

# 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.