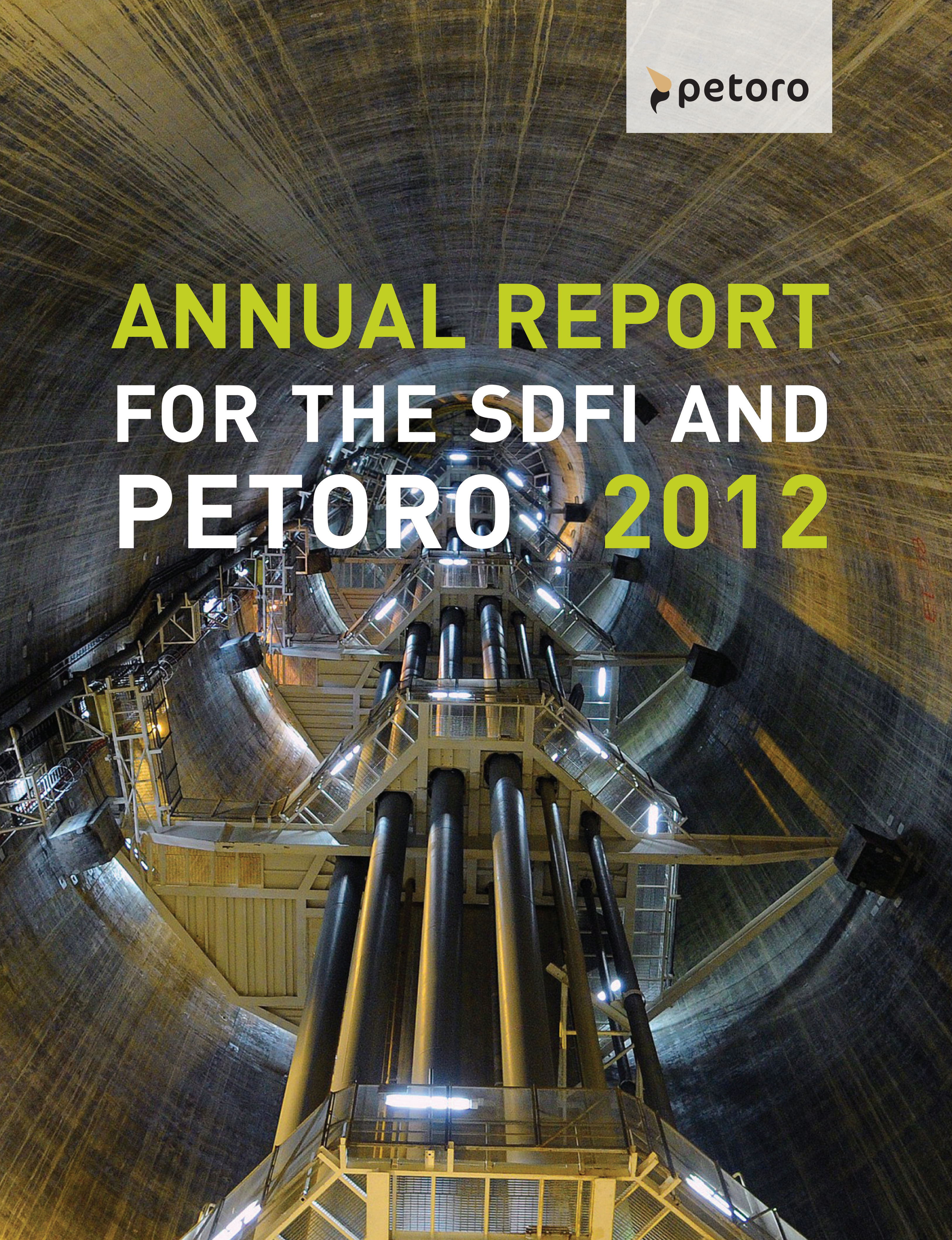


petoro

# ANNUAL REPORT FOR THE SDFI AND PETORO 2012

## 1 250 000 000 000

Since its creation in 2001, Petoro has transferred a net cash flow of more than NOK 1 250 billion to the Norwegian government.

The Norwegian government has large holdings in oil and gas licences on Norway's continental shelf (NCS) through the State's Direct Financial Interest (SDFI). These are managed by Petoro AS. The company's most important job is to help ensure the highest possible value creation from the SDFI – value which benefits the whole of Norway.

# CONTENTS

# **PETORO** IN BRIEF

Petoro's principal job is to maximise the value of the State's Direct Financial Interest (SDFI) in Norway's petroleum industry. This portfolio embraces a third of the oil and gas reserves on the Norwegian continental shelf (NCS) as well as platforms, pipelines and land-based plants.

**PRINCIPAL OBJECTIVE:**
to create the highest possible financial value from the state's oil and gas portfolio on the basis of sound business principles.

**VISION:**
A driving force on the Norwegian continental shelf.

**KEY DUTIES:**
Management of the government's holdings in the partnerships.

Monitoring Statoil's sale of the petroleum produced from the SDFI, as specified in the sales and marketing instruction.

Financial management, including accounting, for the SDFI.

## BIGGER ON THE NCS

Petoro follows up the state's interests in production licences and other partnerships. The number of licences has increased from 80 when the company was founded in 2001 to 158 at the end of 2012. Fields in production total 33.

The company is involved in fields and projects in all three provinces on the NCS – the North, Norwegian and Barents Seas. Agreement was also reached with Iceland before Christmas 2012 on interests in two licences in the Dreki area of the Icelandic sector on the Jan Mayen Ridge.

In early 2013, the Skrugard licence resolved that a subsequent development of the Skrugard/Havis discoveries would be based on a floating platform and subsea installations, plus an oil pipeline to Eidnes in Nordkapp local authority.

Development of Skrugard/Havis in the Barents Sea, Linnorm and the Polarled pipeline in the Norwegian Sea and Johan Sverdrup in the North Sea are examples of major projects with Petoro involvement in all parts of the NCS. In addition come a number of smaller developments.

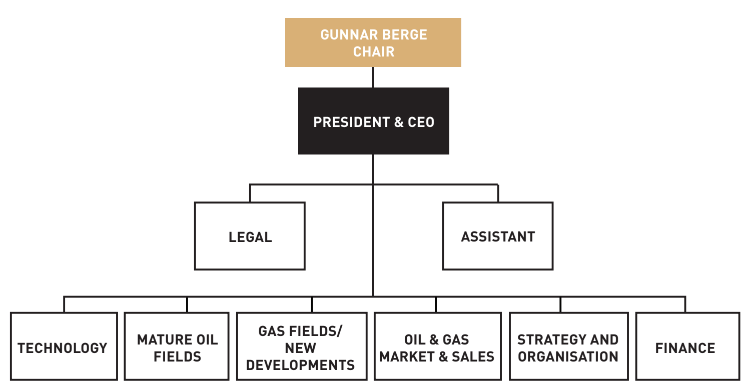
Securing value in and close to the big mature fields nevertheless represents the top priority in the company's strategy. In seeking to slow the decline in oil output and maintain overall production at today's level until 2020, Petoro has devoted particular work to Gullfaks, Snorre and Heidrun. It has not least sought to increase the pace of production drilling on these and other mature fields. More wells are the most important way to maximise the value of these producers within their commercial lifetime.

## ROLE AS LICENSEE

Petoro pursues its strategy by virtue of acting as the licensee for the SDFI's interests on the NCS.

The company was founded on 9 May 2001, after the partial privatisation of Statoil made it necessary to find a new arrangement for the commercial management of the SDFI. The company works on the basis of a mandate from the Storting (parliament), which requires it to manage the state's oil and gas in a commercial manner and to maximise its economic value.

Since its creation, Petoro has transferred a net cash flow averaging some NOK 100 billion annually to the government. This cash flow represents one of three principal sources of revenue for building up the government pension fund – global, colloquially known as the oil fund.

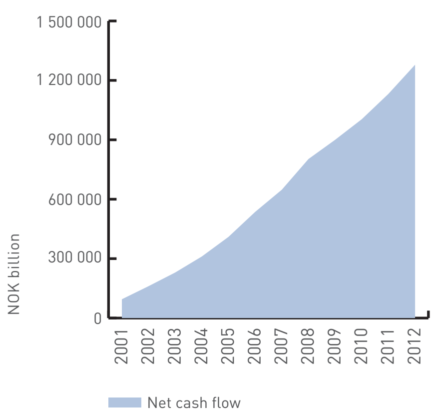


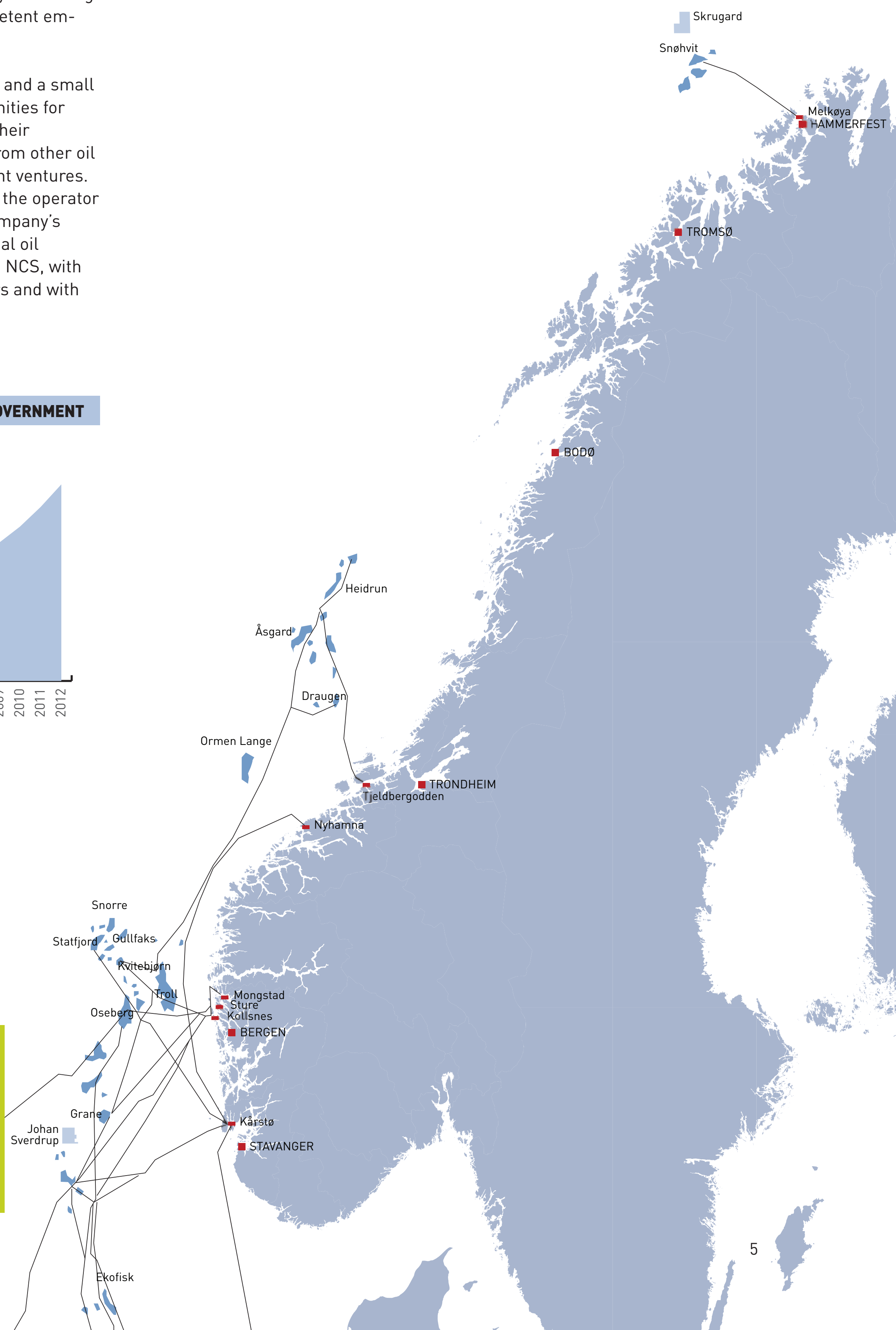
## BIG ASSETS PROVIDE EXCITING OPPORTUNITIES

Petoro's big portfolio makes it a very interesting workplace for about 70 highly competent employees at its Stavanger office.

The combination of a large portfolio and a small organisation gives staff big opportunities for professional development through their encounters with senior personnel from other oil companies in licences and other joint ventures. Petoro works closely with Statoil as the operator for a very large proportion of the company's output, but also with the international oil companies and other players on the NCS, with government agencies, with suppliers and with other external centres of expertise.

**CASH FLOW TRANSFERRED TO THE GOVERNMENT**

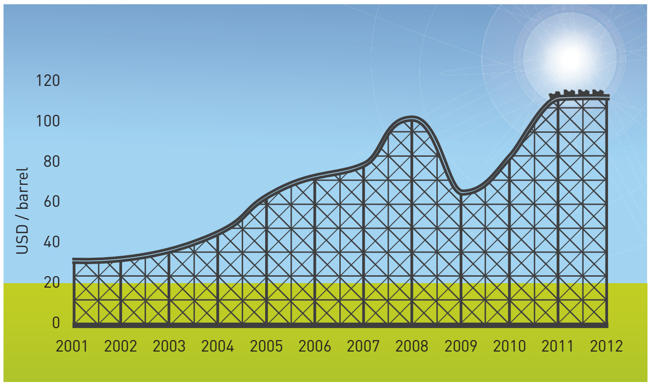



**IMPORTANT MATURE OIL FIELDS:**
Oseberg, Heidrun, Gullfaks, Snorre, Visund, Draugen, Ekofisk, Grane, Norne.

**IMPORTANT GAS FIELDS:**
Troll, Ormen Lange, Åsgard, Snøhvit, Kvitebjørn, Gjøa.

# VIEW FROM THE TOP OF THE ROLLER COASTER




Oil price developments 2001-2012

Petoro's birth in 2001 occurred during what was in several respects a memorable year for Norway's oil and gas industry. Statoil was privatised and had to transfer the State's Direct Financial Interest (SDFI) portfolio to Petoro. And oil output peaked at an average of 3.1 million barrels per day.

The Norwegian continental shelf (NCS) has subsequently experienced an extreme transformation. Production has halved for crude and doubled for gas. Oil prices have tripled. The number of oil companies on the NCS has risen from 14 to 54. Statoil and Hydro have become a single dominant operator. Petoro originally managed assets in 80 licences – that figure has risen to 158. Cash flow from its operations is up from NOK 94.5 billion to NOK 147 billion in 2012, and it still produces an average of 1.13 million barrels of oil equivalent per day (boe/d).

Major changes have also occurred in the world market for oil and gas. The USA is moving from heavy dependence on imported Middle Eastern oil to energy independence. We thought Europe would embrace gas as an energy source, but coal is once again bigger than gas in UK electricity generation. The gas market has become more uncertain, and a bigger commitment is needed to defend Norway's interests as a substantial exporter.

Mood swings related to the NCS have been considerable among players, government and general public. During the first few years of our millennium, exploration activity slowed down to an extent which prompted the government to establish generous incentives for new players. That helped. But the discoveries remained few and small. The Barents Sea became more like a distant dream. However, rising oil prices eased the mood – until the financial crisis in 2008 caused us to start worrying about pressures in the economy and the labour market. So sub-prime mortgages in the USA pulled us down again, into uncertainty and fears that the oil companies would be reluctant to invest.

But the mood changed once more, and has since turned to jubilation over high oil prices, a world-class Johan Sverdrup discovery and a Skrugard find which sparked a completely new level of interest in the Barents Sea. That once again proved too much of a good thing for those who like to surf ahead of the mood wave. They are worried about pressures in the economy and contracts going abroad.

Are we at the top of the roller coaster, or starting a stomach-clenching descent?

We will probably not learn the answer until it is too late to turn. That dynamic has characterised the petroleum industry ever since "colonel" Drake drilled the first modern oil well in 1859. Hydrocarbons are the world's largest source of energy – and thereby of growth and prosperity for billions. Big fluctuations in supply or demand for such a commodity could cause major price swings in themselves. And the fear of even bigger price swings might cause them to happen. Similarly, the balance between supply and demand could also be affected by major technological breakthroughs or big geopolitical changes.

In the prosperous west, we seem to be increasingly concerned with security and the absence of danger. That makes living with very dynamic conditions uncomfortable. Norway is a small economy by comparison with our energy exports. Relatively small variations in the level of activity can have big effects. Nor did it take us many months to move from fear of recession in 2008-09 to rising concern over boom conditions.

Some are quick to call for stronger government controls. But fine-tuning activity in order to tailor it to the national economy or fabrication order books is difficult to achieve through official action in such a big business as the Norwegian oil and gas sector. Nor is such regulation popular with those who have committed a lot of capital and expertise to developing the NCS.

I have seen some people point to Petoro as an instrument for adjusting the level of activity. They need to remember that the company and its portfolio of oil and gas holdings are primarily a commercial instrument for securing a very high share of value creation for the state and society. Through its role as a licensee, however, Petoro is also an instrument for ensuring a long-term and coherent development of the NCS.

On a commercial basis, the company demonstrated this by putting pressure on other players when the financial crisis and capital discipline threatened to curb profitable investment projects on the NCS.

In the present circumstances, too, when many other companies are devoting most of their attention to new developments and to exploring for more oil, Petoro has an important commercial job to do in safeguarding time-critical investment in order to maximise the value of the big mature fields. It will also contribute to maintaining our position as a big exporter to Europe by exploring for more gas at a time when most of the attention is on oil.

The changes I described initially have fundamentally altered the preconditions for Petoro to perform to its role. Before, it could mobilise substantial capacity and expertise by allying with Hydro in licences where Statoil was the operator – and vice versa. After the merger, Petoro must do more of the advanced technical and economic work itself. It has gladly accepted that job in order to exert genuine influence over the choices made in the licences. This is being done at the same time as its licence interests have doubled, while the players the company must deal with have increased many times over.

As my time at Petoro's helm draws to a close, I am very satisfied with the position secured by the company as a commercial player in the Norwegian oil industry. But I am convinced that the company and its very competent employees have more to give their owner and the industry, both in the form of value and by being an active participant in the actual business. However, that calls for a high level of expertise, greater capacity than at present and more commercial flexibility.

At the same time, I see that there has never been such a broad comprehension in the political community of the necessity for a genuine strengthening of Petoro. Of particular importance has been the opposition's recognition of the significance of more flexible and commercial financing for the company. Precisely in an industry and a world characterised by the sweeping changes I have described above, it is critical for a company to be able to respond to the opportunities and challenges represented by these developments in a commercial and flexible manner.

That is why it is so important that the cost of operating Petoro becomes a flexible component of the SDFI budget, rather than a fixed item in the annual government budget – where expenditure which increases long-term state revenues must compete with spending on what many people regard as more pressing needs in education, health and transport.

With such a change and strengthening, I believe Petoro would secure the weight to play an even more important role over the next 12 years.

That would be to the benefit of Norway Ltd.

**KJELL PEDERSEN**
President and CEO, Petoro AS

# KEY FIGURES 2012

Net income for the portfolio in 2012 came to NOK 150 billion, compared with NOK 133.7 billion the year before. Total operating revenue was NOK 213.9 billion, compared with NOK 188.8 billion in 2011. This yielded a cash flow to the government of NOK 146.9 billion as against NOK 128.1 billion the year before. Total production averaged 1 132 000 barrels of oil equivalent per day (boe/d), which was 11 per cent higher than the 2011 figure of 1 016 000 boe/d.

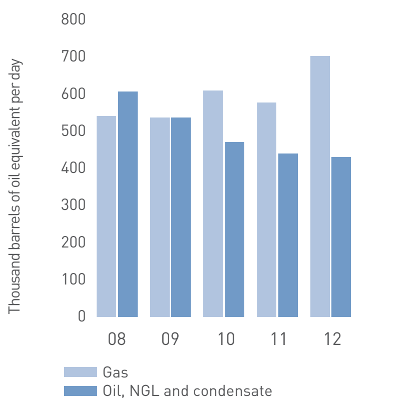
**FINANCIAL DATA** (in NOK million)

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Operating revenue | **213 885** | 188 820 | 159 270 | 154 186 | 214 585 |
| Operating income | **152 717** | 134 959 | 107 225 | 103 964 | 157 843 |
| Net income for the year | **149 986** | 133 721 | 105 379 | 100 662 | 159 906 |
| Cash flow from operating activities | **174 499** | 149 205 | 123 210 | 120 050 | 175 548 |
| Cash flow applied to investment activities | **25 610** | 21 437 | 18 443 | 23 592 | 19 948 |
| Net cash flow | **146 930** | 128 083 | 103 572 | 96 992 | 155 420 |

**OPERATIONAL DATA**

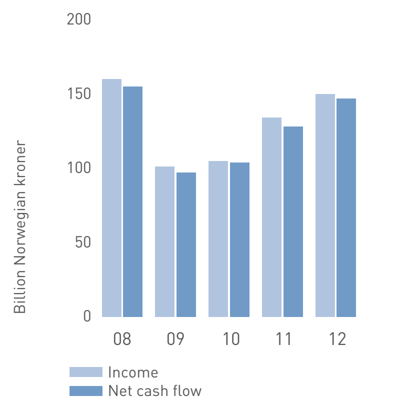
| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Production oil, NGL and condensate (1 000 barrels per day) | **430** | 440 | 470 | 537 | 607 |
| Production dry gas (million scm per day) | **112** | 92 | 97 | 85 | 86 |
| Oil, NGL and dry gas production (1 000 boe per day) | **1 132** | 1 016 | 1 080 | 1 074 | 1 148 |
| Remaining reserves (million boe) | **6 623** | 6 759 | 6 541 | 6 789 | 7 357 |
| Reserve replacement rate (three-year average in per cent) | **86** | 49 | 1 | (3) | 18 |
| Reserves added (million boe) | **278** | 601 | 187 | (176) | 36 |
| Oil price (USD per barrel) | **113.27** | 114.00 | 79.38 | 60.53 | 97.99 |
| Oil price (NOK per barrel) | **657** | 632 | 482 | 380 | 528 |
| Gas price (NOK per scm) | **2.35** | 2.15 | 1.76 | 1.95 | 2.40 |

## PRODUCTION



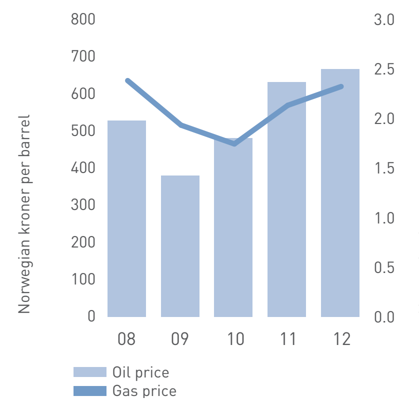

Total production from the SDFI portfolio was 11 per cent higher than in 2011. The output of liquids (oil, NGL and condensate) declined by two per cent compared with the year before, while gas production was up 22 per cent.

