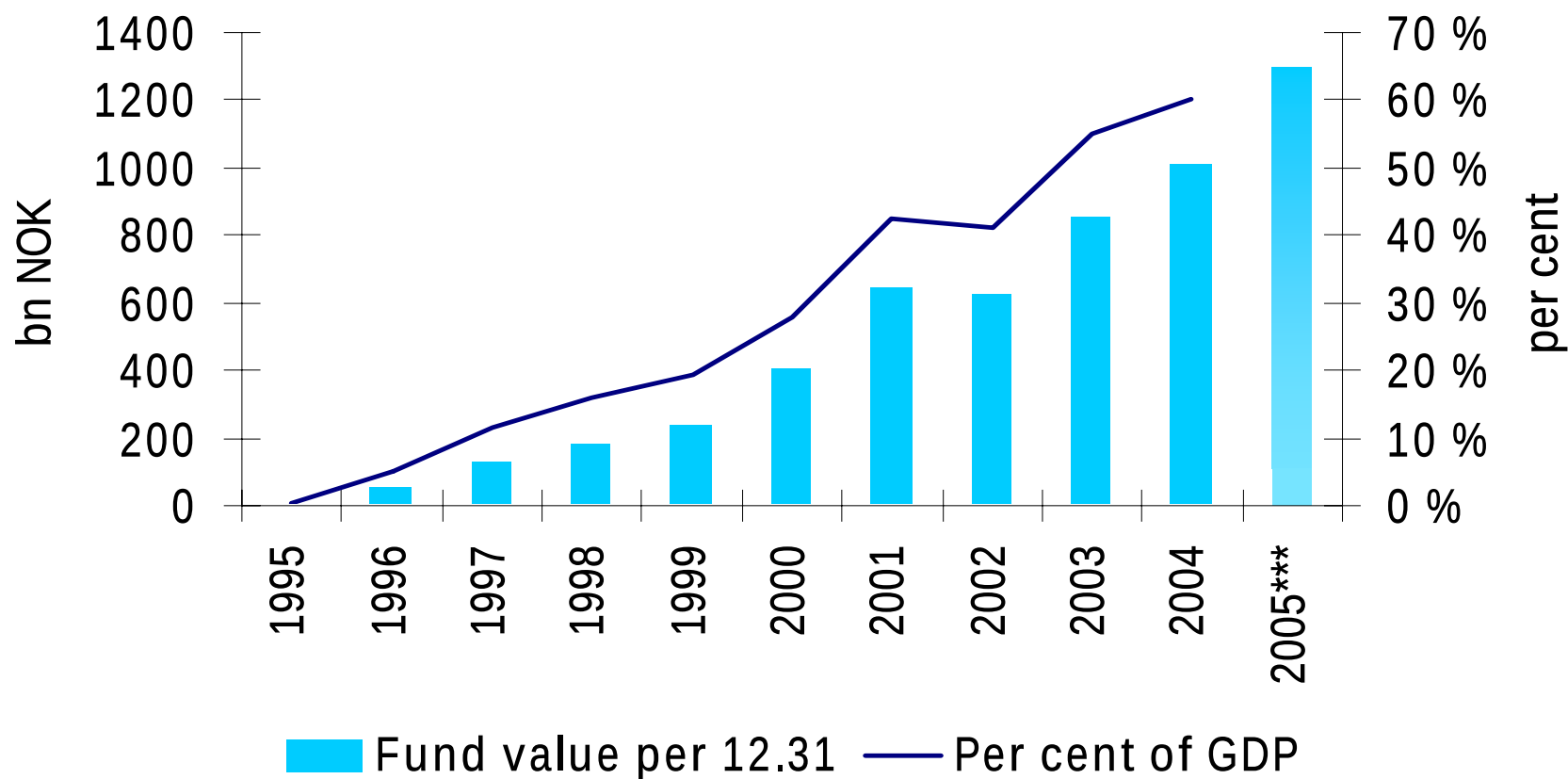
Marubeni, Vienco, PA resources,
Premier, Revus (op)



Number of production licenses (all licensees) awarded in mature areas

Source: NPD 2005

The petroleum fund per. 12.31 and the share of GDP



*** 2005 Estimate from RNB05

Sources: Statistics Norway, Ministry of Finance, MPE



An attractive investment climate:

- Stable economic and political environment
- Clear division of roles
- Clear property rights
- Predictable and efficient policies/legislation
- Transparent processes
- Consultations between industry and regulators

Internet address



www.oed.dep.no



www.mpe.dep.no

www.npd.no

