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Foundations for growth in production

Det norske is now laying the foundations for a substantial increase in production. Our aim is for the Frøy field and the combined development of the Draupne/Hanz/West Cable fields to be in production by 2014. The company will maintain a high level of exploration activity concurrently with development planning. Det norske plans to participate in about 10 exploration wells in 2010.

Managing Director Erik Haugane says that Det norske is now well on its way to becoming established as an offensively minded company on the Norwegian continental shelf.

During the first quarter we have made considerable progress in the development of both Frøy and Draupne. The work with Frøy means that we can make a decision about development and submit a plan for development and operation (PDO) in the course of this year. The recent results from Draupne are very encouraging. We envisage rapid development, resulting in production as early as 2014. This means that, as an oil company, we are entering a new phase characterised by a significant increase in production in the course of a short period of time. These two projects will be very important to Det norske in the time ahead.

Rapid development

In the first quarter, Det norske has continued its work on a revised plan for development and operation (PDO) of the Frøy field (PL 364). The partners in the licence aim to deliver an updated PDO in the third quarter 2010. A number of technical studies are underway, and commercial negotiations with relevant suppliers of field installations have been initiated. The plan is to award the development contract in the fourth quarter 2010, once the PDO has been approved. Production start is planned for 2013.

At the same time, work is in progress to mature the development concept for Draupne and Hanz (PL 001B/028B). The Draupne delineation well (16/1-11) and the subsequent delineation well (16/1-11A) proved greater volumes than previously assumed. Det norske is considering Draupne in the context of the neighbouring fields Hanz and West Cable. Together, these three fields could contain between 110 and 150 million barrels of oil equivalents. Det norske believes these fields can be developed profitably. Alternative development solutions are being considered, including both independent development and tie-in with another host platform.

Extensive exploration activity

Det norske was awarded six operatorships and ownership interests in 10 licences during the round of awards in pre-defined areas (APA) 2009. The company has sufficient rig capacity to implement its exploration programme. Det norske currently has interests in 74 licences, including 37 operatorships.

During the first quarter, the company has used three drilling rigs and been involved in four exploration wells without any lost-time injuries or other serious injuries having occurred. Shallow

gas was encountered in two exploration wells. These events were adequately and safely handled in accordance with approved plans and regulations.

Det norske was operator for the drilling of a dry well (6507/11–10) in the Frusalen prospect in PL 476 in the Norwegian Sea. Exploration well 25/10–10 in the Balder Trias prospect in PL 028S was also dry.

Det norske signed an agreement with A/S Norske Shell to take over 10% of PL 392. The licence includes the Dalsnuten prospect, where drilling with the Aker Barents is planned for the second half of 2010.

After the end of the first quarter, Det norske made an oil discovery in Storklakken through well 25/1–11 in PL 460, in which the company has a 100% ownership interest. The recoverable reserves are estimated at between 7 and 12 million barrels of oil. Exploration well 15/12–22 in the Storkollen prospect proved to be dry. Det norske is operator and owns 45% in Storkollen.

Talisman has drilled exploration well 2/2–6 in the Optimus prospect, in which Det norske has an ownership interest of 40%. The results were ready after the first quarter and showed that the well was dry. One delineation well in the Grevling oil discovery (15/12–23) was completed after the first quarter. Neither discovery well 15/12–21 nor sidetrack 15/12–21A were able to prove the oil–water contact.

Det norske will maintain its high level of exploration activity, and will continue to be active in the market for licences. In the course of the first quarter, Det norske has returned shares in seven licences. The resources previously used in these licences will be used elsewhere, where the company believes that the results may be more promising.

Production in the first quarter amounted to 218,191 barrels of oil equivalents (176,450). This works out at an average of 2,424 barrels per day (1,961). The oil was sold at an average price of USD 76.0 per barrel (42.9). All the fields will generate a positive cash flow based on the current oil price of around USD 85. (See the production table below.) Det norske aims to increase production to 15,000–20,000 barrels a day in the course of the next five years.

Financial considerations

Operating revenues in the first quarter amounted to MNOK 97.1 (compared with MNOK 57.1 during the same period last year). This increase of 70 per cent is the result of increased production and higher oil prices, which more than compensated for the weak development of the NOK/USD exchange rate, which fell from 6.86 in the first quarter 2009 to 5.86 in the first quarter 2010.

The company had an operating loss of MNOK 574.7 (compared with an operating loss of MNOK 68.5 during the same period last year) The loss can largely be ascribed to exploration expenses of MNOK 544.2 (59.5). These expenses are affected by how the dry wells in Balder and Frusalen are treated for accounting purposes. The loss for the period was MNOK 174.3 (compared with a profit of MNOK 7.3 during the same period last year) after a positive tax expense of MNOK 471.1 (49.4).

The net cash flow from operational activities was MNOK –584.1 (616.3). The negative cash flow was a result of the considerable increase in exploration activities which increased the loss before tax. The strong, positive cash flow during the first quarter in 2009 was a result of a reduction in receivables, as a consequence of receiving settlement for the sale of our interest in Yme.

The net cash flow from investment activities was MNOK –286.2 (–233.6) during the first quarter and consisted mainly of exploration expenses and expensed exploration wells.

The company is financially strong with an equity ratio of NOK 47% (67%) and cash, cash equivalents and tax receivables amounting to MNOK 3,567.1 (2,275.0) at the end of the period.

Total assets amounted to MNOK 7,814.0 (5,525.0) as of 31 March. The group has an exploration credit facility of MNOK 4,500 with a consortium of banks, headed by DnB NOR Bank.

Find the Q1 Report and the presentation attached.

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About Det norske:

Det norske oljeselskap ASA has interests in a total of 74 licenses, with 37 operatorships.

Det norske is the second-largest operating company on the Norwegian Continental Shelf both considering number of operatorships and exploration activity. I 2009 the company operated nine exploration wells, and the high activity will continue in 2010. Det norske runs its activities in a safe and responsible manner in close cooperation with the authorities.

Det norske currently employs a staff of 180. The company's registered office is located in Trondheim. The company also has offices in Oslo, Harstad, and Stavanger. Det norske is listed on the Oslo Stock Exchange (DETNOR).