## INCOME AND CASH FLOW



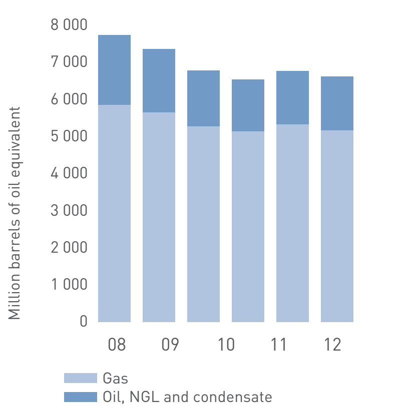

Net income for 2012 was NOK 150 billion, up by 12 per cent from the year before because of higher gas volumes and prices. Overall oil and gas sales averaged 1 197 000 boe/d, compared with 1 083 000 boe/d in 2011. Cash flow, transferred in its entirety to the government, was NOK 147 billion, up by almost NOK 20 billion from the year before.

## OIL AND GAS PRICES



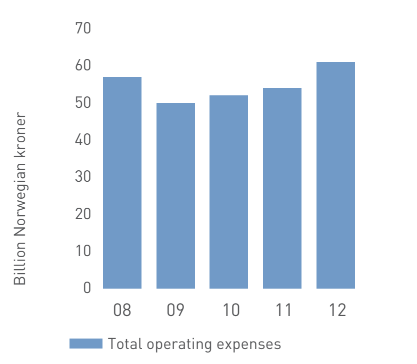

The price of oil from the SDFI portfolio averaged NOK 657 per barrel in 2012, compared with NOK 632 the year before. In US dollars, the average was USD 113 per barrel – on a par with 2011. Gas fetched an average price of NOK 2.35 per scm in 2012, compared with NOK 2.15 the year before.

## REMAINING RESERVES



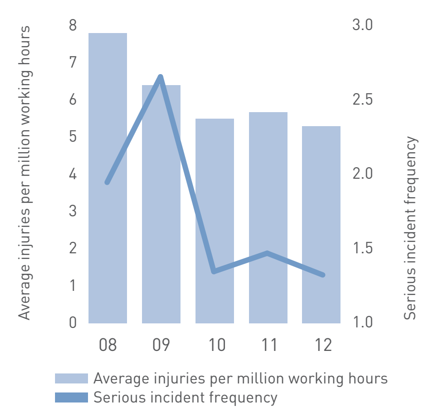

The portfolio's estimated remaining oil, condensate, NGL and gas reserves totalled 6.62 billion boe at 31 December, down 136 million boe from the year before. Production in 2012 came to 414 million boe, but was partly offset by new volumes from the Martin Linge project and the upward adjustment of volumes plus an increased holding in Heidrun. New production wells on Troll were also sanctioned.

## EXPENSES




Total operating expenses were up by NOK 7.3 billion from 2011 because of increased depreciation and write-downs as well as higher costs for purchasing gas. The cost of operating fields, pipelines and land-based plants was up by NOK 0.9 billion from 2011. This increase related to well workovers.

## SAFETY




Petoro's main parameter for monitoring HSE developments in the SDFI portfolio is the serious incident frequency (SIF), which measures the number of such events per million working hours. At 1.3, the SIF for 2012 was an improvement on the year before. The number of personal injuries per million working hours came to 5.3, also an improvement from 2011.


The drill floor on *Ocean Vanguard*
Photo: Øyvind Hagen/Statoil

# HIGHLIGHTS 2012

**ADDITIONAL VOLUMES IN EARLIER OIL FINDS**
Substantial discoveries were made in 2012, with hydrocarbons proven in seven wells representing a total recoverable volume of 470-580 million barrels of oil equivalent (boe). All the finds during the year were oil. The most positive exploration results were made in Geitungen adjacent to Johan Sverdrup, and by appraisal wells on the latter field as well as on Skrugard and Maria.

**DEVELOPMENT OF JOHAN SVERDRUP**
Petoro worked to establish unitisation principles for Johan Sverdrup which will safeguard the government's interests in this field, extending as it does across several production licences with different sets of licensees. The company entered into a collaboration agreement with Det Norske Oljeselskap ASA, and secured earmarked funds for an extra commitment on Johan Sverdrup.

**DRILLING AND WELLS IN MATURE AREAS**
Petoro's commitment during the year was directed at long-term development of the Gullfaks, Snorre and Heidrun oil fields to ensure the recovery of their resource potential within their producing lives. The partners on Gullfaks approved an overall further development plan for this area in June.

The commitment to Snorre focused on continued development of a new wellhead platform for the field, so that the licence can assess this option as well as a subsea installation up to the choice of concept in the summer of 2013. On Heidrun, Petoro developed an alternative field development plan which includes a new platform.

No sign can be seen of an improvement in the pace of drilling from fixed installations on the mature fields. During 2012, Petoro pressed for additional wells on Heidrun, assessed the use of a lightweight rig to supplement the existing drilling installation on Gullfaks, and evaluated opportunities for new platforms to secure a substantial increase in the drilling pace.

### INVOLVED OFF ICELAND

The Norwegian government resolved in December 2012 to participate in two production licences on the Icelandic continental shelf (ICS). Through its newly established subsidiary, Petoro Iceland AS, Petoro will manage the Norwegian participatory interest of 25 per cent in both licences. The Icelandic subsidiary will have no employees, with all the work being done by Petoro under a management contract. The fact that the Norwegian regulatory model has also been chosen as the basis for the ICS will be a big advantage.

### MARKET DEVELOPMENTS

Oil prices are expected to fluctuate considerably during 2013. They will be balanced by uncertainty on the supply side related to low reserve capacity and persisting unrest in the Middle East, as well as demand uncertainties related to global economic trends.

Norwegian gas sales hit a record at 38.5 billion cubic metres in the 2011 gas year. Structural changes in gas markets, increased supplies of liquefied natural gas (LNG) and weak demand have reduced gas prices compared with oil, and put pressure on prices in the long-term gas sales contracts. Viewed overall, great uncertainty prevails about the development of the balance between supply and demand in Europe. Statoil adopted a new gas sales model in 2012 which takes account of the most important structural changes in this market.

### GOOD HSE RESULTS, BUT DROPPED OBJECTS STILL A CHALLENGE

Health, safety and environmental results for facilities in the portfolio were on a par with 2011. No fatal accidents occurred in the SDFI portfolio during 2012. Dropped objects and incidents related to mechanical handling continued to dominate the statistics.

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Norwegian gas sales hit a record at 38.5 billion cubic metres in the 2011 gas year.
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Heidrun
Photo: Øyvind Hagen / Statoil

# SAFETY

## ANNUAL REPORT 2012

# SAFETY IN 2012

Results for health, safety and the environment on facilities in the SDFI portfolio have been improving for a number of years. The serious incident frequency (SIF) per million working hours was 1.3 in 2012. No fatalities occurred during 2012, but two incidents with a major accident potential were recorded. Dropped objects and incidents related to mechanical handling continued to dominate the statistics.

Petoro's main parameter for following up health, safety and the environment in the SDFI portfolio is expressed by the SIF. This measurement parameter is intended to ensure that attention is given to the risk of incidents which can cause major accidents. The company also follows up the personal injury frequency (PIF) per million working hours. A total of 47 incidents were recorded as serious, or an average of 2.6 per installation included in the 2012 statistics. The PIF came to 5.3, which was slightly lower than in 2011.

Despite a continued challenge presented by incidents related to dropped objects, their number has almost halved over the past four years. That reflects measures adopted by the industry.

Petoro aims to be a proactive partner in efforts to reduce the scale of personal injuries and undesirable incidents on the NCS. Petoro gave priority in its HSE work during 2011 and 2012 to establishing a common approach in the licences to identifying major accident risk, and to identifying and following up compensatory measures. This will initially be implemented in joint ventures for fields operated by Statoil, with an action team drawn from ExxonMobil, ConocoPhillips, Total and Petoro.

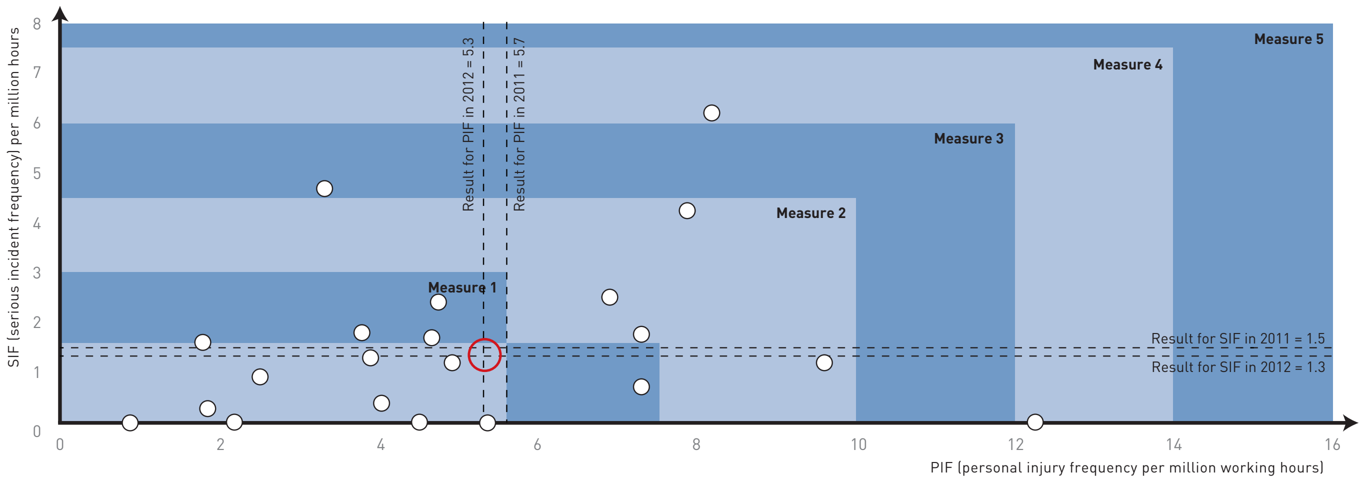
The company participated in HSE management inspections during 2012 on selected fields and installations, including Grane and the Nyhamna plant. Petoro works with the operators and the industry as a whole to achieve a reduction in personal injuries and serious incidents.

**ACROSS AREAS AND LICENCES**

Health and safety are a line responsibility, which is followed up in the management committees of the licences. To disseminate experience and share expertise between Petoro's own staff, safety and health are in focus at regular management-level meetings and in the company's business areas. The executive management also holds regular bilateral meetings with the biggest operators where HSE is a key topic. Petoro's HSE manager is a driving force in cross-licence work on following up results and measures. Statistics from the various installations clarify good and less positive results, and make it possible to identify lessons which can be transferred to other installations and licences. These results lay the basis for Petoro's decisions on follow-up and action. As in previous years, the company participated during 2012 in a number of inspections on fields and installations as part of its compliance responsibility and role as a visible and demanding partner with a focus on safety work. HSE work on facilities in the SDFI portfolio resulted in an improvement of about 10 per cent compared with 2011. No fatalities occurred during 2012, but two incidents with a major accident potential were recorded.

## SERIOUS INCIDENTS AND PERSONAL INJURY FREQUENCY

The colour gradation represents Petoro's pattern of response to the rising seriousness of personal injuries and serious incidents.




○ Prioritised installations in the SDFI portfolio

- - - - Result for personal injuries and serious incidents

○ Average for 2012

**Measure 1:** Challenge in licences • Consider meeting at field/area level
**Measure 2:** Meeting at field/area level • Assess operator measures and implementation • Consider doing own analysis
**Measure 3:** Perform own analysis • Call field manager after each SI • Consider meeting at management level • Consider requesting partner inspection
**Measure 4:** Hold meeting at management level • Initiate and execute partner inspection • Consider meeting at company level
**Measure 5:** Hold meeting at company level • Consider meeting with Petroleum Safety Authority Norway


petoro

# PETORO'S MANAGEMENT AND BOARD

## DIRECTORS' REPORT 2012

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# CORPORATE GOVERNANCE

Petoro's management of substantial assets on behalf of the Norwegian government calls for good corporate governance which fulfils the expectations of its stakeholders and society at large. The portfolio of the State's Direct Financial Interest (SDFI) embraces a third of Norway's oil and gas reserves. Total production is expected to remain at an annual average of roughly one million barrels of oil equivalent per day (boe/d) until 2022.

Petoro's principal objective is to create the highest possible financial value from the state's portfolio on the basis of sound business principles. The board gives weight to good corporate governance in order to ensure that the portfolio is managed in a way which maximises financial value creation, and creates the basis for confidence in the company by the owner, the employees, the oil industry and other stakeholders as well as the rest of the community.

The company's governance system builds on the Norwegian code of practice for corporate governance to the extent that the code's recommendations are relevant to Petoro's business and the framework established by the company's form of organisation and ownership. Tailored to the nature of the business, the governance system satisfies the requirements for corporate governance specified in the government's financial regulations. The governance system simplifies the availability of management information and helps to keep attention concentrated on the company's performance and risk picture at all times. Petoro reports on the follow-up of its corporate social responsibility (CSR) in a separate chapter of this report.

Petoro has a values base which is integrated in its business activities. The purpose of these values is to provide the company and its employees with a shared basis for attitudes and actions in Petoro.

## THE COMPANY'S VALUES ARE AS FOLLOWS

- **Vigorous**

We seize opportunities for value creation, we establish our own positions, take the initiative and clarify expectations, and we deliver.

- **Responsible**

We take an active approach to health, safety and the environment, we care, and we perform in a solid and professional manner with a high level of integrity.

- **Inclusive**

We value the expertise and experience of others, and recognise each other's contribution. We are open and inquiring, and collaborate internally and externally to create results.

- **Bold**

We think innovatively, and are adaptable in order to achieve results. We dare to try and learn from our mistakes. We challenge established truths.

## THE BUSINESS

Petoro is a limited company owned by the Norwegian state. Its main duties are specified in chapter 11 of the Petroleum Activities Act and the company's articles of association, and defined in more detail by the Ministry of Petroleum and Energy in the annual letter of award.

The purpose of the company is, on behalf of the state and at the expense and risk of the state, to hold the responsibility for and to attend to the commercial aspects related to the state's direct involvement in petroleum activities on the Norwegian continental shelf, and business associated herewith.

Petoro's principal objective is to create the highest possible financial value from the state's oil and gas portfolio on the basis of sound business principles.

**The company has three main duties:**

- management of the state's participatory interests in the joint ventures where the state has such interests at any given time
- monitoring Statoil's marketing and sale of the petroleum produced from the state's direct participatory interests, pursuant to the marketing and sale instruction issued to Statoil
- financial management, including preparation of budgets and keeping of accounts, of the state's direct participatory interests.

Petoro established Petoro Iceland AS in December 2012 as a Norwegian subsidiary with an Icelandic branch office in order to conduct on-going management of Norwegian participatory interests in two production licences awarded by the Icelandic government on 4 January 2013. The branch office serves as the licensee and participant in two joint ventures on Iceland's continental shelf. The participatory interest in each of these production licences is 25 per cent, as described in more detail in Proposition 42 to the Storting (2012-2013).

Petoro's operations are subject to the Norwegian Act on Limited Companies and the Norwegian Petroleum Activities Act, and to the government's financial regulations – including the rules on appropriations and accounting. Its activities are governed by the Ministry of Petroleum and Energy's instruction for financial management of the SDFI and the annual letter of award. In addition, the company's articles of association, strategy, values and guidelines on business ethics, including its guidelines for exercising the company's CSR, provide guidance for the conduct of Petoro's business.

The company's vision is to be a driving force on the Norwegian continental shelf.

Petoro's strategy is focused on the value potential of the portfolio and where Petoro has the greatest ability to exercise influence. The strategy falls into three parts and is weighted particularly towards an active role in mature fields – both because of their value in the portfolio and because of the limited attention paid to them by other licensees in these fields. The strategic components are:

- realise the potential in and close to large mature fields
- integrated and timely development of the gas value chain
- safeguard asset values in new discoveries.

The organisation is designed to support the new strategy and drive its realisation forward.

The company is the licensee – with the same rights and obligations as the other licensees – for holdings in 158 production licences and 15 joint ventures and companies for pipelines and terminals. The SDFI participates in 33 producing fields, of which the 10 largest account for about 80 per cent of the portfolio's value.

Petoro is an active partner which, through overall assessments and a purposeful commitment, contributes to maximising the value of the portfolio. This work is oriented towards areas and assignments in which the company, on the basis of the portfolio and in collaboration with other players on the NCS, can best contribute to achieving value creation. Petoro is concerned to achieve good governance in the joint ventures, and cooperates with its partners on further development of good performance-management processes in selected licences.

Through article 11 in Petoro's articles of association and the marketing and sale instruction issued to Statoil, the government has made Petoro responsible for monitoring that Statoil performs its duties in accordance with the instruction. As the majority shareholder in Statoil and the sole owner of Petoro, the government exercises a common ownership strategy through the marketing and sale instruction approved by the general meeting of Statoil.

A duty of confidentiality applies to information Petoro has received during its monitoring of Statoil's marketing and sales and in its work on the budget and accounts relating to the marketing and sale of the state's petroleum. The company's ethical guidelines emphasise that the recipient of such confidential information must use it only for its intended purpose, and must not trade in Statoil's securities for as long as the information is not publicly known.

The company also has internal instructions for dealing with inside information received by Petoro. These apply to the company's directors, employees, auditor, advisers or others in a relationship with the company who receive information expressly defined as "inside information" within the meaning of the Securities Trading Act. A special system has also been established for approving external directorships held by employees.

Petoro presents separate accounts for SDFI portfolio transactions, which form part of the government's accounts and are audited by the Auditor General of Norway. Cash flows generated from the portfolio are transferred to the government's own accounts with the Bank of Norway. Petoro reports annual cash flows from petroleum activities on the NCS to the government in accordance with the regulation implementing the extractive industries transparency initiative (Eiti) in Norway, which came into force on 1 July 2009.

Petoro has a share capital of NOK 10 million. The limited company's own operating expenses are covered by annual appropriations over the central government budget, which are presented as operating revenues in the accounts of the limited company.

## GENERAL MEETING

The Ministry of Petroleum and Energy, in the person of the minister, represents the government as sole owner and serves as the company's general meeting and highest authority. The annual general meeting is held before the end of June each year. It considers matters prescribed by Norwegian law, such as amendments to the articles of association and approval of the annual accounts. The Petroleum Activities Act lays down guidelines for issues to be considered by the company's general meeting. The general meeting elects the board of directors, with the exception of the worker directors, and the company's external auditor.

## BOARD OF DIRECTORS AND ITS WORK

Petoro's board comprises seven directors, of whom five are elected by the general meeting. Two are elected by and from among the company's employees. Three of the directors are women. Directors are elected for two-year terms. They have no commercial agreements or other financial relations with the company apart from the directors' fees established by the general meeting and contracts of employment for the worker directors.

The board has overall responsibility for the management of Petoro, including ensuring that appropriate management and control systems are in place, and for exercising supervision of the day-to-day conduct of the company's business. The work of the board is based on rules of procedure which describe its responsibilities and mode of working. The board met 13 times in 2012.

As an appendix to the instructions for its work, the board has adopted supplementary provisions for matters to be considered by it. An annual schedule of meetings has been established for the work of the board, with the emphasis on considering strategies, budgets and interim results. The board utilises a balanced scorecard system as a key instrument for monitoring results. This embraces financial/operational, organisational and relational aspects. The performance management model also covers both short- and long-term goals, quantitative as well as qualitative, and is well adapted to the company's challenges.

The board considers major investment decisions within the portfolio, follow-up and consideration of activities in the licences, and monitoring of gas sales – including an assessment of the overall risk picture. The board has chosen to organise its work related to compensation through a sub-committee. No other committees have been established by the board. In the event of conflicts of interest, the practice has been for the director concerned to abstain from consideration of the matter by the board.

An annual self-assessment is conducted by the board, embracing an evaluation of its own work and mode of working and of its collaboration with the company's management. The board was assisted in carrying out its self-assessment by an external consultant in 2012.

The board established guidelines in 2012 for exercising CSR. Petoro's CSR has previously found expression in the board's instructions for its own work and that of the president, and has also been reflected in the company's guidelines on business ethics. Petoro reports on its work on CSR in a separate chapter of this annual report.

The individual director and the board as a collective body seek to strengthen their expertise in various ways. These include participation in courses and conferences and generally by following developments in the area. The board undertook a study trip in 2012 to strengthen its expertise.

## RISK MANAGEMENT AND INTERNAL CONTROL

Risk management in Petoro supports the company's strategy and goals. The board undertakes an annual review of the company's most important risk areas and its internal control process. In this review, the board gives weight to the risks and opportunities which Petoro itself can influence through its own measures within the frameworks available to it. The most important operational risks are followed up in the management committees for the priority fields/joint ventures. Petoro works continuously on maturing and developing risk management in line with principles for integrated management and the development of the company's risk picture. These principles build on the internationally recognised Coso/ERM framework for internal control, and on the company's internal expertise.

Identification and management of risk and risk exposure form part of Petoro's business processes. The company works with risk management to handle conditions which could affect its ability to reach specified targets and to implement chosen strategies, as well as those which could affect its ability to submit accurate accounts. Risk management is an important tool for reducing uncertainty in Petoro's strategy and performance-monitoring processes, and for creating understanding of the risk picture across the business.

The internal control function at Petoro is charged with ensuring that the business is conducted in accordance with the established governance model and that requirements specified by the government are observed. This function forms an integrated element in Petoro's management processes, and is responsible for ensuring that integrity and completeness are assessed for all management information and that management systems are effective.

The framework for internal control has been formulated to provide a reasonable level of assurance that goals will be met in the following areas:

- purposeful and cost-effective operation
- reliable reporting of accounts
- compliance with applicable law and statutory regulations.

Petoro's internal audit function is provided by an external audit company, which audits the internal control systems in accordance with its instructions and an annual plan approved by the board.

Guidelines have been adopted by Petoro to facilitate internal reporting of conditions in the business which are open to criticism. Whistleblowers who want to preserve their anonymity or who do not wish for other reasons to raise the matter with their superior can notify the internal auditor.

## REMUNERATION OF THE BOARD AND SENIOR EMPLOYEES

The general meeting determines the remuneration of directors. The board determines the remuneration of the president and CEO. The chief executive determines the remuneration of the other members of the company's senior management. Guidelines have been specified by the board for the remuneration of senior executives in Petoro pursuant to the frameworks specified in the guidelines for state ownership – attitude to executive pay. Details of the actual remuneration paid in 2012 to directors and the executive management are provided in the notes to the annual accounts.

## INFORMATION AND COMMUNICATION

The Petoro board has established a communication strategy to ensure that an open dialogue is pursued both in-house and externally, so that the company's employees and other stakeholders are well informed about its business activities.

Information is published via the company's website, press releases and in the interim and annual reporting of its results. Petoro's annual report is prepared in March. It provides a broad description of its operations, the directors' report and the annual accounts, as well as coverage of health and safety and the impact of the business on the natural environment and other wider social considerations.

## AUDITOR

The Auditor General is the external auditor for the SDFI portfolio pursuant to the Auditor General Act. It checks that the company's management of the portfolio accords with the decisions and assumptions of the Storting (parliament), and audits the annual accounts for the SDFI portfolio. On the basis of this work, the Auditor General submits its report in a final auditor's letter.

In addition, the board has appointed Deloitte as an external audit company to serve as the internal auditor for the SDFI. The internal auditor conducts a financial audit of the portfolio's accounts and submits an auditor's report pursuant to Norwegian auditing standards and cash accounting principles, including RS 800 on the auditor's comments concerning special-purpose audits. The contract with the external auditor company covers both financial auditing of the SDFI and Petoro's internal auditor function. In addition, the company's function for notification of irregularities (whistleblowing) is handled by the internal auditor.

Erga Revisjon AS has been selected by the general meeting as the external auditor for Petoro AS.

# CORPORATE SOCIAL RESPONSIBILITY

**Petoro undertakes to pursue its business activities in an ethically acceptable, sustainable and responsible manner.** The board adopted guidelines in 2012 for the exercise of corporate social responsibility (CSR) at Petoro. CSR embraces the activities voluntarily pursued by the company over and above existing legal and regulatory obligations. Petoro undertakes to conduct its business operations in an ethically acceptable, sustainable and responsible manner. Funding for discharging its management duties and for running the company is provided through appropriations from the government, and Petoro has no mandate to provide monetary support for social purposes. The board emphasises that the company's CSR forms an integral part of its activities and strategies. This is reflected in part through its values. Petoro's CSR was earlier addressed as part of its business ethics through the guidelines on this subject.

**Petoro pursues its business in accordance with good corporate governance. That applies to its participation in the individual production licences and as a partner in the joint ventures.** The joint venture agreements for the production licences include requirements on governance by the operators. Petoro exercises its role through active participation in management committees and sub-committees on the basis of a prioritisation of available resources and where it can make a difference. Follow-up of the state's equity interests in all joint ventures is incorporated in Petoro's governance system.

**Petoro pursues its business in a sustainable manner which minimises negative impacts on nature and the environment.** Serious incidents are followed up as a critical success factor in Petoro's governance system, and it pays close attention to incidents which could have negative consequences for nature and the environment. Health, safety and environmental results for facilities in the portfolio have improved over a number of years. Petoro participates every year in HSE management inspections on selected fields and installations.

Petoro is concerned to ensure that power from shore is assessed for new field developments and major conversions, providing a technically feasible solution is available at an acceptable abatement cost. In connection with the development of Johan Sverdrup and other discoveries on the Utsira High, a pre-unit agreement was established in 2012 which includes assessing common solutions for power from shore.

The company contributes to creating environmentally conscious attitudes among all its employees, and continued waste sorting in 2012 as well as incentives established to increase the use of public and environment-friendly transport. Emphasis is given to efficient ICT solutions and good communication systems, with opportunities to replace physical meetings with videoconferencing.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of its external annual report on the natural environment, based on figures obtained from the operators. No significant emissions to the air or discharges to the sea occurred from the SDFI portfolio during 2012.

**Petoro does not accept any form of corruption or other malpractice,** and employees are not permitted to receive remuneration from others in their work for the company. Guidelines on business ethics define what is regarded as corruption, and the consequences of breaching these guidelines receive special mention. No breaches of these guidelines have been recorded.

**Petoro's employees do not accept unlawful money gifts or other benefits, or offer these in order to secure an advantage for themselves, for Petoro or for others.** Employee directorships and jobs on the side must be approved by the president in order to avoid possible conflicts of interest. Guidelines on business ethics detail the consequences of breaches. No breaches of the guidelines have so far been recorded.

**Petoro's employees comply with the company's business ethics guidelines.** The company's guidelines on business ethics are publicly available. Their purpose is to clarify principles which will govern the company's commercial operations and employee behaviour. All employees sign the company's ethical guidelines annually. These guidelines cover such considerations as the duty of confidentiality, possible conflicts of interest and issues related to the receipt of gifts and services. Petoro has established security requirements for data and for information and communication technology (ICT) in its operations. Its information systems and data are secured against unauthorised access. The consequences of breaching Petoro's guidelines on business ethics are covered in a separate section.

**Petoro's employees discharges their duties with a high level of integrity and honesty, and show respect for other people, the public authorities and business contacts as well as for health, safety and the environment.** Through its HSE declaration, Petoro has a common goal of creating a good physical and mental working environment for all employees. Its guidelines on business ethics include requirements on ethical behaviour by all employees. PetroAktiv organises a number of social, cultural and sporting activities for employees. Participation is good in various events, which include cross-country skiing, relay races, theatre visits and concerts.

**Petoro does not discriminate on the basis of gender, religion, national or ethnic affiliation, social group or political views.** Women accounted for 36 per cent of the total workforce in 2012, unchanged from the year before, and for 42 and 25 per cent of the company's board and executive management respectively. Petoro gives weight to equality between the genders in terms of opportunities for professional and personal development, pay and promotion. The company facilitates a flexible customising of working hours. When determining pay and in pay negotiations, Petoro is conscious that men and women must be treated equally. No systematic or significant differences exist between male and female pay in the company. The company has a number of employees with differing cultural and ethnic backgrounds.

**The company has routines for reporting conditions open to criticism.** The board encourages the company's employees to raise ethical issues and to report any breaches of the regulations they encounter. The internal audit function is an independent whistleblowing channel with the right and duty to report to the board. No cases of whistleblowing were recorded in 2012.

**Petoro expects its partners and contractors/suppliers to maintain the same ethical standards set for its own business operations.** The management committee in each joint venture is responsible for considering and deciding issues related to the procurement and contract strategy. Petoro's standard contractual terms incorporate requirements that contractors/suppliers must execute the assignment with a high level of professionalism and in accordance with high ethical standards. The company's guidelines on business ethics are appended to all contracts as the standard to be met.

# BOARD OF DIRECTORS OF PETORO

**GUNNAR BERGE** [1940]
**Chair**

**Years of election/re-election:** 2007/2013
**Other directorships:** University of Stavanger, Western Norway Regional Health Authority, Norwegian Petroleum Museum.
**Education:** Technical college, 1957-58, Trade union college, 1966, and various courses. Skilled plate worker.
**Career:** Director-general, Norwegian Petroleum Directorate, 1997-2007, minister of local government, 1992-96, minister of finance, 1986-89, member of the Storting (parliament) for Rogaland, delegate to the UN general assembly, a number of important posts in the Norwegian Labour Party, including parliamentary leader and key committee posts in the Storting and party organisation, industrial worker in the 1950s and 1960s.

**HILDE MYRBERG** [1957]
**Deputy chair**

**Years of election/re-election:** 2006/2013
**Other directorships:** director, CGGVeritas SA, member, corporate assembly, Jotun AS and Gjensidige AS, member, election committee, Det Norske Oljeselskap ASA and NBT.
**Education:** Law degree, MBA from Insead.
**Career:** Head, market sector, Hydro Oil & Energy, 2002-06, and otherwise held a number of posts in Hydro, including business development for Hydro Energy, head of marketing activities in the power area, corporate legal executive and board secretary.

**MARI THJØMØE** [1962]
**Director**

**Years of election/re-election:** 2007/2013
**Other directorships:** Tryg A/S, Sevan Marine ASA, Argentum Fondsinvesteringer AS and SinOceanic Shipping ASA.
**Education:** MBE, Norwegian School of Management, 1987, authorised financial analyst, Norwegian School of Economics, 1992, London Business School.
**Career:** Self-employed. CFO/acting CEO, Norwegian Property ASA, 2009-2010, executive vice president, KLP, 2005-2008, senior vice president, Statoil, 2000-2005, with Norsk Hydro ASA 1988-2000. Directorships with Oslo Børs VPS Holding, Oslo Børs, Oslo Clearing, Norgani Hotels AS, KLP Eiendom, KLP Skadeforsikring, Aksje Norge foundation and Norwegian Investor Relations Association.

**PER A SCHØYEN** [1947]
**Director**

**Years of election/re-election:** 2007/2013
**Occupation:** Partner, Kluge Advokatfirma DA, Stavanger
**Education:** Law degree, various management programmes.
**Career:** Partner at Kluge since 2005. With Esso/ ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also deputy judge and assistant police attorney.

**NILS-HENRIK MØRCH VON DER FEHR** [1960]
**Director**

**Years of election/re-election:** 2005/2013
**Occupation:** Professor of community economics, University of Oslo.
**Education:** Economics degree.
**Career:** Has held a number of academic posts at the University of Oslo, and also lectured at the Universities of Heidelberg and Oxford. In addition, he has held a number of public and private posts, including member/chair of several official committees.

**ANNIKEN GRAVEM** [1968]
**Director**
**(elected by the employees)**

**Years of election/re-election:** 2012/2014
**Occupation:** Senior adviser, technology, Petoro
**Education:** MSc engineering, Norwegian University of Science and Technology (NTNU), 1992
**Career:** Number of years of experience in sub-surface work related to exploration and producing fields with contractor and operator companies (Schlumberger, Statoil, Halliburton and Petoro). Joined Petoro in 2009.

**RAGNAR SANDVIK** [1973]
**Director**
**(elected by the employees)**

**Years of election/re-election:** 2012/2014
**Occupation:** Senior adviser, finance, Petoro
**Education:** MSc business economics, Norwegian School of Economics (NHH)
**Career:** Experience from various roles in Petoro in commercial, licence management and economics, 2002-. Consultant, Accenture, 1999-2002.

# EXECUTIVE MANAGEMENT

From left: Olav Boye Sivertsen, Tor Rasmus Skjærpe, Roy Ruså, Jan Rosnes, Marion Svihus, Grethe Kristin Moen, Laurits Haga and Kjell Pedersen.

**KJELL PEDERSEN** [1952]
**President and CEO**
**Education:** MSc petroleum technology, Norwegian Institute of Technology (NTH).
**Career:** Has had a long international career, holding a number of leading posts both upstream and downstream in Exxon and ExxonMobil. President and CEO of Petoro since 2001.

**GRETHE KRISTIN MOEN** [1960]
**Vice president mature oil fields**
**Education:** MSc chemical engineering, Norwegian University of Science and Technology.
**Career:** Long experience from Norwegian and international petroleum operations. Has held a number of management posts in the production, technology and commercial areas at Statoil and Shell. Her most recent post at the latter was head of the E&P business in Norway and of HSE in Europe.

**JAN ROSNES** [1965]
**Vice president gas fields/new developments**
**Education:** MSc petroleum engineering, Stavanger University College.
**Career:** Broad experience from project and strategy work with Shell in Norway and the UK and with Statoil, among others. At Petoro, has been vice president for projects and strategy and for technology and ICT.

**LAURITS HAGA** [1954]
**Vice president marketing and sales**
**Education:** Economics degree.
**Career:** Long experience from the Norwegian and international oil and gas business. Held a number of management posts with Mobil and was head of the gas division in ExxonMobil Norway before joining Petoro.

**ROY RUSÅ** [1956]
**Vice president technology**
**Education:** BSc petroleum, Rogaland Regional College.
**Career:** Long experience of the Norwegian oil and gas business from Statoil and Baker Hughes Inteq. Previously headed Petoro's projects and strategy department.

**MARION SVIHUS** [1956]
**Chief financial officer**
**Education:** MSc in business economics, Norwegian School of Economics, Bergen.
**Career:** Long experience from Statoil, where she held a number of senior management position in the fields of economics, analysis, finance and strategy. Also eight years of experience from the banking and financial sector.

**OLAV BOYE SIVERTSEN** [1951]
**Vice president legal affairs**
**Education:** Law degree from the University of Oslo.
**Career:** Has earlier held posts as legal affairs officer at ExxonMobil, head of the legal affairs department for Mobil Norway, and in posts at the Ministry of Petroleum and Energy, the Ministry of Labour and Local Government and the Norwegian Petroleum Directorate. Also has international experience from Mobil's US business.

**TOR RASMUS SKJÆRPE** [1950]
**Vice president strategy and organisation**
**Education:** MSc engineering, Norwegian Institute of Technology (NTH).
**Career:** Long experience of Norwegian oil and gas operations, most recently as head of Petoro's licence management department and before joining Petoro as head of Norsk Hydro's operations in the Tampen area of the North Sea.

# DIRECTORS' REPORT 2012

Petoro manages the State's Direct Financial Interest (SDFI), which represents about a third of Norway's total oil and gas reserves. The company's principal objective is to create the highest possible financial value from this portfolio.

Net income in 2012[1] came to NOK 150 billion, compared with NOK 133.7 billion the year before. Total operating revenue was NOK 213.9 billion, compared with NOK 188.8 billion in 2011. This yielded a cash flow to the government of NOK 146.9 billion as against NOK 128.1 billion the year before. Total production averaged 1 132 000 barrels of oil equivalent per day (boe/d), which was 11 per cent higher than the 2011 figure of 1 016 000 boe/d. The net reserve addition in 2012 was 278 million boe.

## INCOME, REVENUES, COSTS AND RESERVES

An income after financial items of NOK 150 billion was up by 12 per cent from 2011. This rise reflected higher gas sales and prices, while that effect was offset to some extent by increased costs in buying gas for onward sale and by greater depreciation and write-downs. Overall oil and gas sales for the year averaged 1 197 000 boe/d, compared with 1 083 000 boe/d in 2011[2].Further maturation of the portfolio meant only a limited decline in oil production, which was down just two per cent from the year before. Gas output rose by 22 per cent from 2011.

Income before financial items came to NOK 152.7 billion. Net financial expenses of NOK 2.7 billion consisted mainly of calculated interest expenses on future removal liabilities for the SDFI.

Revenue for the year from dry gas sales totalled NOK 106.4 billion as against NOK 81.7 billion in 2011. Total gas sold rose by 20 per cent from 2011 to 44.8 billion standard cubic metres (scm), including sales of third-party volumes. That corresponds to 770 000 boe/d[3]. Troll accounted for 43 per cent of total gas revenue. The average gas price for the year was NOK 2.35 per scm, up nine per cent from 2011.

Total revenue for the year from oil and natural gas liquids (NGL) was NOK 96.3 billion, on a par with the year before. The sales volume totalled 156 million boe, or a daily average of 427 000 boe. The average oil price obtained for the year was NOK 657 per barrel, up by four per cent from 2011.

Other revenues, which primarily comprise tariff earnings from Gassled, amounted to NOK 11.1 billion in 2012 and were on a par with 2011.

Investment came to NOK 25.8 billion, up by 20 per cent from 2011. The biggest spending related to a high level of drilling activity on Troll, Gullfaks and Oseberg, further development of Ormen Lange and the development of a subsea compression facility on Åsgard. In addition come capitalised exploration costs, which brought total investment for 2012 to NOK 26.4 billion.

The cost of operating fields, pipelines and land-based facilities was NOK 16.4 billion, up by five per cent from 2011. This rise reflects increased well maintenance on a number of fields. Exploration-related costs amounted to NOK 1.8 billion, of which NOK 600 million was capitalised as investment related to possible and confirmed discoveries, and NOK 1.1 billion was expensed as exploration costs for dry wells. Correspondingly, exploration expenses totalled NOK 2.3 billion in 2011, of which NOK 1.3 billion was expensed. A total of 12 exploration wells were completed during 2012, two fewer than the year before. Hydrocarbons representing a recoverable volume of 470-580 million boe for the SDFI were proven in seven wells, compared with 320-550 million boe in 2011. The most positive exploration results in 2012 came from Geitungen, adjacent to Johan Sverdrup, as well as from appraisal wells on Johan Sverdrup, Skrugard and Maria.

[1] All figures are based on the accounts compiled in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles (NGAAP).

[2] Sales of entitlement oil, NGL and gas in 2012 totalled 1 129 000 boe/d compared with 1 015 000 boe/d the year before.

[3] One billion scm of gas equals one million scm oe, which corresponds to about 17 200 boe per day (17.2 kboed).

At 31 December 2012, the portfolio's expected remaining oil, condensate, NGL and gas reserves comprised 6 623 million boe – up by 136 million boe from the year before. Petoro reports the portfolio's expected reserves on the basis of categories 1-3 in the classification system used by the Norwegian Petroleum Directorate (NPD).

New reserves totalling 290 million boe were added to the SDFI in 2012. At the same time, reserves were downgraded for certain fields, making the net increase 278 million boe. The biggest contribution came from the decision to develop the Martin Linge field. Substantial volumes were also contributed by Heidrun as a result of adjustments to its reserves as well as the SDFI's increased holding, and by Troll following decisions on new wells and improved understanding of the fluid content in gas from this field. The net reserve replacement rate for 2012 was 67 per cent, compared with 160 per cent the year before, and the average replacement rate for the portfolio over the past three years came to 86 per cent. The corresponding figure for 2009-11 was 49 per cent.

## BOOK ASSETS AND EQUITY

The book value of assets totalled NOK 228.5 billion at 31 December 2012. These assets mainly comprise operating facilities related to field installations, pipelines and land-based plants, as well as current debtors.

Equity at 31 December amounted to NOK 155.1 billion. Long-term liabilities totalled NOK 60.4 billion, of which NOK 58.3 billion related primarily to future removal liabilities. These liabilities are calculated in accordance with an established industry standard based on existing technology. Great uncertainty exists both over the removal estimates and over the timing of removals. Current liabilities, which comprise provision for costs incurred but not paid, were NOK 13 billion at 31 December.

Petoro served at 31 December as the licensee for the government's interests in 158 production licences and 15 joint ventures covering pipelines and terminals, including the interests in Mongstad Terminal DA and Vestprosess DA. It also managed the shares in Norsea Gas AS and Norpipe Oil AS.

## STRATEGY FOR PETORO

The company's strategy falls into three parts, and is directed particularly at activities on mature oil fields. These represent large assets in the portfolio, and taking decisions to secure their resources is time-critical. Petoro takes the view that it is important to contribute to ensuring that the mature oil fields receive the necessary attention from other licence partners.

**Realise the potential in and close to large mature fields:** Petoro's commitment to realising the potential in large mature fields is directed at extending the producing life of priority installations through the choice of technical solutions, efficient drainage methods and the completion of a larger number of wells per year. Its efforts will help to achieve a time-critical change in the way the fields are operated in coming years. The company is also working for integrated area solutions by prioritising selected installations for use as field centres, and to achieve a timely phasing-in of discoveries.

**Integrated and timely development of the gas value chain:** The dynamics in and structure of the European gas market have changed significantly in recent years. Major changes have occurred in relation to gas pricing, regulatory frameworks, the competitiveness of gas and its growth potential. What happens in the global and European markets for natural gas in the future, and an understanding of these developments, are crucial for realising the value potential of the SDFI's gas portfolio. Continued development of a robust marketing and sale strategy for SDFI gas together with Statoil is a priority job. In accordance with the marketing and sale instruction, Statoil sells the government's petroleum together with its own petroleum and takes responsibility for marketing and sales. The goal is to achieve the highest possible value for the petroleum belonging to Statoil and the government.

As the largest participant in Gassled, Petoro plays a key role in the gas infrastructure. This role is expected to become more demanding, since production developments and the technical integrity of the facilities will require significant measures related to Gassled's processing plants in coming years. This has become even more challenging in view of alterations to the owner composition and the risk of changes to the profitability of new investment projects.

**Safeguard asset values in new discoveries:** To ensure optimum development of the portfolio, Petoro's commitment to identifying business opportunities in Barents Sea South will have a high priority. On the basis of the Johan Sverdrup discovery, its commitment in this part of the strategy will also be to secure an acceptable development of licensee interests in major North Sea finds.

## PETORO'S CONTRIBUTION TO ADDED VALUE

The board regards creating added value for the SDFI as an important job at Petoro. Results of the company's work are reflected in a wide range of activities which will contribute to substantial added value both in the immediate future and in the long run. An example of an important issue in 2012 was the work devoted to integrated further development of the Gullfaks area, where Petoro is the only partner of operator Statoil. These efforts embrace decisions related to upgrading drilling facilities, improved recovery and subsea compression. Substantial work was also done to secure decisions on developing the Martin Linge field and on investment related to expanded compression for Ormen Lange plus associated infrastructure. Initiatives which contributed to value added also include the negotiated solution for Snorre secured by Petoro in place of a redetermination, and an increased holding in H-north in the Fram area through negotiations on a unitisation and tie-back to Fram. Another example of safeguarding asset values is provided by Petoro's work in connection with the latest Heidrun redetermination, where the northern part of the N segment was embraced by a sliding scale decision and the SDFI interest was increased through an arbitration finding related to the redetermination.

Petoro has a process which seeks to assess the company's contribution to value added. In recent years, estimates have been NOK 5-10 billion per annum.

## FOLLOW-UP OF THE SDFI PORTFOLIO

Petoro's efforts were directed in 2012 at long-term development of the Gullfaks, Snorre and Heidrun oil fields with the aim of ensuring maximum recovery of their resource potential during their commercial producing lives. A commitment was also made to continued development of the Johan Sverdrup, Troll, Ormen Lange, Linnorm and Snøhvit fields. Petoro considers the pace of drilling in mature areas to be too low and worked in 2012 to increase this tempo, particularly on fixed installations.

On Gullfaks, Petoro has worked to achieve a coordinated development of the main field and the surrounding discoveries and prospects. This contributed to the decision by the licence in June 2012 on an overall plan for continued development of the Gullfaks area. The process clarified that the income basis does not exist for a new platform on the field or for a new extended-reach drilling facility on Gullfaks A. Decisions were taken on a further development of the Statfjord formation in Gullfaks South with two subsea templates, a subsea compression facility for gas from Gullfaks South, and an upgrade of the drilling rig on Gullfaks B.

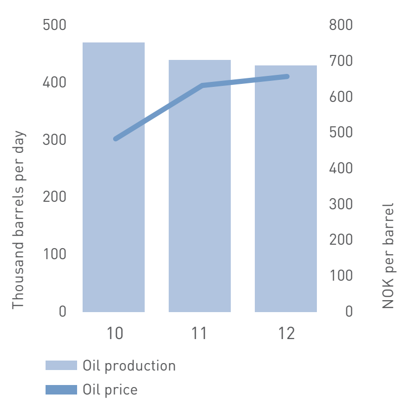
The commitment to Snorre has related to continued development of the decision base for a new wellhead platform on the field, so that the licensees assess this option in addition to a subsea facility until the choice of concept is made in the summer of 2013. Work has focused on establishing the probability of future production from a possible platform in addition to reducing the investment cost through an optimisation of the jacket and the process facilities. Petoro also secured agreement on a negotiated solution rather than a redetermination of interests between the Snorre participants, which improves collaboration and progress in the licence.

An alternative field development plan for Heidrun has been developed by Petoro to highlight that a further potential exists for reserves over and above that identified in the licence, and to clarify the decisions and investment needed to realise these assets. Petoro's alternative plan, which includes a new platform on the field, is now under consideration in the licence.

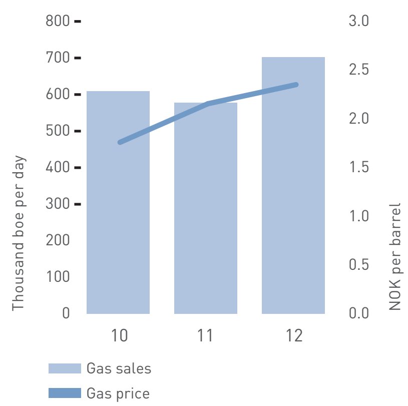
Where Johan Sverdrup is concerned, Petoro has worked to establish unitisation principles which will safeguard the government's interests in a field extending across several production licences with differing partner compositions. The company is seeking to achieve good commercial solutions by obtaining an understanding of and influence over the reservoir base, appraisal wells, drainage strategy and field development. A collaboration agreement has been established with Det Norske Oljeselskap ASA on this work. A concept selection is planned in 2013.

The commitment to Ormen Lange has related to the development of a future compression solution. In association with work on new infrastructure for gas in the Norwegian Sea through a Polarled pipeline, land-based compression has been incorporated as part of the Nyhamna expansion project. Polarled would cover about 70 per cent of the costs and provide the opportunity to launch the project in

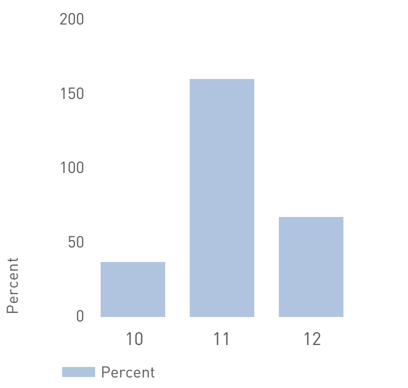
**OIL PRODUCTION/PRICE**




**GAS SALES/PRICE**




**RESERVE REPLACEMENT RATE**




2015. Petoro has also worked on the Linnorm development, which was halted as the result of a substantial rise in costs. A new well is planned for the spring of 2013.

A priority on Snøhvit has been to develop the resource base and ensure expanded capacity at the Melkøya facility, either through a new process train for gas liquefaction or a new gas pipeline. Reserves in Snøhvit have been upgraded, and the licence implemented a project in 2012 to assess increased capacity in order to accelerate production from the field. A substantial increase in costs as a result of a stressed supplier market meant that the capacity expansion project became much less robust against changes in prices, reserves and investment. The project was accordingly halted for the time being in the second half of 2012.

The performance of the existing Snøhvit facility remained unsatisfactory in 2012, and Petoro worked in the licence to establish an improvement project. This has been launched in 2013.

No signs of any improvement in the pace of drilling from fixed installations on the mature fields were seen during 2012. In addition to assessing opportunities for new platforms to secure a substantial increase in the drilling pace, Petoro has been a driving force for extra wells on Heidrun and has assessed the use of lightweight rigs in addition to existing drilling facilities on Gullfaks.

Plans for development and operation (PDOs) of Martin Linge and Svalin were approved in 2012. Decisions were also taken to install permanent subsea seismic arrays on Grane and Snorre. This will contribute to improving recovery through a better decision base for new wells.

Visund South, the first "fast track" project for operator Statoil, came on stream in 2012 – 35 months after the reserves were proven. A number of such developments are due to be completed in coming years and will help to maintain production.

Certain aspects of the most recent redetermination for the Heidrun Unit were handled in a way which did not accord with Petoro's view. These disagreements were settled in part through appeals to the Ministry of Petroleum and Energy and in part by arbitration. Petoro won acceptance for its complaints, resulting in an increase of 0.39051 per cent or about 5.7 million boe in the SDFI's share.

Petoro is the largest partner in Gassled, with an interest of 45.793 per cent. This joint venture embraces gas infrastructure and terminals on or associated with the NCS. Day-to-day operation is handled by Gassco, which is not a partner. The SDFI received an income of NOK 10.7 billion from Gassled during 2012. Investment and operating costs came to NOK 966 million and NOK 2.1 billion respectively, on a par with 2011. Regularity at Gassled's export points to the markets was 99.65 per cent, compared with 99.17 per cent in 2011. Gassled decided in 2012 to build a new Norpipe terminal in Emden.

## MARKETING AND SALE OF THE PRODUCTS

All oil and NGL from the SDFI portfolio is sold to Statoil. The latter is responsible for marketing all the SDFI's natural gas together with its own gas as a single portfolio, but at the government's expense and risk. Petoro is responsible for monitoring that Statoil's sales of the SDFI's petroleum achieve the highest possible overall value, and for ensuring an equitable division of total value creation. Petoro concentrates in this work on Statoil's marketing and sales strategy, issues of great significance in value terms, matters of principle and questions relating to incentives.

Oil prices were particularly influenced during 2012 by two factors – weak global economic growth on the one hand and geopolitical conditions on the other. Weak growth helped to keep the rise in oil demand below the historical trend, while geopolitical tensions contributed to reducing world crude output and thereby to keeping prices relatively high. With brief exceptions, oil prices moved within a band of USD 100-120 per barrel. The average figure for 2012 was USD 113 per barrel compared with USD 114 in 2011, or NOK 657 and NOK 632 per barrel respectively.

European demand for gas declined by about four per cent in 2012, with developments varying by plus/minus five per cent between the different countries. Foreign sales of Norwegian gas increased by 16 per cent, while Russian exports fell by eight per cent. Part of the gas volume sold to Europe is priced in accordance with market quotations which reflect the balance between supply and demand (spot pricing). Spot prices in the European gas market were stable during 2012 and marginally higher than the year before.

The average gas price for the SDFI portfolio in 2012 was NOK 2.35 per scm, compared with NOK 2.15 the year before. About 65 per cent of the SDFI's gas production was sold under long-term contracts at 31 December, with the rest sold in the spot market. Gas prices in the long-term contracts are primarily calculated in relation to the price of oil products and quotations in the gas market.

Crude prices again helped to maintain a differential between oil-indexed contract prices and spot prices for gas in 2012. This position led to pressure on the level of prices in the long-term oil-indexed contracts.

Petoro has worked to ensure maximum value creation for the gas portfolio, including realisation of the value potential in the long-term sales contracts. The company is concerned to ensure that available gas is sold in the market at the highest possible price, and that the flexibility of production plants and transport capacity is exploited to optimise deliveries.

Petoro also monitored and assured itself that petroleum sales to Statoil's own facilities are made at their market-based value. In addition, checks were made to ensure that the SDFI was being charged an equitable share of costs and received its equitable share of revenues.

## HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

HSE results for facilities in the portfolio have been improving over a number of years. The serious incident frequency (SIF) per million working hours was 1.3 for 2012, an improvement of almost 15 per cent from the year before. This is based on 47 incidents registered as serious on the 18 fields in the target group. No fatalities were suffered in Petoro's portfolio during 2012. Dropped objects and incidents related to mechanical handling continued to dominate the statistics, despite big improvements in these categories over the past three years. The personal injury frequency per million working hours has been stable at around 5.3 for the same period.

Petoro works both with operators and the industry as a whole to achieve reductions in personal injuries and serious incidents. It participated in several HSE management inspections on selected fields and installations during 2012.

The company focused attention during the year on measures to reduce the risk of major accidents. To identify risk elements in the licences, efforts were made to establish best practice through a collaboration project with ConocoPhillips, ExxonMobil and Total. Brainstorming sessions were conducted in 14 Statoil-operated licences during 2012 to identify risk elements with a major accident potential. This work will continue in 2013 with the goal of further operationalising the process. The project has been presented to the Petroleum Safety Authority Norway, and received a positive response.

With regard to the natural environment, Petoro wants to ensure that power from shore is considered for new field developments and major conversion projects. See the section on the natural environment in the chapter on corporate social responsibility.

## ATTRACTIVE WORKING ENVIRONMENT AND EXPERTISE

The individual Petoro employee is crucial to the company's deliveries and success, and the board gives emphasis to ensuring that the company offers a stimulating working environment which attracts people with the right expertise and positive attitudes. Helping each employee to achieve the professional and personal development needed to attain the company's goals and secure good utilisation of its overall expertise is a management responsibility.

Opportunities for professional and personal development will help to retain, develop and attract good personnel. Learning and expertise development goals with associated plans are drawn up each year at company and individual level. The company audited its system for performance assessment reviews during 2012, and also thereby its efforts to continue developing a culture which focuses on the individual employee's most important contributions to achieving goals. In addition, a two-pronged development programme to strengthen relational competence was completed. The aim was to enhance Petoro's ability to succeed with its goals and strategies in the licences.

The company's human resources policy aims to ensure diversity and equal opportunities, develop expertise and facilitate a good working environment.

Petoro had 64 employees at 31 December 2012, compared with 67 a year earlier. Six staff left during 2012. The company has sought to strengthen its organisation through new recruitment in recent years, particularly technical specialists with higher education and relevant experience. The labour market for this type of expertise is tight, and recruitment processes are complicated and time-consuming. Petoro expects to increase its staff to 69 during 2013.

Sickness absence came to 2.35 per cent, compared with 1.9 per cent in 2011. Despite the increase, this represents a positive result. The rise from 2011 reflects rather more long-term sick leave in 2012, while short-term absences were reduced. Petoro has an inclusive workplace (IA) agreement, and gives weight to close follow-up and dialogue as well as to making arrangements which can ensure that such absences are as short as possible.

Collaboration with the company's working environment committee (AMU) and works council (Samu) lays an important basis for achieving a good working environment in the company. Work in these bodies again functioned well in 2012.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

Petoro's management of substantial assets on behalf of the Norwegian government calls for good corporate governance which fulfils the expectations of its stakeholders and society at large. The board adopted guidelines in 2012 for the exercise of corporate social responsibility (CSR) at Petoro. CSR embraces the activities voluntarily pursued by the company over and above existing legal and regulatory obligations. Petoro undertakes to conduct its business operations in an ethically acceptable, sustainable and responsible manner. Funding for discharging its management duties and for running the company is provided through appropriations from the government, and Petoro has no mandate to provide monetary support for social purposes. The board emphasises that the company's CSR forms an integral part of its activities and strategies. This is reflected in part through its values. Petoro's CSR was earlier addressed as part of its business ethics through the guidelines on this subject. Measures which ensure that Petoro discharges its CSR include the following.

**Ethical guidelines.** The company has guidelines on business ethics, which are publicly available. Their purpose is to clarify principles which govern the company's commercial operations and employee behaviour. All employees sign the company's ethical guidelines every year. These guidelines cover such considerations as the duty of confidentiality, possible conflicts of interest and issues related to the receipt of gifts and services. Petoro has established security requirements for data and for information and communication technology (ICT) in its operations. Its information systems and data are secured against unauthorised access. The consequences of breaching Petoro's guidelines on business ethics are covered in a separate section. The company expects its partners and contractors/suppliers to maintain the same ethical standards set for its own business operations.

**Openness on money flows and anti-corruption work.** Petoro does not accept any form of corruption or other malpractice. Employees are not permitted to receive remuneration from others in their work for the company. Petoro reports money flows related to the SDFI portfolio on an annual basis to the extractive industries transparency initiative (Eiti). Details of the remuneration of directors and senior executives are provided in a separate note to the accounts for Petoro AS.

**HSE declaration.** Through its HSE declaration, Petoro has a goal of creating a good physical and mental working environment for all employees. It has routines for reporting conditions open to criticism. The board encourages the company's employees to raise ethical issues and to report any breaches of the regulations they encounter. The internal audit function is an independent whistleblowing channel with the right and duty to report to the board. No cases of whistleblowing were recorded in 2012.

**Diversity and equal opportunities.** Petoro will not discriminate on any basis. Women accounted for 36 per cent of the total workforce in 2012, similar to the year before, and for 42 and 25 per cent of the company's directors and executive management respectively. Petoro gives weight to equality between the genders in terms of opportunities for professional and personal development, pay and promotion. The company facilitates a flexible customising of working hours. When determining pay and in pay negotiations, Petoro is conscious that men and women must be treated equally. No systematic or significant differences exist between male and female pay in the company. Petoro has employees from several countries.

**Natural environment.** Petoro undertakes as a licensee to ensure that operations in which it participates are conducted in a sustainable manner which minimises negative impacts on nature and the natural environment. The NCS has a good record for environmental impacts compared with other petroleum provinces. Further improvement is nevertheless the goal.

Petoro is concerned to ensure that power from shore is assessed for new field developments and major conversions, and that a decision is based on technically feasible solutions at an acceptable abatement cost. One condition for increased use of power from shore is sufficient capacity in the electricity grid on land. A pre-unit agreement was established in 2012 on the development of joint infrastructure for Johan Sverdrup and other discoveries on the Utsira High, including common solutions for power from shore. The purpose of this work is to establish a robust and sustainable concept for power from shore, based on the requirements of four field developments in the same area. This represents the first occasion that such an area solution is being studied on the NCS. The timetable for such an area solution calls for installation in 2017 and power deliveries from 2018. Plans call for Johan Sverdrup to come on stream in the latter year.

The company contributes to creating environmentally conscious attitudes among all its employees. Waste sorting and incentives to increase the use of public and environment-friendly transport were continued in 2012. Emphasis is given to efficient ICT solutions and good communication systems, with opportunities to replace travel with videoconferencing.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of this report on the natural environment, based on figures obtained from the operators. No large individual discharges to the sea or on land occurred from the SDFI portfolio during 2012.

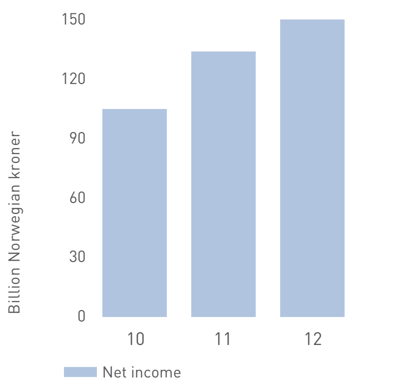
## RESEARCH AND DEVELOPMENT

The oil companies devote some NOK 3 billion per year to petroleum-related research and development (R&D), and the supplies industry spends about NOK 1 billion. Through its interests in production licences, Petoro contributes to R&D by meeting its share of these costs in accordance with its participatory interest in the production licences, where the funds are managed by the respective operators. This amounts to more than NOK 500 million per annum.

Qualifying new technological solutions for field application and their efficient implementation on fields represent a major challenge for the oil industry, including on the NCS. Many initiatives on the borderline between technology development and qualification are accordingly financed directly through projects and in day-to-day operation. The costs are carried on the investment budgets of the joint ventures. Qualification of subsea compression on Ormen Lange, Åsgard and Gullfaks, totalling NOK 7-8 billion over a five-year period, is a case in point. Petoro has worked for a number of years to secure faster adoption of technological opportunities and improved roll-out of new technologies in the production licences.

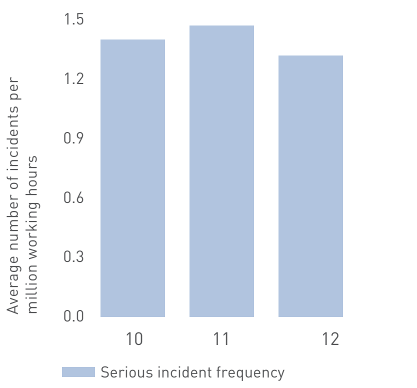
The company's commitment in 2012 focused

### NET INCOME




### INVESTMENT


### SERIOUS INCIDENT FREQUENCY




particularly on maturing a pilot project for subsea compression on Ormen Lange. Petoro was a driving force in 2012 for the decision to install permanent subsea seismic cables on Snorre and Grane, and worked to persuade the Heidrun licence to assess the potential for such facilities.

Efforts have been made by Petoro over a number of years to increase the pace of drilling on the big mature fields. Coiled tubing drilling is a technology which could help recovery from small well targets, while boosting the production contribution of new wells. Petoro worked in 2012 to persuade the Heidrun licence to approve a pilot project for coiled tubing drilling.

## CORPORATE GOVERNANCE

The board gives weight to good governance to ensure that the SDFI portfolio is managed in a way which maximises long-term value creation. Petoro's management system is based on the Norwegian code of practice for corporate governance to the extent that the code's recommendations are relevant to Petoro's business and the frameworks established by the company's form of organisation and ownership. Further developed in 2012, the management system simplifies the availability of management information and helps to concentrate attention on the attainment of company targets and on the risk picture at all times.

Petoro seeks a corporate culture characterised by commitment and decisiveness within a good internal control regime. Its values base and ethics are embedded in its values and guidelines on business ethics.

## WORK OF THE BOARD

The board held 13 meetings in 2012. An annual meeting and work plan has been established for the board, with the emphasis on the consideration of strategy, goals, budgets and interim results. The board is concerned with overall value creation from the total portfolio, and with ensuring that the state receives its rightful share and does not get charged a larger proportion of costs than is warranted. Balanced scorecards are a key instrument used by the board in following up the company's results, and it measures the results achieved against established commercial and organisational goals.

The board considers major investment decisions in the portfolio as well as following up and considering the commercial business, including monitoring Statoil's duties under the marketing and sale instruction. It also monitors the company's overall risk picture. The board ensures that control systems have been established and that the business is conducted in compliance with the company's values base and guidelines on business ethics.

Guidelines for CSR were established by the board in 2012. Petoro's CSR had previously found expression in the instructions issued by the board for its own work and that of the chief executive, and is also reflected in the company's guidelines on business ethics. The board has maintained the practice of allocating preparatory work related to compensation arrangements to a sub-committee. Conflicts of interest are a fixed item on the agenda at board meetings, and directors with such a conflict withdraw from the board's consideration of the relevant issue. The board conducts an annual evaluation of its own work. An external consultant assisted the board in conducting this self-assessment for 2012.

The president and CEO has announced that he wishes to exercise his right to take early retirement, and will step down in June 2013. The board wishes to thank Kjell Pedersen for doing a good job in building up, positioning and running Petoro from its foundation in 2001. Work on appointing a new chief executive has been initiated by the board.

Each director and the board as a collective body seek to strengthen their expertise in various ways. These include participation in courses and conferences and generally following developments in the area. The board conducted a study trip during the year to enhance its own expertise.

Petoro's board comprises Gunnar Berge as chair, Hilde Myrberg as deputy chair, Mari Thjømøe, Per Arvid Schøyen and Nils-Henrik M von der Fehr as the other shareholder-elected directors, and Anniken Teigen Gravem and Ragnar Sandvik as directors elected by and from among the employees.

## RISK MANAGEMENT AND INTERNAL CONTROL

The board conducted an assessment of the risk picture in 2012 on the basis of the approved strategy, and set targets for the coming year. Compensatory measures were identified for the biggest risks Petoro has an opportunity to influence through the frameworks available to it. The most important identified risks relate to the delayed availability of new drilling rigs and the quality of drilling services, the threat posed to the profitability of new projects in the planning phase by high costs, and a failure to realise the value potential because insufficient account is taken of new market realities for gas. A risk also exists that the SDFI's agreed unitisation interest in the new Johan Sverdrup discovery will fail to reflect Petoro's view on the division of the assets. In addition, a failure by operators and partners to give sufficient priority to the large mature fields in a long-term perspective could pose a risk, as would the inability of Petoro to win through in the licences with its efforts on Snorre, Gullfaks and Heidrun.

The most important operational risks are followed up in the management committees for priority fields in the business areas. Principles for risk management in Petoro build on the internationally recognised Coso/ERM framework for internal control, and on in-house expertise.

## PROSPECTS

Considerable changes are taking place on the NCS, and the future of the SDFI portfolio depends on progress in the mature oil fields as well as developments in the gas market and in new exploration acreage. Production forecasts for the SDFI portfolio indicate a significant decline in output after 2020, despite major discoveries in 2011 and 2012.

The Johan Sverdrup and Skrugard/Havis discoveries have created optimism and new drive both in mature areas of the NCS and in the Barents Sea. All the discoveries involving Petoro in 2012 were oil finds. Interest in the award of Barents Sea acreage has been high. Petoro is concerned to see a clear area strategy established as the basis for future exploration and field development in this area and for the development of oil and gas infrastructure there. Realising the Polarled gas pipeline project could also yield increased incentives for exploring the Norwegian Sea.

Existing fields contain substantial remaining reserves. This underlines the significance of these producers, and it is accordingly important that the joint ventures for the big mature fields are able to realise this potential.

Increased reserves, effective application of innovative technology solutions and new work processes, combined with high oil prices, have contributed over a lengthy period to extending the producing life of several large mature fields. Oil output is falling significantly every year, and this trend is reinforced by a steady decline in the pace of drilling and fewer wells per year. The extension of producing life calls for increased investment on infrastructure to maintain functionality and technical integrity. Spending on wells is higher than anticipated because of substantial cost rise and a greater need for wells than expected. However, investment decisions are challenged by uncertainty over the remaining reserve base. These challenges are complex, and realising the reserve potential in the big fields is a substantial and demanding job. The board would emphasise the importance of Petoro strengthening its efforts to prioritise the mature fields on the NCS.

Statoil is the dominant player on the NCS and operates about 80 per cent of production from the SDFI portfolio. This means that the choices made by this company have great significance for the further development of the NCS and the SDFI.

Fast-track development of small oil fields is an approach which has breached the trend for lead times in new projects. On the other hand, the high level of activity on the NCS is pushing up costs. That could challenge the profitability of new developments.
Petoro will contribute to enhanced value creation and gives priority to work in the areas where the value potential and its ability to exert influence are greatest. The company achieves this through purposeful use of the funds allocated to it for independent studies and assessments, and to support and challenge the operators. Where commercial matters are concerned, Petoro safeguards the government's interests in relation to other companies and their priorities. It fulfils this role within the appropriations provided over the central government budget through a purposeful build-up of its own expertise and capacity, and by setting good priorities.

The board expects oil prices to be relatively high but fluctuating during 2013. Prices are balanced between uncertainty on the supply side related to relatively low reserve capacity and persistent unrest in the Middle East, and uncertainty over demand related to world economic trends. Output from the SDFI's portfolio is expected to remain above one million boe in coming years, with a further shift from oil to gas.

Structural market changes and increased availability of liquefied natural gas (LNG) have reduced price levels for gas relative to those for oil. The economic position in Europe is expected to yield persistently weak demand for gas in this market. Great uncertainty also prevails about the availability of LNG to Europe, because this depends on demand in Asia. Viewed overall, the outlook for the balance between supply and demand for gas in Europe is very uncertain. In addition, uncertainty prevails about the role of gas in the future European energy picture. That applies particularly in the electricity generation sector as a result of current processes within EU energy and climate policies.

## PETORO AS – SHARE CAPITAL AND SHAREHOLDER

The company's share capital at 31 December 2012 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government. Petoro's business office is in Stavanger.

## PETORO ICELAND AS

The Icelandic government awarded two production licences on 4 January 2013 in the second licensing round on Iceland's continental shelf. A 25 per cent interest in each of these licences is held by the Norwegian state, as detailed in Proposition no 42 S (2012-2013) to Norway's Storting (parliament). Petoro AS established a Norwegian subsidiary, Petoro Iceland AS, in December 2012 with an Icelandic branch to undertake on-going management of the Norwegian state's participatory interests. The branch serves as the licensee and participant in the two joint ventures on the Icelandic continental shelf.

## PETORO AS – NET INCOME AND ALLOCATIONS

Administration of the portfolio by Petoro is subject to the accounting regulations for the government. The company maintains separate accounts for all transactions relating to the participatory interests, so that revenue and expenses for the portfolio are kept apart from operation of the company. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. The company prepares separate annual accounts for the SDFI, with an overview of the participatory interests managed by Petoro and associated resource accounting. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act and Norwegian generally-accepted accounting principles (NGAAP). All amounts cited in this directors' report are based on NGAAP.

Petoro's operating revenue takes the form of a contribution from the government, which is directly liable for the commitments accepted by the company under contract or in other forms. The government contribution for 2012 was NOK 281.2 million, compared with NOK 264 million the year before. Since this sum includes VAT, disposable revenue was NOK 225 million as against NOK 211.2 million in 2011. Petoro received an additional appropriation of NOK 27 million exclusive of VAT in 2012 related to the Johan Sverdrup field. Recorded income related to Johan Sverdrup was NOK 19.5 million exclusive of VAT. Total recorded income, including financial income, for 2012 was NOK 249 million, compared with NOK 221.6 million the year before.

Operating expenses were NOK 256.7 million for the year, compared with NOK 228 million in 2011. These expenses related primarily to payroll and administration expenses and to the purchase of external services. The purchase of leading-edge expertise relating to supervision of joint ventures in the SDFI portfolio accounts for a substantial proportion of the company's operating expenses. In-depth studies of the Gullfaks, Heidrun and Snorre fields were conducted in 2012. Spending on studies and leading-edge expertise was substantially higher than in 2011 because of participation in the Johan Sverdrup field.

The board devoted attention in 2012 to the company's overall resource position. Further use of resources directed at mature fields and critical activities will be given priority, but kept within available disposable funds.

The net loss after net financial income came to NOK 8.1 million. The board proposes that this loss be covered from other equity. Remaining other equity at 31 December was NOK 13.3 million. The company's equity position is satisfactory, with low financial risk. Its non-restricted equity totalled NOK 5.3 million at 31 December.

Pursuant to section 3, subsections 3 and 2a, of the Norwegian Accounting Act, the board confirms that the annual accounts for the portfolio and the company provide a true and fair picture of the company's assets and liabilities, financial position and results of the business, and that the annual accounts have been prepared under the assumption that the company is a going concern.

Stavanger, 22 February 2013

**Gunnar Berge**
Chair

**Hilde Myrberg**
Deputy chair

**Nils-Henrik M von der Fehr**
Director

**Per Arvid Schøyen**
Director

**Mari Thjømøe**
Director

**Ragnar Sandvik**
Director*

**Anniken Teigen Gravem**
Director*

**Kjell Pedersen**
President and CEO

* Elected by the employees

# FIGURES FOR 2012

## ACCOUNTS SDFI AND PETORO AS

# CONTENTS

# SDFI APPROPRIATION ACCOUNTS

| **All figures in round NOK** | **Notes** | **2012** |
|---|---|---|
| Investment | 2 | 25 610 149 081.30 |
| **Total expenses** | | **25 610 149 081.30** |
| Operating revenue | 3, 4 | (213 166 275 923.55) |
| Operating expenses | 5 | 36 808 813 791.85 |
| Exploration and field development expenses | | 1 858 059 857.73 |
| Depreciation | 2 | 19 500 976 296.68 |
| Interest | 7 | 6 552 853 294.21 |
| **Operating income** | | **(148 445 572 683.08)** |
| Depreciation | 2 | (19 500 976 296.68) |
| Interest on fixed capital | 7 | (6 574 687 515.00) |
| Interest on intermediate accounts | 7 | 21 834 220.79 |
| **Total revenue** | | **(174 499 402 273.97)** |
| **Cash flow before change in open accounts (net revenue from the SDFI)** | | **(148 889 253 192.67)** |

# SDFI CAPITAL ACCOUNTS

| All figures in round NOK | Notes | NOK | NOK | NOK |
|---|---|---|---|---|
| Open account government 31 Dec 12 | | | | 2 331 348 515.18 |
| Fixed assets before write-down | | | 164 333 466 917.98 | |
| Write-down | 2 | | (1 122 668 422.48) | |
| Fixed asset account | 2 | | 163 210 798 495.50 | 163 210 798 495.50 |
| **Total** | | | | **165 542 147 010.68** |
| | | | | |
| Open account government 1 Jan 12 | | | (372 091 750.58) | |
| Total expenses | | 25 610 149 081.30 | | |
| Total revenue | | (174 499 402 273.97) | | |
| Cash flow | | (148 889 253 192.67) | (148 889 253 192.67) | |
| Net transfer to the government | | | 146 929 996 428.07 | |
| **Open account government at 31 Dec 12** | | | **(2 331 348 515.18)** | **(2 331 348 515.18)** |
| | | | | |
| Fixed assets 1 Jan 12 | | | (158 224 294 133.36) | |
| Investments for the year | | | (25 610 149 081.30) | |
| Depreciation for the year | | | 19 500 976 296.68 | |
| Write-down | | | 1 122 668 422.48 | |
| Fixed assets 31 Dec 12 | | | (163 210 798 495.50) | (163 210 798 495.50) |
| **Total** | | | | **(165 542 147 010.68)** |

Stavanger, 22 February 2013

**Gunnar Berge**
Chair

**Hilde Myrberg**
Deputy chair

**Nils-Henrik M von der Fehr**
Director

**Per Arvid Schøyen**
Director

**Mari Thjømøe**
Director

**Ragnar Sandvik**
Director*

**Anniken Teigen Gravem**
Director*

**Kjell Pedersen**
President and CEO

* Elected by the employees

# SDFI INCOME STATEMENT

| All figures in NOK million | Note | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| **OPERATING REVENUE** | | | | |
| OPERATING REVENUE | 3, 4, 9, 11 | **213 885** | 188 820 | 159 270 |
| **Total operating revenue** | | **213 885** | **188 820** | **159 270** |
| **OPERATING EXPENSES** | | | | |
| Exploration expenses | | **1 127** | 988 | 1 192 |
| Production expenses | 5 | **16 380** | 15 508 | 15 870 |
| Depreciation, amortisation and write-down | 2 | **25 450** | 20 051 | 18 056 |
| Other operating expenses | 5, 9, 10 | **18 210** | 17 313 | 16 927 |
| **Total operating expenses** | | **61 167** | **53 860** | **52 045** |
| **Operating income** | | **152 717** | **134 959** | **107 225** |
| **FINANCIAL ITEMS** | | | | |
| Financial income | | **4 556** | 6 045 | 6 003 |
| Financial expenses | 12 | **7 287** | 7 284 | 7 849 |
| **Net financial items** | 8 | **(2 731)** | **(1 239)** | **(1 846)** |
| **NET INCOME FOR THE YEAR** | 19 | **149 986** | **133 721** | **105 379** |

# SDFI BALANCE SHEET AT 31 DECEMBER

| All figures in NOK million | Notes | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| Intangible fixed assets | 2 | **649** | 864 | 800 |
| Tangible fixed assets | 1, 2, 18, 21 | **196 365** | 194 702 | 179 953 |
| Financial fixed assets | 2, 11 | **1 102** | 1 746 | 1 382 |
| **Fixed assets** | | **198 116** | **197 312** | **182 136** |
| Stocks | 6 | **3 507** | 2 812 | 2 074 |
| Trade debtors | 9, 10 | **26 776** | 25 752 | 23 102 |
| Bank deposits | | **97** | 83 | 81 |
| **Current assets** | | **30 380** | **28 647** | **25 257** |
| **TOTAL ASSETS** | | **228 496** | **225 959** | **207 392** |
| Equity at 1 January | | **152 029** | 146 456 | 144 649 |
| Paid from/(to) government during the year | | **(146 930)** | (128 083) | (103 572) |
| Net income | | **149 986** | 133 721 | 105 379 |
| Translation differences* | | **0** | (64) | 0 |
| **Equity** | 19 | **155 085** | **152 029** | **146 456** |
| Long-term removal liabilities | 12, 18 | **58 349** | 57 906 | 45 186 |
| Other long-term liabilities | 13 | **2 081** | 2 449 | 1 827 |
| **Long-term liabilities** | | **60 430** | **60 355** | **47 012** |
| Trade creditors | | **3 244** | 3 049 | 1 920 |
| Other current liabilities | 9, 14, 15 | **9 736** | 10 526 | 12 003 |
| **Current liabilities** | | **12 980** | **13 575** | **13 924** |
| **TOTAL EQUITY AND LIABILITIES** | | **228 496** | **225 959** | **207 392** |

* Relating to the reversal of earlier equity adjustments in connection with the swap agreement with Faroe Petroleum Norge AS, and to translation difference and winding-up of Etanor DA in connection with its transfer to Gassled.

Stavanger, 22 February 2013

**Gunnar Berge**
Chair

**Hilde Myrberg**
Deputy chair

**Nils-Henrik M von der Fehr**
Director

**Per Arvid Schøyen**
Director

**Mari Thjømøe**
Director

**Ragnar Sandvik**
Director*

**Anniken Teigen Gravem**
Director*

**Kjell Pedersen**
President and CEO

* Elected by the employees

# SDFI CASH FLOW STATEMENT

| **All figures in NOK million** | **2012** | **2011** | **2010** |
|---|---|---|---|
| **CASH FLOW FROM OPERATIONAL ACTIVITIES** | | | |
| Cash receipts from operations | **213 095** | 183 881 | 157 311 |
| Cash disbursements to operations | **(38 650)** | (34 742) | (34 060) |
| Net interest payments | **(54)** | (66) | (41) |
| **Cash flow from operational activities** | **174 499** | **149 205** | **123 210** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | | |
| Investments | **(25 610)** | (21 437) | (18 443) |
| **Cash flow from investment activities** | **25 610** | **(21 437)** | **(18 443)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Change in working capital in the licences | **(789)** | 621 | (1 740) |
| Change in under/over calls in the licences | **(1 157)** | (303) | 498 |
| Net transfer to the government | **(146 930)** | (128 083) | (103 572) |
| **Cash flow from financing activities** | **148 876** | **(127 766)** | **(104 814)** |
| Increase/(decrease) in bank deposits of partnerships with shared liability | **13** | 3 | (46) |

# SDFI NOTES (NORWEGIAN ACCOUNTING ACT)

## GENERAL

Petoro's object, on behalf of the government and at the government's expense and risk, is to be responsible for and manage the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum operations on the Norwegian continental shelf (NCS) and associated activities. The company's overall goal is to maximise the total financial value of the portfolio on a commercial basis.

Petoro served at 31 December 2012 as the licensee on behalf of the SDFI for interests in 158 production licences and 15 joint ventures for pipelines and terminals. The company also managed the government's commercial interests in Mongstad Terminal DA and Vestprosess DA, as well as the shares in Norsea Gas AS and Norpipe Oil AS. Petoro has the same rights and obligations as other licensees, and manages the SDFI on the NCS on a commercial basis. The company maintains separate accounts for all transactions relating to its participatory interests, so that revenue and costs from production licences and joint ventures are kept separate from the operation of the company. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. Petoro prepares separate annual accounts for the SDFI, with an overview of the participatory interests managed by the company and associated resource accounting.

Administration of the portfolio is subject to the accounting regulations for the government. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act.

The principal difference between the profit based on the Accounting Act and on a cash basis is that the latter includes cash payment for investments and excludes depreciation. Adjustments are also made for accruals of income and expenses on a cash basis, with a corresponding adjustment to debtors and creditors in the balance sheet. Realised currency loss/gain related to operating expenses and income is classified on the cash basis as operating expenses and income. The accounts based on the Accounting Act show realised currency loss/gain as financial expenses/income, and these items are accordingly not included in the operating profit.

## ACCOUNTING PRINCIPLES

The SDFI's interests in limited companies and partnerships with shared liability relating to the production of petroleum are normally included under the respective items in the income statement and balance sheet in accordance with the proportionate consolidation method for the SDFI's share of income, expenses, assets and liabilities. The same applies to undivided interests in oil and gas operations, including pipeline transport, which are not organised as companies.

Dividend from the shares in Norsea Gas AS and Norpipe Oil AS is recorded as a financial item. In addition, revenue and expenses from production licences with net profit agreements (relates to licences awarded in the second licensing round) are recorded as other income using the net method for each licence.

The SDFI's participation in Statoil Natural Gas LLC (SNG) is treated as an investment in an associate and recorded in accordance with the equity method. This means that the SDFI's share of the equity is recorded in the balance sheet under financial fixed assets and its share of the profit/loss is recorded as operating revenue/expense in the income statement.

The functional currency is the Norwegian krone.

### Principles for revenue recognition

The company records revenue from the production of oil, NGL and gas using the sales method. This means that sales are recorded in the period when the volumes are lifted and sold to the customer.

Revenue from ownership in pipelines and land-based production plants is recorded when the service is rendered.

Gas swap and borrowing agreements where settlement takes the form of returning volumes are accrued as a general rule using the sales method. At the same time, a provision is made for the associated production costs in the event that the SDFI has lent/borrowed gas. When lending gas from the SDFI, the lower of production expense and estimated net present value of the future sales price is capitalised as a pre-paid expense at the date of the loan. Furthermore, the SDFI's share of location swaps related to the purchase or sale of third-party gas is recorded net as operating revenue. The SDFI's share of time swaps is recorded gross.

Liabilities arising because too much crude oil has been lifted in relation to the SDFI's share of the production partnership are valued at production cost, while receivables due from the other partners in the production partnerships are valued at the lower of production cost and the estimated present value of the future sales price.

Purchase of third-party gas for onward sale is recorded gross as operating costs. The corresponding revenue is included in sales income.

### Purchases and sales between fields and/or transport systems

Internal expenses and revenues relating to purchases and sales between fields and/or transport systems in which the SDFI is both owner and shipper are eliminated, so that only costs paid to third parties appear as net transport costs.

### Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction. Monetary items in foreign currencies are valued at the exchange rate prevailing on the balance sheet date. Unrealised currency losses and realised currency gains and losses are recorded as financial income or expenses.

**Classification of assets and liabilities**
Assets intended for ownership or use over a longer period are classified as fixed assets. Other assets are classified as current assets. Debtors due within one year are classified as current assets. Similar criteria are applied for classifying current and long-term liabilities.

**Research and development**
Research and development expenses are expensed on a continuous basis. In addition to spending on direct research and development in each partnership, the operator also charges expenses for general research and development to the partnership in accordance with the size of exploration, development and operating expenses in the partnership.

**Exploration and development costs**
Petoro employs the successful-efforts method to record exploration and development costs for oil and gas operations by the SDFI in the SDFI accounts. This means that expenses related to geological and geophysical surveying are expensed. However, expenses related to exploration drilling are capitalised in anticipation of evaluation, and are expensed should the evaluation show that the discovery is not commercial. Considerable time can elapse between the drilling of a well and a final development decision. Capitalised exploration expenses are accordingly assessed quarterly to determine whether sufficient progress is being made in the projects so that the criteria for capitalisation continue to be met. Dry wells in production licences or those where progress is insufficient are expensed.

Expenses relating to development, including wells, field installations and production facilities, are capitalised. Costs for operational preparations are expensed on a continuous basis.

**Tangible fixed assets**
Tangible fixed assets and investments are carried at historical cost with a deduction for planned depreciation. Fixed assets under construction are carried at historical cost.

Fixed assets leased on terms which largely transfer the financial risk and control to the company (financial leasing) are capitalised under tangible fixed assets and the associated lease commitment is recognised as a commitment under long-term interest-bearing debt at the net present value of the leasing charges. The fixed asset is subject to planned depreciation, and the commitment is reduced by the leasing charge paid after deduction of calculated interest costs.

The SDFI does not take up loans, and incurs no interest expenses associated with the financing of development projects.

Ordinary depreciation of oil and gas production facilities is calculated for each field and field-dedicated transport system using the unit of production method. This means that the acquisition cost is depreciated in line with the relationship between volume sold during the period and reserves at the beginning of the period. Investments in wells are depreciated in line with the reserves made available by the wells drilled.

Petoro determines the reserve base for depreciation purposes on the basis of estimated remaining reserves per field, which are adjusted downwards by a factor calculated as the relationship between the Norwegian Petroleum Directorate's sum of low reserves in production and the sum of basis reserves in production for oil and gas reserves respectively. This reserve adjustment totalled 70.3 per cent of expected remaining oil reserves in 2012, while the corresponding figure for gas fields was 87.3 per cent. The reserve estimates are revised annually, and possible changes affect only further depreciation expenses.

Ordinary depreciation for land-based plants and transport systems as well as for riser platforms used by several fields is calculated on a straight-line basis over the remaining licence period at 31 December.

Other tangible fixed assets are depreciated on a straight-line basis over their expected economic lifetime.

**Intangible fixed assets**
Intangible fixed assets are carried at their fair value at the time of acquisition. They are amortised over the expected contract period or their expected economic lifetime, and possible write-downs are deducted.

**Write-downs**
Each time the accounts are made up, assets are reviewed for indications of a fall in value. Oil and gas fields or installations are normally treated as separate units for assessing write-downs. Should the recoverable value be lower than the book value, and this decline is not expected to be temporary, the asset is written down to its recoverable value, which is the higher of the asset's fair value less sales costs and its utility value. The utility value is calculated using discounted cash flows, which are discounted using a discount rate based on the weighted average cost of capital (WACC) calculated for the company.

The write-down will be reversed if the conditions for writing down the asset no longer apply.

**Maintenance expenses**
Expenses related to repair and maintenance are expensed on a continuous basis. Expenses for major replacements and renewals which significantly extend the economic life of the tangible fixed assets are capitalised.

**Abandonment and removal expenses**
Under the terms of a licence, the authorities can require the licensees to remove offshore installations when their production life comes to an end. The estimated fair value of liabilities for removal and clear-up is recorded in the accounts in the period when the liability arises, normally when wells are drilled and installations are built and ready for use. The liability is capitalised as part of the acquisition cost of wells and installations, and

depreciated together with this. Changes to estimated cessation and removal costs are recorded and capitalised in the same manner and depreciated over the remaining economic life of the assets. The discount rate applied when calculating the fair value of a removal liability is based on the interest rate for Norwegian government bonds with the same maturity as the removal liability.

A change in the liability relating to its time value – the effect of the removal time having come one year closer – is recorded as a financial expense.

**Stocks**
Stocks of spare parts and operating materials are valued at the lower of acquisition cost in accordance with the Fifo principle or net realisable value. Spare parts of insignificant value for use in connection with the operation of oil or gas fields are expensed at the time of acquisition. Spare parts of significant value are recorded as stock at the time of acquisition and expensed when they are used in operations. Petoro accepts the assessments made by operators regarding which materials should be capitalised and which expensed.

**Debtors**
Trade debtors and other debtors are carried at face value less a provision for expected loss. This provision is based on an individual assessment of each debtor.

**Bank deposits**
Bank deposits include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase. Cash flows from oil and gas sales are transferred to the government on a daily basis. Booked bank deposits accordingly include the SDFI's share of bank deposits in partnerships with shared liability in which the SDFI has an interest.

**Current liabilities**
Current liabilities are valued at their face value.

**Taxes**
The SDFI is exempt from income tax in Norway. The SDFI is registered for VAT in Norway. Virtually all the SDFI's sales of oil and gas products from its activity take place outside the geographic area to which Norway's VAT legislation applies (the continental shelf and exports). The SDFI invoices these sales to the buyer free of tax. At the same time, the SDFI can deduct possible VAT incurred on invoiced costs which are relevant to its activity.

**Financial instruments**
Since the SDFI is included in the government's overall risk management, only limited use is made of financial instruments.

Such instruments are valued at their market value on the balance sheet date. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are recorded as income if all the following criteria are fulfilled: the instrument is classified as a current asset, is part of a trading portfolio with a view to onward sale, is traded on an exchange, an authorised marketplace or similar regulated market outside Norway, and has a good ownership spread and liquidity. Valuations are based on a portfolio assessment where this is regarded as the most sensible approach given the nature of the financial instruments, and where the portfolio is balanced in volume and time. Eliminations are carried out where legal rights exist to set off unrealised loses and gains, or where deposit/margins which correspond with the market value of the derivatives have been paid and capitalised.

The valuation rules for fixed assets are applied to financial instruments not classified as current assets.

**Contingent liabilities**
Probable and quantifiable losses are expensed.

## NOTE 1 ASSET TRANSFERS AND CHANGES

Eighteen production licences with SDFI participation were awarded in 2012. Fourteen of these were formally awarded by the Ministry of Petroleum and Energy on 17 January 2012 in connection with the awards in predefined areas (APA) for 2011. In addition, four licences were carved out of existing licences with SDFI participation. Seven licences were relinquished in 2012.

As a result of claims being upheld by the sliding scale decision and the arbitration judgement, the holding in the Heidrun Unit changed from 57.40288 per cent to 57.79339 per cent.

## NOTE 2 SPECIFICATION OF FIXED ASSETS

| All figures in NOK million | Historical cost at 1 Jan 12 | Accumulated depreciation 1 Jan 12 | Addition 2012 | Write-down 2012 | Disposal 2012 | Transfers 2012 | Depreciation 2012 | Book value at 31 Dec 12 |
|---|---|---|---|---|---|---|---|---|
| Fields under development | 1 214 | 0 | 2 954 | (391) | 0 | 88 | 0 | 3 865 |
| Fields in operation | 400 652 | (243 187) | 21 354 | (547) | 0 | 357 | (22 495) | 156 134 |
| Pipelines and terminals | 60 538 | (28 824) | 1 605 | 2 | (2) | 0 | (1 737) | 31 582 |
| Capitalised exploration expenses | 4 309 | 0 | 1 374 | 0 | (455) | (446) | 0 | 4 783 |
| **Total tangible fixed assets** | **466 713** | **(272 011)** | **27 287** | **(935)** | **(457)** | **0** | **(24 232)** | **196 365** |
| Intangible assets | 960 | (96) | 70 | (243) | 0 | 0 | (42) | 649 |
| Financial fixed assets | 1 746 | 0 | (644) | 0 | 0 | 0 | 0 | 1 102 |
| **Total fixed assets (NGAAP)** | **469 419** | **(272 107)** | **26 713** | **(1 179)** | **(457)** | **0** | **(24 273)** | **198 116** |
| Translation to cash basis | (51 909) | 23 693 | (1 038) | 0 | 455 | 0 | 4 766 | (34 905) |
| **Total fixed assets on cash basis** | **417 510** | **(248 414)** | **25 675** | **(1 179)** | **(2)** | **0** | **(19 507)** | **163 211** |

Tangible fixed assets for the Snøhvit field include a capitalised long-term financial charter for three ships used for LNG transport from the field. These vessels will be depreciated over 20 years, which is the duration of the charter.

Intangible assets of NOK 649 million relate mainly to rights in the gas storage facility at Aldbrough, which began commercial operation in 2009. The whole facility with nine storage caverns is now operational. Total capacity for the SDFI and Statoil is 100 million scm, of which the SDFI's share is 48.3 per cent. The amount invested is depreciated on a straight-line basis over the estimated 25-year economic life. On the basis of technical reports concerning lower utilisation of storage capacity and reduced volatility, Statoil wrote down the value of the facility in December 2012. The value of the SDFI's share has been correspondingly written down in the SDFI accounts for 2012. Investment in further development of the Etzel gas store and a small amount for Åsgard Transport are included in intangible assets.

Financial fixed assets of NOK 1 102 million include the following.

- Capacity rights for regasification of LNG at the Cove Point terminal in the USA, with an associated agreement on the sale of LNG from Snøhvit to Statoil Natural Gas LLC (SNG) in the USA, reclassified with effect from 2009 as a financial fixed asset. This activity is assessed as an investment in an associate and recorded in accordance with the equity method. See also note 11. The share of profits earned up to 30 September 2012 has been reversed and is recorded as a dividend in the balance sheet at 31 December 2012.
- Shareholdings in Norsea Gas AS, with a book value of NOK 3.98 million, and in Norpipe Oil AS.

## NOTE 3 SPECIFICATION OF OPERATING REVENUE BY AREA

| All figures in NOK million | 2012 | 2011 | 2010 |
|---|---|---|---|
| Mature oil fields | **61 690** | 59 494 | 58 352 |
| Gas fields/new developments* | **142 416** | 121 481 | 95 576 |
| Other infrastructure | **2 548** | 2 566 | 2 275 |
| Net profit agreements | **1 085** | 951 | 876 |
| Other revenue | **10 785** | 9 080 | 6 566 |
| Elimination internal sales | **(4 640)** | (4 752) | (4 375) |
| **Total operating revenue** | **213 885** | **188 820** | **159 270** |

- * Includes Gassled.

Other revenue primarily comprises revenue from onward sale of purchased gas.

## NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

| All figures in NOK million | 2012 | 2011 | 2010 |
|---|---|---|---|
| Crude oil, NGL and condensate | **96 320** | 95 375 | 81 019 |
| Gas | **106 442** | 81 683 | 67 964 |
| Transport and processing revenue | **9 913** | 10 178 | 8 989 |
| Other revenue | **124** | 633 | 422 |
| Net profit agreements | **1 085** | 951 | 876 |
| **Total operating revenue** | **213 855** | **188 820** | **159 270** |

All crude oil, NGL and condensate from the SDFI are sold to Statoil, and all gas is sold by Statoil at the SDFI's expense and risk. Virtually all the gas is sold to customers in Europe, and the three largest customers purchase about 30 per cent of the annual volumes under long-term contracts.

## NOTE 5 SPECIFICATION OF PRODUCTION AND OTHER OPERATING EXPENSES BY AREA

| All figures in NOK million | 2012 | 2011 | 2010 |
|---|---|---|---|
| **PRODUCTION EXPENSES** | | | |
| Mature oil fields | **8 722** | 7 752 | 8 929 |
| Gas fields/new developments* | **7 003** | 6 948 | 6 765 |
| Other infrastructure | **655** | 808 | 175 |
| **Total production expenses** | **16 380** | **15 508** | **15 870** |
| | | | |
| **OTHER OPERATING EXPENSES** | | | |
| Mature oil fields | **2 748** | 2 866 | 3 210 |
| Gas fields/new developments* | **10 332** | 9 906 | 10 280 |
| Other infrastructure | **(233)** | 129 | 81 |
| Other operating expenses | **10 003** | 9 164 | 7 731 |
| Elimination internal purchases | **(4 640)** | (4 752) | (4 375) |
| **Total other operating expenses** | **18 210** | **17 313** | **16 927** |
| | | | |
| **Total production and other operating expenses** | **34 590** | **32 821** | **32 797** |

* includes Gassled

Other operating expenses primarily comprise the cost of purchasing gas for onward sale.

## NOTE 6 INVENTORIES

| All figures in NOK million | 2012 | 2011 | 2010 |
|---|---|---|---|
| Petroleum products | **1 460** | 1 031 | 168 |
| Spare parts | **2 047** | 1 781 | 1 906 |
| **Total inventories** | **3 507** | **2 812** | **2 074** |

Petroleum products embrace LNG and natural gas. The SDFI does not hold inventories of crude oil, which is sold in its entirety to Statoil.

## NOTE 7 INTEREST (APPROPRIATION ACCOUNTS ONLY)

Interest on the government's fixed capital is recorded in the accounts compiled on a cash basis. The amount of interest is calculated as specified in Proposition no 1 Appendix no 7 (1993-94) to the Storting (the Finance Bill) and in item 5.7 in the 2012 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy.

Interest on the government's fixed capital is charged to operations in order to take account of capital costs and to provide a more accurate picture of resource use. This is a calculated cost without a cash flow effect.

The accounts compiled on a cash basis include an open account with the government for the difference between recording by chapter/item in the appropriation accounts and liquidity movements.

Interest on the open account with the government is calculated as specified in item 5.6 in the 2012 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy. The interest rate applied is related to the interest on short-term government securities and corresponds to the rate for short-term Treasury bills calculated on the basis of the average monthly balance in the open account with the government.

## NOTE 8 NET FINANCIAL ITEMS

| **All figures in NOK million** | **2012** | **2011** | **2010** |
|---|---|---|---|
| Interest | **71** | 101 | 4 |
| Other financial revenue | **58** | 432 | 101 |
| Currency gain | **4 427** | 5 512 | 5 898 |
| Currency loss | **(5 331)** | (5 287) | (6 123) |
| Interest costs | **(74)** | (171) | (151) |
| Other financial expenses | **(256)** | | |
| Interest on removal liability | **(1 626)** | (1 826) | (1 575) |
| **Net financial items** | **(2 731)** | **(1 239)** | **(1 846)** |

## NOTE 9 CLOSE ASSOCIATES

The government, represented by the Ministry of Petroleum and Energy, owns 67 per cent of Statoil and 100 per cent of Gassco. These companies are classified as close associates of the SDFI.

Statoil is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL to Statoil totalled NOK 96.6 billion (corresponding to 158 million boe) for 2012 and NOK 95.5 billion (161 million boe) for 2011.

Statoil markets and sells the government's natural gas at the government's expense and risk, but in Statoil's name and together with its own production. The government receives the market value for these sales. The government sold dry gas directly to Statoil to a value of NOK 407 million in 2012, compared with NOK 441 million in 2011. Statoil is reimbursed by the government for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for onward sale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 19.5 billion in 2012 and NOK 18.7 billion in 2011. Open accounts with Statoil totalled NOK 8.4 billion in favour of the SDFI, converted at the exchange rate prevailing at 31 December, compared with NOK 10.7 billion in 2011.

Pursuant to the marketing and sale instruction, the SDFI also participates with a financial interest in Statoil Natural Gas LLC (SNG) in the USA. NOK 1.3 billion in cash flows from SNG at 30 September 2012 were settled and transferred to the SDFI in 2012. The outstanding cash flow earned for the fourth quarter will be settled in 2013. The investment is recorded in accordance with the equity method, and is covered in more detail in note 11.

Open accounts and transactions relating to activities in the production licences are not included in the above-mentioned amounts.

Hence, no information has been included with regard to open accounts and transactions relating to licence activities with Statoil and Gassco. The SDFI participates as a partner in production licences on the NCS. These are accounted for in accordance with the proportionate consolidation method.

## NOTE 10 TRADE DEBTORS

A minor loss of NOK 4.9 million on the SDFI's share of debtors from trading in the UK under the marketing and sale instruction was identified and expensed during the year.

Trade debtors and other debtors are otherwise recorded at face value.

## NOTE 11 INVESTMENT IN ASSOCIATE

The SDFI's participation in Statoil Natural Gas LLC (SNG) in the USA has been treated with effect from 1 January 2009 as an investment in an associate, which is recognised in accordance with the equity method. At the time it was established in 2003, the investment was recorded as an investment in intangible fixed assets at an original acquisition cost of NOK 798 million. This activity has been treated in earlier years as a joint venture and recorded in accordance with the proportional consolidation method.

SNG has its business office at Stamford in the USA and is formally owned 56.5 per cent by Statoil Norsk LNG AS, which reflects the SDFI's ownership interest under the marketing and sale instruction. The remaining 43.5 per cent is owned by Statoil North America Inc. As a result of the merger between Statoil and Hydro's petroleum business in 2007, the profit/loss is allocated in accordance with a skewed distribution model which gives 48.4 per cent to the SDFI.

Statoil consolidates its holding in SNG with other US operations, and uses SNG as a marketing company for gas sales in the American market. Pursuant to the marketing and sale instruction, the SDFI participates in SNG with regard to activities related to the sale of the government's LNG from Snøhvit. Nothing indicates that a new test for write-down is required. Accumulated cash flows corresponding to NOK 1.3 billion at 30 September 2012 were reversed to the SDFI in 2012.

In addition to SNG, the shareholdings in Norsea Gas AS and Norpipe Oil AS are included in the table below.

| **All figures in NOK million** | **2012** | **2011** | **2010** | **2009** |
|---|---|---|---|---|
| Opening balance financial fixed assets (adjusted share) | **1 746** | 1 382 | 908 | 1 003 |
| Net profit credited before write-down | **692** | 363 | 291 | 88 |
| Write-up/(down) | | | 183 | (183) |
| Share of profit reversed as dividend | **(1 336)** | | | |
| **Closing balance financial fixed assets** | **1 102** | **1 746** | **1 382** | **908** |

## NOTE 12 ABANDONMENT/REMOVAL

The liability comprises future abandonment and removal of oil and gas installations. Norwegian government legal requirements and the Oslo-Paris (Ospar) convention for the protection of the marine environment of the north-east Atlantic provide the basis for determining the extent of the removal liability.

The liability is calculated on the basis of estimates from the respective operators. Great uncertainty relates to a number of factors underlying the removal estimate, including assumptions for removal and estimating methods, technology and the removal date. The last of these is expected largely to fall one-two years after the cessation of production. See note 22.

Interest expense on the liability is classified as a financial expense in the income statement. The discount rate is based on the interest rate for Norwegian government bonds with the same maturity as the removal liability. An extrapolated interest rate derived from foreign rates is applied for liabilities which extend beyond the longest maturity for such bonds.

The estimate for removal costs has been reduced by NOK 3.2 billion as a result of changes to future estimated costs from operators, alterations to cessation dates and change to expected price rises. This change includes higher estimates for plugging and abandoning wells and for shutting down installations, which is offset by lower expected price inflation. Estimates for removal expenses include operating costs for rigs and other vessels required for such complex operations. A reduction in the discount rate increases the liability by NOK 1.3 billion.

| **All figures NOK million** | **2012** | **2011** | **2010** |
|---|---|---|---|
| Liability at 1 Jan | **57 906** | 45 186 | 37 313 |
| New liabilities/disposals | **1 176** | (756) | 775 |
| Actual removal | **(635)** | (576) | (107) |
| Changes to estimates | **(3 179)** | 1 462 | 5 269 |
| Changes to discount rates | **1 313** | 10 847 | 360 |
| Interest expense | **1 626** | 1 743 | 1 575 |
| **Liability at 31 Dec** | **58 207** | **57 906** | **45 186** |

## NOTE 13 OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprise:
- debt related to financial leasing of three LNG carriers delivered in 2006
- debt relating to the final settlement of commercial arrangements concerning the move to company-based gas sales.

Three financial leasing contracts were entered into in 2006 on the delivery of three ships for transporting LNG from Snøhvit. These contracts run for 20 years, with two options for five-year extensions. The future discounted minimum payment for financial leasing totals NOK 1 140 million. Of this, NOK 142 million falls due for payment in 2013, NOK 567 million in the subsequent four years and the residual NOK 431 million after 2017.

Other long-term liabilities total NOK 942 million, of which NOK 759 million falls due longer than five years from the balance sheet date.

## NOTE 14 OTHER CURRENT LIABILITIES

Other current liabilities falling due in 2013 mainly comprise:
- provisions for unpaid costs accrued by licence operators in the accounts at November
- provisions for accrued unpaid costs at December, adjusted for cash calls in December
- other provisions for accrued unpaid costs not included in the accounts received from operators
- current share of long-term liabilities.

## NOTE 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Only limited use is made of financial instruments (derivatives) to manage risk in the SDFI portfolio. This is primarily because the SDFI is owned by the state and is accordingly included in the government's overall risk management. The SDFI does not have significant interest-bearing debt, and all crude oil and NGL is sold to Statoil. Instruments used to hedge gas sales relate to forwards and futures. At 31 December 2012, the market value of the financial instruments was NOK 350 million in assets and NOK 360 million in liabilities. The comparable figures at the end of 2011 were NOK 1 701 million and NOK 548 million respectively. These figures include the market value of unlisted instruments. The market value of built-in derivatives related to end-user customers in continental Europe. This amounted to a supplementary NOK 1 438 million in assets and 18 million in liabilities. The corresponding figure for 2011 was NOK 1 988 million in assets and NOK 17 million in liabilities. The unrealised gain for the trading portfolio was virtually the same as the unrealised loss at 31 December 2012. Following a portfolio assessment, no provision has been made in the accounts.

**Price risk**
The SDFI is exposed to fluctuations in oil and gas prices in the world market. Statoil purchases all oil, NGL and condensate from the SDFI at market-based prices. SDFI revenue from gas sales to end users reflects market value. Based on the arrangement relating to

the marketing and sale instruction together with the SDFI's participation in the government's overall risk management, the SDFI's strategy is to make only limited use of financial instruments (derivatives) to counteract fluctuations in profit and loss owing to variations in commodity prices.

**Currency risk**

The most significant part of the SDFI's revenue from the sale of oil and gas is billed in USD, EUR or GBP. Part of its operating expenses and investments is also billed in equivalent currencies. When converting to NOK, currency fluctuations will affect the SDFI's income statement and balance sheet. The SDFI does not make use of currency hedging in relation to future sales of the SDFI's petroleum, and its exposure in the balance sheet at 31 December 2012 was largely related to one month's outstanding revenue.

**Interest risk**

The SDFI is primarily exposed to credit risk through financial leases. Together with Statoil, it has a financial liability related to charters for LNG ships pursuant to the marketing and sale instruction. The SDFI has no other interest-bearing debt exposed to interest rate fluctuations.

**Credit risk**

The SDFI's sales are made to a limited number of parties, with all oil and NGL sold to Statoil. In accordance with the marketing and sale instruction, financial instruments for the SDFI's operations are purchased from other parties with sound credit ratings. Financial instruments are only established with large banks or financial institutions at levels of exposure approved in advance. The SDFI's credit-related risk during consecutive transactions is accordingly regarded as insignificant.

**Liquidity risk**

The SDFI generates a significant positive cash flow from its operations. Internal guidelines on managing the flow of liquidity have been established.

## NOTE 16 LEASES/CONTRACTUAL LIABILITIES

| All figures in NOK million | Leases | Transport capacity and other liabilities |
|---|---|---|
| 2013 | 5 912 | 1 531 |
| 2014 | 4 781 | 1 497 |
| 2015 | 4 949 | 800 |
| 2016 | 4 396 | 1 460 |
| 2017 | 2 901 | 1 280 |
| Beyond | 10 513 | 12 376 |

Leases represent operation-related contractual liabilities for the chartering/leasing of rigs, supply ships, production ships, helicopters, standby vessels, bases and so forth as specified by the individual operator. The figures represent cancellation costs.

Transport capacity and other liabilities relate to the sale of gas, and consist mainly of transport and storage liabilities in the UK and continental Europe as well as terminal capacity liabilities relating to the Cove Point terminal in the USA. The SDFI's share of installations and pipelines on the NCS is generally higher than or equal to the transport share. Hence, no liabilities are calculated for these systems.

**Other liabilities**

In connection with the award of licences to explore for and produce petroleum, licensees may be required to undertake to drill a certain number of wells. Petoro was committed at 31 December 2012 to participate in 12 wells with an expected cost to the SDFI of NOK 1.2 billion. Of this, NOK 829 million is expected to be incurred in 2013.

The company has also accepted contractual liabilities relating to investment in new and existing fields. These obligations total NOK 11.4 billion for 2013 and NOK 7.6 billion for subsequent periods, a total of NOK 19 billion. The SDFI is also committed in 2013 through approved licence budgets to operating and investment expenses for subsequent years. The above-mentioned liabilities for 2013 are included in this total.

In connection with the sale of the SDFI's oil and gas, Statoil has issued a limited number of warranties to vendors and owners of transport infrastructure relating to operations in the USA, the UK and continental Europe. Warranties issued in connection with trading operations are provided as security for the financial settlement.

The SDFI and Statoil deliver gas to customers under common gas sale agreements. SDFI gas reserves will be utilised in accordance with the SDFI's share of production from the fields selected to deliver the gas at any given time.

## NOTE 17 OTHER LIABILITIES

The SDFI could be affected by possible legal actions and disputes as a participant in production licences, fields, pipelines and land-based plants, and in the joint sale of the SDFI's gas together with Statoil. The SDFI is involved in current disputes relating to issues in joint ventures in which Petoro is a licensee. Provisions have been made in the accounts for issues where a negative outcome for the SDFI portfolio is thought to be more likely than not.

## NOTE 18 SIGNIFICANT ESTIMATES

The SDFI accounts are presented in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles (NGAAP), which means that the management makes assessments and exercises judgement in a number of areas. Changes in the underlying assumptions could have a substantial effect on the accounts. Where the SDFI portfolio is concerned, it is presumed that assessments of reserves, removal of installations, exploration expenses and financial instruments could have the largest significance.

Recoverable reserves include volumes of crude oil, NGL (including condensate) and dry gas as reported in resource classes 1-3 in the NPD's classification system. Only reserves for which the licensees' plan for development and operation (PDO) has been sanctioned in the management committee and submitted to the authorities are included in the portfolio's expected reserves. A share of the field's remaining reserves in production (resource class 1) provides the basis for depreciation. A share of oil and gas respectively is calculated annually for the portfolio to represent the relationship between low and basis reserves. This common share is used to calculate the depreciation basis for each field. The downwardly adjusted basis reserves which form the basis for depreciation expenses have great significance for the result, and adjustments to the reserve base can cause major changes to the SDFI's profit.

Drilling expenses are capitalised temporarily until an assessment has been made of whether oil or gas reserves have been found. Assessments of the extent to which these expenses should remain capitalised or be written down in the period will affect results for the period.

Substantial investments in tangible fixed assets have been made in the SDFI portfolio. Each time the accounts are made up, these are reviewed for indications of a fall in value. The assessment of whether an asset must be written down builds to a great extent on judgements and assumptions about the future.

Reference is otherwise made to the description of the company's accounting principles and to notes 12 and 15, which describe the company's treatment of exploration expenses, uncertainties related to removal and financial instruments.

## NOTE 19 EQUITY

| **All figures in NOK million** | **2012** | **2011** | **2010** |
|---|---|---|---|
| Equity at 1 Jan | **152 029** | 146 456 | 144 649 |
| Net income for the year | **149 986** | 133 721 | 105 379 |
| Cash transfers to the government | **(146 930)** | (128 083) | (103 572) |
| Items recorded directly against equity | | (64) | |
| **Equity at 31 Dec** | **155 085** | **152 029** | **146 456** |

Equity at 1 January includes a capital contribution of NOK 9.1 billion paid to Statoil on 1 January 1985 for the participatory interests acquired by the SDFI from Statoil. It otherwise includes accumulated income reduced by net cash transfers to the government.

## NOTE 20 AUDITORS

In accordance with the Act on the Auditing of Governmental Accounts of 7 May 2004, the Office of the Auditor General is the external auditor for the SDFI. The Auditor General issues a final audit letter (report) concerning the SDFI accounts and budget, which is first published after the government accounts have been submitted and when the Auditor General's annual report, Document no 1, is submitted to the Storting (parliament).

In addition, Deloitte AS has been engaged by the board of directors of Petoro AS to perform a financial audit of the SDFI as part of the internal audit function. Deloitte submits its audit report to the board in accordance with Norwegian auditing standards. Deloitte's fee is expensed in the Petoro accounts.

## NOTE 21 EXPECTED REMAINING OIL AND GAS RESERVES (UNAUDITED)

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| **Oil* in mill bbl. Gas in bn scm** | **oil** | **gas** | **oil** | **gas** | **oil** | **gas** |
| Expected reserves at 1 Jan | 1 429 | 847 | 1 397 | 817 | 1 511 | 839 |
| Corrections for earlier years** | | | | (1) | (2) | (6) |
| Change in estimates | 62 | 8 | 43 | (3) | (4) | 3 |
| Extensions and discoveries | 34 | 6 | 74 | 7 | 16 | 8 |
| Improved recovery | 89 | 1 | 86 | 61 | 48 | 9 |
| Sale of reserves | | | (10) | (1) | | |
| Production | (157) | (41) | (161) | (33) | (172) | (35) |
| **Expected reserves at 31 Dec** | **1 458** | **821** | **1 429** | **847** | **1 397** | **817** |

* Oil includes NGL and condensate.
** Correction in 2011 as a result of reconciliation with official production figures from the NPD.

The SDFI added 290 million boe in new reserves during 2012. The biggest contributions came from the decision to develop the Martin Linge field. At the same time, adjustments on certain fields resulted in a net increase of 278 million boe in reserves.

At 31 December 2012, the portfolio's expected remaining oil, condensate, NGL and gas reserves totalled 6 623 million boe. This represented a decline of 136 million boe from the end of 2011. Petoro reports the portfolio's expected reserves in accordance with the NPD's classification system and on the basis of resource classes 1-3.

The net reserve replacement rate for 2012 was thereby 67 per cent, compared with 160 per cent the year before. The average reserve replacement rate for the portfolio over the past three years was 86 per cent. The corresponding figure for the 2009-11 period was 49 per cent.

## NOTE 22 SDFI OVERVIEW OF INTERESTS

| Production licence | At 31 Dec 12 Interest (%) | At 31 Dec 11 Interest (%) |
|---|---|---|
| 018 | 5.0000 | 5.0000 |
| 018 B | 5.0000 | 5.0000 |
| 018 C | 5.0000 | 5.0000 |
| 018 DS | 5.0000 | 5.0000 |
| 028 C | 30.0000 | 30.0000 |
| 034 | 40.0000 | 40.0000 |
| 036 BS | 20.0000 | 20.0000 |
| 037 | 30.0000 | 30.0000 |
| 037 B | 30.0000 | 30.0000 |
| 037 E | 30.0000 | 30.0000 |
| 038 | 30.0000 | 30.0000 |
| 038 C | 30.0000 | 30.0000 |
| 038 D | 30.0000 | 30.0000 |
| 040 | 30.0000 | 30.0000 |
| 043 | 30.0000 | 30.0000 |
| 043 BS | 30.0000 | 30.0000 |
| 050 | 30.0000 | 30.0000 |
| 050 B | 30.0000 | 30.0000 |
| 050 C | 30.0000 | 30.0000 |
| 050 D | 30.0000 | 30.0000 |
| 050 DS | 30.0000 | 30.0000 |
| 050 ES | 30.0000 | - |
| 050 FS | 30.0000 | - |
| 050 GS | 30.0000 | - |
| 050 HS | 30.0000 | - |
| 051 | 31.4000 | 31.4000 |
| 052 | 37.0000 | 37.0000 |
| 052 B | 37.0000 | 37.0000 |
| 053 | 33.6000 | 33.6000 |
| 054 | 40.8000 | 40.8000 |
| 055 C | 33.6000 | 33.6000 |
| 057 | 30.0000 | 30.0000 |
| 062 | 19.9500 | 19.9500 |
| 064 | 30.0000 | 30.0000 |
| 074 | 19.9500 | 19.9500 |
| 074 B | 19.9500 | 19.9500 |
| 077 | 30.0000 | 30.0000 |
| 078 | 30.0000 | 30.0000 |
| 079 | 33.6000 | 33.6000 |
| 085 | 62.9187 | 62.9187 |
| 085 B | 62.9187 | 62.9187 |

| Production licence | At 31 Dec 12 Interest (%) | At 31 Dec 11 Interest (%) |
|---|---|---|
| 085 C | 56.0000 | 56.0000 |
| 089 | 30.0000 | 30.0000 |
| 093 | 47.8800 | 47.8800 |
| 093 B | 47.8800 | 47.8800 |
| 094 | 14.9500 | 14.9500 |
| 094 B | 35.6900 | 35.6900 |
| 095 | 59.0000 | 59.0000 |
| 097 | 30.0000 | 30.0000 |
| 099 | 30.0000 | 30.0000 |
| 100 | 30.0000 | 30.0000 |
| 102 | 30.0000 | 30.0000 |
| 102 C | 30.0000 | 30.0000 |
| 102 D | 30.0000 | - |
| 102 E | 30.0000 | - |
| 104 | 33.6000 | 33.6000 |
| 104 B | 33.6000 | - |
| 107 B | 7.5000 | 7.5000 |
| 107 D | 7.5000 | 7.5000 |
| 110 | 30.0000 | 30.0000 |
| 110 B | 30.0000 | 30.0000 |
| 110 C | 30.0000 | 30.0000 |
| 120 | 16.9355 | 16.9355 |
| 120 B | 16.9355 | 16.9355 |
| 124 | 27.0900 | 27.0900 |
| 128 | 24.5455 | 24.5455 |
| 128 B | 54.0000 | 54.0000 |
| 134 | 13.5500 | 13.5500 |
| 152 | 30.0000 | 30.0000 |
| 153 | 30.0000 | 30.0000 |
| 153 B | 30.0000 | 30.0000 |
| 158 | 47.8800 | 47.8800 |
| 169 | 30.0000 | 30.0000 |
| 169 B1 | 37.5000 | 37.5000 |
| 169 B2 | 30.0000 | 30.0000 |
| 169 C | 50.0000 | 30.0000 |
| 169 D | 30.0000 | 30.0000 |
| 171 B | 33.6000 | 33.6000 |
| 176 | 47.8800 | 47.8800 |
| 190 | 40.0000 | 40.0000 |
| 193 | 30.0000 | 30.0000 |
| 193 B | 30.0000 | 30.0000 |
| 193 C | 30.0000 | 30.0000 |
| 193 D | 30.0000 | 30.0000 |

| Production licence | At 31 Dec 12 Interest (%) | At 31 Dec 11 Interest (%) |
|---|---|---|
| 193 E | 30.0000 | - |
| 195 | 35.0000 | 35.0000 |
| 195 B | 35.0000 | 35.0000 |
| 199 | 27.0000 | 27.0000 |
| 208 | 30.0000 | 30.0000 |
| 209 | 35.0000 | 35.0000 |
| 237 | 35.6900 | 35.6900 |
| 248 | 40.0000 | 40.0000 |
| 248 B | 40.0000 | 40.0000 |
| 250 | 45.0000 | 45.0000 |
| 255 | 30.0000 | 30.0000 |
| 263C | 19.9500 | 19.9500 |
| 264* | 30.0000 | 30.0000 |
| 265 | 30.0000 | 30.0000 |
| 275 | 5.0000 | 5.0000 |
| 277 | 30.0000 | 30.0000 |
| 277 B* | 30.0000 | 30.0000 |
| 283 | - | 20.0000 |
| 309 | 33.6000 | 33.6000 |
| 309 B | 33.6000 | 33.6000 |
| 309 C | 33.6000 | 33.6000 |
| 318 | 20.0000 | 20.0000 |
| 318 B | 20.0000 | 20.0000 |
| 318 C | 20.0000 | 20.0000 |
| 327 | 20.0000 | 20.0000 |
| 327 B | 20.0000 | 20.0000 |
| 374 S | 20.0000 | 20.0000 |
| 393 | 20.0000 | 20.0000 |
| 393 B | 20.0000 | 20.0000 |
| 395 | 20.0000 | 20.0000 |
| 396 | - | 20.0000 |
| 400 | - | 20.0000 |
| 402 | 20.0000 | 20.0000 |
| 402 B | 20.0000 | 20.0000 |
| 438 | 20.0000 | 20.0000 |
| 439 | - | 20.0000 |
| 448 | 30.0000 | 30.0000 |
| 473 | 19.9500 | 19.9500 |
| 475 BS | 30.0000 | 30.0000 |
| 475 CS | 30.0000 | 30.0000 |
| 479 | 14.9500 | 14.9500 |
| 482 | 20.0000 | 20.0000 |
| 488 | 30.0000 | 30.0000 |

| Production licence | At 31 Dec 12 Interest (%) | At 31 Dec 11 Interest (%) |
|---|---|---|
| 489 | 20.0000 | 20.0000 |
| 502 | 33.3333 | 33.3333 |
| 504 | 32.2300 | 3.0000 |
| 504 BS | 3.0000 | 3.0000 |
| 506 BS | 20.0000 | 20.0000 |
| 506 CS | 20.0000 | 20.0000 |
| 506 DS | 20.0000 | - |
| 506 S | 20.0000 | 20.0000 |
| 511 | 20.0000 | 20.0000 |
| 516 | 24.5455 | 24.5455 |
| 522 | 20.0000 | 20.0000 |
| 527 | 20.0000 | 20.0000 |
| 532 | 20.0000 | 20.0000 |
| 536 | - | 20.0000 |
| 537 | 20.0000 | 20.0000 |
| 538 | - | 20.0000 |
| 545 | - | 20.0000 |
| 552 | 30.0000 | 30.0000 |
| 558 | 20.0000 | 20.0000 |
| 562 | 20.0000 | 20.0000 |
| 566 S | 20.0000 | 20.0000 |
| 568 | 20.0000 | 20.0000 |
| 598 | 20.0000 | 20.0000 |
| 602 | 20.0000 | 20.0000 |
| 605 | 20.0000 | 20.0000 |
| 608 | 20.0000 | 20.0000 |
| 611 | 20.0000 | 20.0000 |
| 612 | 20.0000 | 20.0000 |
| 615 | 20.0000 | 20.0000 |
| 618 | 20.0000 | - |
| 625 | 20.0000 | - |
| 628 | 20.0000 | - |
| 638 | 20.0000 | - |
| 639 | 20.0000 | - |
| 642 | 20.0000 | - |
| 656 | 20.0000 | - |
| 657 | 20.0000 | - |
| 659 | 30.0000 | - |

| Net profit licences** | | |
|---|---|---|
| 027 | | |
| 028 | | |
| 029 | | |
| 033 | | |

| Unitised fields | At 31 Dec 12 Interest (%) | At 31 Dec 11 Interest (%) | Remaining production period | Licence term |
|---|---|---|---|---|
| Gimle Unit | 24.1863 | 24.1863 | 2023 | 2023 |
| Grane Unit | 28.9425 | 28.9425 | 2030 | 2030 |
| Halten Bank West Unit (Kristin) | 19.5770 | 19.5770 | 2032 | 2027 |
| Heidrun Unit | 57.7934 | 57.4029 | 2044 | 2024 |
| Huldra Unit | 31.9553 | 31.9553 | 2015 | 2015 |
| Jette Unit | 30.0000 | - | 2019 | 2030 |
| Martin Linge Unit | 30.0000 | 30.0000 | 2027 | 2027 |
| Norne Inside | 54.0000 | 54.0000 | 2030 | 2026 |
| Ormen Lange Unit | 36.4750 | 36.4750 | 2036 | 2040 |
| Oseberg Area Unit | 33.6000 | 33.6000 | 2041 | 2031 |
| Snorre Unit | 30.0000 | 30.0000 | 2039 | 2015 |
| Snøhvit Unit | 30.0000 | 30.0000 | 2054 | 2035 |
| Statfjord East Unit | 30.0000 | 30.0000 | 2025 | 2024 |
| Sygna Unit | 30.0000 | 30.0000 | 2025 | 2024 |
| Tor Unit | 3.6874 | 3.6874 | 2049 | 2028 |
| Troll Unit | 56.0000 | 56.0000 | 2058 | 2030 |
| Valemon Unit | 30.0000 | 30.0000 | 2042 | 2031 |
| Vega Unit | 24.0000 | 24.0000 | 2024 | 2035 |
| Visund Inside | 30.0000 | 30.0000 | 2034 | 2034 |
| Åsgard Unit | 35.6900 | 35.6900 | 2029 | 2027 |

| Fields | | | | |
|---|---|---|---|---|
| Atla | 30.0000 | 30.0000 | 2017 | 2025 |
| Draugen | 47.8800 | 47.8800 | 2034 | 2024 |
| Ekofisk | 5.0000 | 5.0000 | 2049 | 2028 |
| Eldfisk | 5.0000 | 5.0000 | 2049 | 2028 |
| Embla | 5.0000 | 5.0000 | 2050 | 2028 |
| Gjøa | 30.0000 | 30.0000 | 2027 | 2028 |
| Gullfaks | 30.0000 | 30.0000 | 2040 | 2036 |
| Gullfaks South | 30.0000 | 30.0000 | 2036 | 2036 |
| Heimdal | 20.0000 | 20.0000 | 2015 | 2021 |
| Kvitebjørn | 30.0000 | 30.0000 | 2045 | 2031 |
| Rev | 30.0000 | 30.0000 | 2014 | 2021 |
| Skirne | 30.0000 | 30.0000 | 2017 | 2025 |
| Skuld | 24.5455 | - | 2030 | 2026 |
| Statfjord North | 30.0000 | 30.0000 | 2025 | 2026 |
| Svalin | 30.0000 | - | 2030 | 2030 |
| Tordis | 30.0000 | 30.0000 | 2030 | 2024 |
| Tune | 40.0000 | 40.0000 | 2015 | 2032 |
| Urd | 24.5455 | 24.5455 | 2030 | 2026 |
| Varg | 30.0000 | 30.0000 | 2021 | 2021 |
| Veslefrikk | 37.0000 | 37.0000 | 2023 | 2020 |
| Vigdis | 30.0000 | 30.0000 | 2031 | 2024 |
| Yttergryta | 19.9500 | 19.9500 | - | 2027 |

## PIPELINES AND LAND-BASED PLANTS

| Oil pipelines | At 31 Dec 12 Interest (%) | At 31 Dec 11 Interest (%) | Licence term |
|---|---|---|---|
| Oseberg Transport System (OTS) | 48.3838 | 48.3838 | 2014 |
| Troll Oil Pipeline I + II | 55.7681 | 55.7681 | 2023 |
| Grane Oil Pipeline | 42.0631 | 42.0631 | 2030 |
| Kvitebjørn Oil Pipeline | 30.0000 | 30.0000 | 2020 |
| Norpipe Oil AS (Interest) | 5.0000 | 5.0000 | 2028 |

| Oil - land-based plants | | | |
|---|---|---|---|
| Mongstad Terminal DA | 35.0000 | 35.0000 | - |

| Gas pipelines | | | |
|---|---|---|---|
| Gassled*** | 45.7930 | 45.7930 | 2028 |
| Haltenpipe | 57.8125 | 57.8125 | 2020 |
| Mongstad Gas Pipeline (EMV) | 56.0000 | 56.0000 | 2030 |
| Polarled (NSGI) | 11.9460 | - | - |
| Kristin Gas Export | 35.6000 | - | - |

| Gas - land-based plants | | | |
|---|---|---|---|
| Dunkerque Terminal DA | 29.7652 | 29.7652 | 2028 |
| Zeepipe Terminal JV | 22.4384 | 22.4384 | 2028 |
| Vestprosess DA | 41.0000 | 41.0000 | - |
| Kollsnes (gas processing plant, operation) | 45.7930 | 45.7930 | - |
| Norsea Gas AS (Interest) | 40.0060 | 40.0060 | 2028 |
| Ormen Lange Eiendom DA | 36.4750 | 36.4750 | 2035 |

The SDFI also has intangible fixed assets relating to gas storage in the UK and Germany, and financial fixed assets related to an associate in the USA (SNG).

* Relinquished 1 January 2013.
** Production licences where the SDFI is not a licensee, but has a right to a share of possible profit.
*** The interest in Gassled including Norsea Gas is 46.698 per cent.

**Riksrevisjonen**
Office of the Auditor General of Norway

Executive officer
Stig Allan Snähre +47 21540881
Our date 20.02.2013
Our reference 2012/02201-5
Your date
Your reference

Postboks 300 Sentrum, Petoro AS
4002 Stavanger
NORWAY

**Audit of the 2012 accounts of the State's Direct Financial Interest**

Pursuant to Act no 21 of the 7th of May 2004 relating to the Office of the Auditor General (Auditor General Act), the Office of the Auditor General of Norway is the auditor for the State's Direct Financial Interest.

When finalizing the annual audit, the Office of the Auditor General will issue an audit opinion which summarizes the conclusion of the audit performed. The audit opinion will be made public not until the Office of the Auditor General has reported the results of the audit to the Storting (Parliament) in the beginning of October, pursuant to section 18 of the Auditor General Act.

The board of directors and possibly the annual general meeting of Petoro AS will be briefed on the results of the audit for the year.

Yours sincerely

Hans Conrad Hansen
Director General

Lars Christian Møller
Deputy Director General

Postal address: Postboks 8130 Dep, N-0032 Oslo
Office address: Pilestredet 42, 0167 Oslo
Telephone: +47 22 24 10 00
Fax: +47 22 24 10 01
E-mail/Internet: postmottak@riksrevisjonen.no, www.riksrevisjonen.no
Bank acc. no: 7694 05 06774
Org.no.: 974760843

# PETORO AS INCOME STATEMENT

| All figures in NOK 1 000 | NOTES | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| Invoiced government contribution | 1 | **244 496** | 211 200 | 208 000 |
| Other revenue | 1 | **1 472** | 4 789 | 2 902 |
| Net deferred revenue recorded | 2 | **(490)** | 1 899 | 2 713 |
| **Total operating revenue** | | **245 478** | **217 888** | **213 615** |
| Payroll expenses | 3,11 | **133 007** | 126 517 | 108 136 |
| Depreciation | 4 | **3 252** | 3 388 | 4 864 |
| Administrative fees | 14,17 | **1 542** | 3 182 | 2 666 |
| Accounting fees | 16 | **16 533** | 17 489 | 15 830 |
| Office expenses | 15 | **8 834** | 9 009 | 8 976 |
| ICT expenses | 16 | **17 280** | 17 167 | 15 851 |
| Other operating expenses | 13,16,17 | **76 241** | 51 253 | 60 146 |
| **Total operating expenses** | | **256 688** | **228 004** | **216 470** |
| **Operating income/(loss)** | | **(11 210)** | **(10 116)** | **(2 855)** |
| Financial income | 5 | **3 511** | 3 707 | 3 030 |
| Financial expenses | 5 | **(355)** | (574) | (541) |
| **Net financial result** | | **3 156** | **3 133** | **2 490** |
| **NET INCOME/(LOSS)** | | **(8 054)** | **(6 983)** | **(365)** |
| **TRANSFERS** | | | | |
| Transferred to/(from) other equity | | **(8 054)** | (6 983) | (365) |
| **Total transfers** | | **(8 054)** | **(6 983)** | **(365)** |

# PETORO AS BALANCE SHEET

| All figures in NOK 1 000 | NOTES | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Operating equipment, fixtures, etc | 4 | **4 810** | 4 320 | 6 219 |
| **Total tangible fixed assets** | | **4 810** | **4 320** | **6 219** |
| **Financial assets** | | | | |
| Shares in subsidiaries | 6 | **0** | 0 | 0 |
| **Total financial assets** | | **0** | 0 | 0 |
| **Total fixed assets** | | **4 810** | **4 320** | **6 219** |
| **Current assets** | | | | |
| Trade debtors | | **7 987** | 3 582 | 1 448 |
| Other debtors | 7 | **13 107** | 8 465 | 9 430 |
| Bank deposits | 8 | **154 684** | 138 294 | 125 510 |
| **Total current assets** | | **175 778** | **150 340** | **136 388** |
| **TOTAL ASSETS** | | **180 588** | **154 660** | **142 607** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| **Paid-in capital** | | | | |
| Share capital (10 000 shares at NOK 1 000) | 9 | **10 000** | 10 000 | 10 000 |
| **Retained earnings** | | | | |
| Other equity | 10 | **13 348** | 21 401 | 28 384 |
| **Total equity** | | **23 348** | **31 401** | **38 384** |
| **Liabilities** | | | | |
| **Provisions** | | | | |
| Pension liabilities | 11 | **92 904** | 77 458 | 61 424 |
| Deferred revenue government contribution | 2 | **4 810** | 4 320 | 6 219 |
| **Total provisions** | | **97 713** | **81 778** | **67 644** |
| **Current liabilities** | | | | |
| Trade creditors | | **20 363** | 14 743 | 13 364 |
| Withheld taxes and social security | | **8 366** | 7 729 | 7 159 |
| Other current liabilities | 12 | **30 797** | 19 009 | 16 057 |
| **Total current liabilities** | | **59 527** | **41 481** | **36 580** |
| **Total liabilities** | | **157 240** | **123 259** | **104 223** |
| **TOTAL EQUITY AND LIABILITIES** | | **180 588** | **154 660** | **142 607** |

Stavanger, 22 February 2013

**Gunnar Berge**
Chair

**Hilde Myrberg**
Deputy chair

**Nils-Henrik M von der Fehr**
Director

**Per Arvid Schøyen**
Director

**Mari Thjømøe**
Director

**Ragnar Sandvik**
Director*

**Anniken Teigen Gravem**
Director*

**Kjell Pedersen**
President and CEO

* Elected by the employees

# PETORO AS CASH FLOW STATEMENT

| | **All figures in NOK 1 000** | **2012** | 2011 | 2010 |
|---|---|---|---|---|
| | **LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES** | | | |
| | Provided by operations for the year* | **(4 802)** | (3 595) | 4 499 |
| +/- | Change in trade debtors | **(4 405)** | (2 134) | (1 448) |
| +/- | Change in trade creditors | **5 620** | 1 379 | 2 460 |
| +/- | Change in accrued items | **23 719** | 18 623 | 2 417 |
| | **Net change in liquidity from operating activities** | **20 132** | **14 272** | **7 928** |
| | **LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES** | | | |
| - | Invested in tangible fixed assets | **(3 742)** | (1 489) | (2 152) |
| | **Net change in liquidity from investing activities** | **(3 742)** | **(1 489)** | **(2 152)** |
| | **LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES** | | | |
| + | Proceeds from share issue | **0** | 0 | 0 |
| | **Net change in liquidity from financing activities** | **0** | **0** | **0** |
| | Net change in liquid assets | **16 391** | 12 784 | 5 776 |
| + | Cash and cash equivalents at 1 January | **138 294** | 125 510 | 119 734 |
| | **Cash and cash equivalents at 31 December** | **154 684** | **138 294** | **125 510** |
| * | This figure is obtained as follows: | | | |
| | Net income/(loss) | **(8 054)** | (6 983) | (365) |
| + | Ordinary depreciation and write-downs | **3 252** | 3 388 | 4 864 |
| | **Provided by operations for the year** | **(4 802)** | **(3 595)** | **4 499** |

# PETORO AS NOTES

## ACCOUNTING PRINCIPLES

### Description of the company's business
Petoro AS was established by the Ministry of Petroleum and Energy on behalf of the Norwegian government on 9 May 2001. The company's object is to be responsible, on behalf of the government, for managing the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum activities on the Norwegian continental shelf, and activities related hereto.

The state is the majority shareholder in Statoil ASA and the owner of the SDFI. On that basis, Statoil handles marketing and sales of the government's petroleum. Petoro is responsible for monitoring that Statoil discharges its responsibilities under the applicable marketing and sale instruction.

Petoro is also responsible for presenting separate annual accounts for the SDFI portfolio, and the cash flow for the SDFI is accordingly excluded from the limited company's annual accounts.

Petoro Iceland AS was established in December 2012 as a wholly owned subsidiary of Petoro AS. The company's purpose is, on behalf of the state and at the government's expense and risk, to be responsible for managing the commercial aspects related to the Norwegian state's participation in petroleum operations on the Icelandic continental shelf and associated activities.

### Group and consolidation
No consolidated accounts have been prepared for 2012, since there has been little or no activity in the subsidiary during the year. For that reason, the omission of consolidation has no significance in assessing the group's position and results for 2012.

### Classification of assets and liabilities
Assets intended for ownership or use in the business for a longer period are classified as fixed assets. Other assets are classed as current assets. Debtors due within one year are classified as current assets. Similar criteria are applied for classification of current and long-term liabilities.

### Fixed assets
Fixed assets are carried at historical cost with a deduction for planned depreciation. Should the fair value of a fixed asset be lower than the book value, and this decline is not expected to be temporary, the asset will be written down to its fair value. Fixed assets with a limited economic lifetime are depreciated on a straight-line basis over their economic lifetime.

### Shares in subsidiaries
Investment in subsidiaries is assessed in accordance with the cost method.

### Debtors
Trade debtors and other debtors are carried at face value.

### Bank deposits
Bank deposits include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase.

### Pensions
The company's pension scheme for employees is a defined benefit plan. The capitalised obligation relating to the defined benefit plan is the present value of the defined obligation at 31 December less the fair value of the plan assets, adjusted for unrecorded change in estimates. The pension obligation is calculated annually by an independent actuary on the basis of a linear earnings method and expected final pay. The pension plan is valued at its expected fair value. The net book obligation includes payroll tax.

Net pension expense is included in payroll expenses and comprises pension rights earned over the period, interest charges on the estimated pension obligation, expected return on pension plan assets, the recorded effect of estimate changes and accrued payroll tax.

Changes made to estimates as a result of new information or changes in actuarial assumptions in excess of the larger of 10 per cent of the value of the pension plan assets or 10 per cent of the pension obligations are recorded in the income statement over a period which corresponds to the employees' expected average remaining period of employment.

### Current liabilities
Current liabilities are assessed at their face value.

### Income taxes
The company is exempt from tax under section 2-30 of the Income Tax Act.

### Operating revenue
The company receives an operating grant from the government for services provided to the Ministry of Petroleum and Energy in accordance with the company's object. This operating contribution is appropriated annually by the Storting (parliament). The operating contribution is presented in the accounts as operating revenue.

Contributions for special projects are recorded as income in line with the progress of the projects (current accounting).

The contribution applied to investment for the year is accrued as deferred revenue and specified as a liability in the balance sheet. The deferred contribution is recorded as income in line with the depreciation of the investments and specified as deferred revenue in the income statement.

### Foreign currencies
Transactions in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction. Receivables and liabilities in foreign currencies are recorded at the exchange rate prevailing at 31 December.

### Cash flow statement
The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term liquid instruments.

## NOTE 1 GOVERNMENT CONTRIBUTION AND OTHER INCOME

The company received an operating contribution from the Norwegian government totalling NOK 225 million excluding VAT in 2012. In addition, an extra appropriation of NOK 27 million excluding VAT was provided in connection with Johan Sverdrup, of which NOK 19.5 million was recorded as income in 2012. A contribution of NOK 1.6 million was also provided in connection with the operation and establishment of Petoro Iceland AS. The net loss after financial items was NOK 8.1 million. Other revenue primarily relates to invoicing of services provided to operators of joint ventures and other joint venture partners.

## NOTE 2 DEFERRED REVENUE

The change in deferred revenue recorded in the income statement comprises deferred revenue related to NOK 3.7 million in investment made during 2012 as well as NOK 3.3 million in depreciation of investments made during the year and in earlier years.

## NOTE 3 PAYROLL EXPENSES, NUMBER OF EMPLOYEES, BENEFITS, ETC

| **Payroll expenses (all figures in NOK 1 000)** | **2012** | **2011** | **2010** |
|---|---|---|---|
| Pay | **85 347** | 82 691 | 73 151 |
| Payroll taxes | **12 918** | 11 978 | 10 616 |
| Pensions (note 10) | **30 864** | 27 274 | 20 870 |
| Other benefits | **3 878** | 4 574 | 3 500 |
| **Total** | **133 007** | **126 517** | **108 136** |

| | | | |
|---|---|---|---|
| Employees at 31 Dec | 65 | 67 | 69 |
| Employees with a signed contract who had not started work at 31 Dec | 1 | 1 | 0 |
| Average number of work-years employed | 65 | 68 | 68 |

| **Remuneration of senior executives (all figures in NOK 1 000)** | **Pay** | **Other benefits** | **Total benefits** | **Recorded pension** |
|---|---|---|---|---|
| President, Kjell Pedersen | 3 587 | 177 | 3 764 | 3 419 |
| Rest of the management team: | | | | |
| Olav Boye Sivertsen | 1 495 | 127 | 1 622 | 360 |
| Marion Svihus | 1 801 | 143 | 1 944 | 802 |
| Tor Rasmus Skjærpe | 2 488 | 142 | 2 630 | 1 634 |
| Laurits Haga | 2 013 | 137 | 2 150 | 1 068 |
| Jan Rosnes | 1 821 | 138 | 1 959 | 560 |
| Grethe Kristin Moen | 1 959 | 144 | 2 103 | 1 036 |
| Roy Ruså | 1 903 | 140 | 2 043 | 659 |

The president has chosen to retire on 11 June 2013.

Recorded pension liabilities represent the current year's estimated cost of the overall pension liability for the president plus the rest of the management team.

| Breakdown of directors' fees (all figures in NOK 1 000) | Directors' fees |
|---|---|
| Gunnar Berge, chair | 353 |
| Hilde Myrberg, deputy chair | 228 |
| Nils-Henrik M von der Fehr, director | 186 |
| Per Arvid Schøyen, director | 186 |
| Mari Thjømøe, director | 186 |
| Line Gehed, director, elected by the employees, 1st half | 97 |
| Erik Aarestad, director, elected by the employees, 1st half | 97 |
| Ragnar Sandvik, director, elected by the employees, 2nd half | 92 |
| Anniken Gravem, director, elected by the employees, 2nd half | 92 |

## DECLARATION ON SENIOR EXECUTIVE PAY FOR PETORO AS

The declaration on remuneration for the president and other senior executives is in line with the provisions of the Norwegian Act on Public Limited Companies and the guidelines for state ownership, including the revised guidelines on conditions of employment for executives in state-owned undertakings and companies of 1 April 2011. These replaced the earlier guidelines for state ownership – attitude to executive pay, which dated from 2006.

**Guidelines on remuneration**
Petoro's remuneration guidelines are entrenched in the company's vision, goals and values. The relationship between the level of performance, demonstrated leadership/collegiality and reward will be predictable, motivational, clear and easy to communicate. Petoro has an integrated pay policy and system for the whole company, and aims to pay a competitive rate without being a pacesetter on remuneration in relation to the relevant market for the petroleum industry.

**Decision-making process**
The board determines compensation arrangements for the president, who in turn determines the compensation arrangements for the other members of the company's senior management. The board has appointed a compensation sub-committee comprising the deputy chair and another director. The vice president for strategy and organisation provides the secretariat function for this committee, which prepares proposals and recommendations for the board on compensation issues.

**Main principles for remuneration in the coming fiscal year**
The compensation package for the president and the other senior executives will reflect the responsibilities and complexity of the role in question, the company's values and culture, the relevant executive's behaviour and performance, and the need to attract and retain key personnel. The arrangements are transparent and accord with the principles for good corporate governance.

Basic pay is the main component in Petoro's compensation scheme. Senior executives are also entitled to benefits on the same lines as others in the company, including car allowance as well as pension and insurance benefits, but with a somewhat wider entitlement to communication allowance. Members of the management team other than the president also have a loyalty scheme which comprises an annual payment determined by the board. This amount is currently NOK 70 000, and one-third of the credit balance is paid every fifth year. The accumulated sum is lost if the executive leaves the company. Petoro does not have a bonus programme. Share programmes, options and other option-like arrangements are not used by the company.

Pay levels in a reference market comprising relevant companies in the upstream and supplies industries for oil and gas provide the basic guidelines for the company's remuneration profile. Basic pay is primarily fixed on the basis of the responsibilities and complexity of the position, as well as its holder's behaviour and performance. Basic pay is subject to an annual assessment.

Petoro has a defined benefit pension scheme. The president's retirement age is 62. He can choose to retire on a full pension upon reaching the age of 60. The president reached the age of 60 on 11 December 2012. He has notified the board that he wishes to retire on a pension from 11 June 2013. Two other members of the management team also have the opportunity to retire on a full pension upon reaching the age of 62. Three members of the management team can opt to retire upon reaching the age of 65 on a reduced pension. The remaining executives retire at 67. The pension benefit is calculated as about 66 per cent of the pension basis, less an estimated National Insurance benefit. For competitive reasons, Petoro has an unfunded defined benefit plan for personnel earning more than 12 times the National Insurance base rate (G). This pension agreement was established before the revised guidelines on employment terms for senior executives in state-owned undertakings and companies came into force. It embraces all employees of the company earning more than 12G, and is not confined to senior executives.

Work has begun in Petoro on an overall review of the company's pension schemes, taking account of industry practice for companies comparable with Petoro. The second interim report from the banking law commission will occupy a key place in this work.

**Remuneration principles and their implementation in the preceding year**
The annual evaluation of the basic pay of the president and other senior executives is conducted with effect from 1 July. For 2012, this assessment was carried out in the second quarter. The president's remuneration was considered and approved by the board during the third quarter.

## NOTE 4 TANGIBLE FIXED ASSETS

| **All figures in NOK 1 000** | **Fixed fittings** | **Equipment, etc** | **ICT** | **Total** |
|---|---|---|---|---|
| Purchase cost 1 Jan | 4 021 | 8 825 | 27 990 | 40 836 |
| Addition fixed assets | - | - | 3 742 | 3 742 |
| Disposal/obsolescence fixed assets | - | (1 385) | (7 914) | (9 299) |
| Purchase cost 31 Dec | 4 021 | 7440 | 23 818 | 35 279 |
| | | | | |
| Accumulated depreciation 1 Jan | 2 891 | 8 614 | 25 012 | 36 516 |
| Reversed accumulated depreciation | | (1 385) | (7 914) | (9 299) |
| Depreciation for the year | 418 | 129 | 2 705 | 3 252 |
| Accumulated depreciation 31 Dec | 3 309 | 7 358 | 19 803 | 30 470 |
| | | | | |
| **Book value at 31 Dec 12** | **713** | **82** | **4 015** | **4 810** |
| | | | | |
| Economic life | Until lease expires in 2014 | 3-5 years | 3 years | |
| Depreciation plan | Linear | Linear | Linear | |

Operational leasing contracts include the hire of a car as well as office equipment and machines. The initial hire period is three-five years.

## NOTE 5 FINANCIAL ITEMS

| **All figures in NOK 1 000** | **2012** | **2011** | **2010** |
|---|---|---|---|
| Financial income | | | |
| Interest income | **3 474** | 3 373 | 2 843 |
| Currency gain | **37** | 333 | 188 |
| Other financial income | | | |
| Financial expenses | | | |
| Interest expenses | **190** | 308 | 297 |
| Currency loss | **164** | 266 | 244 |
| Other financial expenses | | | |
| **Net financial items** | **3 156** | **3 133** | **2 490** |

## NOTE 6 INVESTMENT IN SUBSIDIARY

| **Company** | **Acquisition date** | **Business office** | **Interest** | **Voting share** | **Equity 31 Dec** | **Profit 2012** |
|---|---|---|---|---|---|---|
| Petoro Iceland AS | 11 Dec 2012 | Stavanger | 100% | 100% | NOK 2 mill | 0 |

Petoro AS has received a contribution of NOK 2 million which is earmarked as share capital for Petoro Iceland AS. This contribution has been offset against the acquisition price of the shares. For that reason, investment in Petoro Iceland has been recorded as NOK 0 in the balance sheet.

## NOTE 7 OTHER DEBTORS

Other debtors consist in their entirety of pre-paid costs relating primarily to rent, insurance, licences, subscriptions for market information and VAT credits.

## NOTE 8 BANK DEPOSITS

Bank deposits total NOK 154.7 million, including NOK 105 million in withheld tax and pension plan assets.

## NOTE 9 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital of the company at 31 December 2012 comprised 10 000 shares with a nominal value of NOK 1 000 each. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government, and all have the same rights.

## NOTE 10 EQUITY

| (All figures in NOK 1 000) | Share capital | Other equity | Total |
|---|---|---|---|
| Equity at 1 Jan | **10 000** | 21 401 | 31 401 |
| Change in equity for the year | | | |
| Net income | | (8 054) | (8 054) |
| **Equity at 31 Dec** | **10 000** | **13 348** | **23 348** |

## NOTE 11 PENSION COSTS, ASSETS AND LIABILITIES

The company is legally obliged to have an occupational pension plan pursuant to the Act on Mandatory Occupational Pensions. The company's pension plan complies with the requirements of this Act.

The company has pension plans covering all its employees, which give the right to defined future benefits. These depend primarily on the number of years of pensionable earnings, the level of pay at retirement and the size of national insurance benefits.

| Net pension cost (all figures in NOK 1 000) | 2012 | 2011 | 2010 |
|---|---|---|---|
| Present value of benefits earned during the year | **23 432** | 20 788 | 16 473 |
| Interest expense on pension obligation | **7 309** | 6 879 | 5 796 |
| Return on pension plan assets | **(4 155)** | (3 899) | (3 524) |
| Recorded change in estimates | **1 023** | 652 | (198) |
| Payroll tax | **3 255** | 2 854 | 2 323 |
| **Net pension cost** | **30 864** | **27 274** | **20 870** |

| Capitalised pension obligation | 2012 | 2011 | 2010 |
|---|---|---|---|
| Estimated pension obligation at 31 Dec | **179 553** | 180 287 | 142 648 |
| Pension plan assets (market value) | **(88 545)** | (80 484) | (67 940) |
| Net pension obligations before payroll tax | **91 008** | 99 803 | 74 708 |
| Unrecorded change in estimates | **(9 585)** | (32 028) | (20 875) |
| Payroll tax | **11 481** | 9 683 | 7 591 |
| **Capitalised pension obligation** | **92 904** | **77 458** | **61 424** |

The following financial assumptions have been applied in calculating net pension cost and obligation:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Discount rate | | 3.9% | 4.6% |
| Expected return on plan assets | **4.0%** | 4.8% | 5.4% |
| Expected increase in pay | **3.5%** | 4.0% | 4.0% |
| Expected increase in pensions | **0.2%** | 0.7% | 1.3% |
| Expected change in NI base rate | **3.25%** | 3.75% | 3.75% |

The actuarial assumptions are based on common assumptions made in the insurance business for demographic factors.

## NOTE 12 OTHER CURRENT LIABILITIES

Other current liabilities relate almost entirely to provision for costs incurred, pay outstanding and holiday pay.

## NOTE 13 AUDITOR'S FEES

Erga Revisjon AS is the elected auditor of Petoro AS. Fees charged by Erga Revisjon to Petoro for external auditing in 2012 totalled NOK 0.2 million.

In accordance with the Act on Government Auditing of 7 May 2004, the Auditor General is the external auditor for the SDFI. Deloitte AS has also been engaged to conduct a financial audit of the SDFI as part of the company's internal audit function. Deloitte charged NOK 1.5 million for this service in 2012. Deloitte has also executed internal audit projects and delivered services related to partner audits totalling NOK 2.2 million.

## NOTE 14 BUSINESS MANAGEMENT AGREEMENTS

To ensure efficient resource utilisation with an organisation totalling 65 employees, Petoro sets priorities for its work commitments in and between the interests it manages in the various joint ventures. This prioritisation reflects the significance of each joint venture to the overall value of the portfolio and risk assessments related to the various phases in a joint venture (exploration, development and production). To permit such prioritisation, Petoro has concluded business management agreements with various licence partners. These agreements delegate daily administrative supervision of selected production licences in the portfolio. Petoro nevertheless retains the formal responsibility, including responsibility for on-going financial management of the interest in the production licence. The bulk of the business management agreements have been entered into with Statoil ASA.

## NOTE 15 LEASES

The company entered into a lease with Smedvig Eiendom AS for office premises in the autumn of 2003. The remaining term of the lease is two years, with options for a further two periods of five years each. Rent for the year was NOK 8.2 million, which included all management and shared expenses.

## NOTE 16 SIGNIFICANT CONTRACTS

Petoro has entered into an agreement with Upstream Accounting Excellence (Upax) on the delivery of accounting and associated ICT services related to the SDFI accounts. This five-year agreement was entered into in 2008, with delivery starting on 1 March 2009. Evry is the sub-contractor for ICT services. The recorded accounting fee for Upax in 2012 was NOK 15.2 million. Other services purchased from the contractor totalled NOK 0.2 million.

## NOTE 17 CLOSE ASSOCIATES

Statoil ASA and Petoro AS have the same owner in the Ministry of Petroleum and Energy, and are accordingly close associates. Petoro purchased services in 2012 relating to business management agreements, cost sharing for the audit of licence accounts, insurance services for the Norwegian Government Petroleum Insurance Fund and other minor services. NOK 5.5 million was recorded in 2012 for the purchase of services from Statoil ASA. These were purchased at market price on the basis of hours worked. NOK 1.3 million has been invoiced for services rendered to Statoil ASA under the arm's-length principle, based on hours worked by Petoro personnel and contract staff.

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Tlf: +47 51 51 03 70
Fax: +47 51 51 03 71
Jens Zetlitzgt.47
Postboks 672
N-4003 Stavanger
Org. nr. 980 024 679 - mva
Statsautorisert revisor
medlem av Den norske Revisorforening

To the general meeting for Petoro AS

INDEPENDENT AUDITOR'S REPORT

**Report on the Financial Statements**

We have audited the accompanying financial statements of Petoro AS, showing a loss of NOK 8 054 000. The financial statements comprise the balance sheet as at December 31, 2012, and the income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*The Board of Directors and the Managing Director's Responsibility for the Financial Statements*
The Board of Directors and the Managing director is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of Petoro AS as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

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**Report on Other Legal and Regulatory Requirements**

*Opinion on the Board of Directors' report*
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements, the going concern assumption and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

*Opinion on Registration and Documentation*
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 22 February 2013

Sven Erga
*State Authorised PublicAccountant (Norway)*

[Translation has been made for information purposes only]

## PETORO´S FINANCIAL CALENDAR 2013

| | |
|---|---|
| **26 February** | Annual result 2012/Fourth quarter report 2012 |
| **03 May** | First quarter report |
| **30 July** | Second quarter report |
| **31 October** | Third quarter report |

## ADDRESSES

**Petoro AS**
Øvre Strandgate 124
P O Box 300 Sentrum
NO-4002 Stavanger
**Phone:** +47 51 50 20 00
**E-mail:** post@petoro.no
**Website:** www.petoro.no
**Register of Business Enterprises:** Org no NO 983 382 355

## EDITORIAL TEAM/PRODUCTION

**Editorial team:** Oddfrid Bråstein and Sveinung Sletten
**English translation:** Rolf E Gooderham
**Production:** Megabite
**Photos:** Kjetil Alsvik, Harald Pettersen/Statoil and Øyvind Hagen/Statoil

**PETORO AS**, P O Box 300 Sentrum, NO-4002 Stavanger, Phone +47 51 50 20 00, Telefax +47 51 50 20 01, post@petoro.no, **www.petoro.no**