

REPORT FROM THE BOARD ON CORPORATE GOVERNANCE

Petoro's management of substantial assets on behalf of the Norwegian government calls for good enterprise management 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 board of directors complies with the requirements for enterprise management specified in the government's financial regulations and the standards for good corporate governance. It observes those sections of the Norwegian code of practice for corporate governance (the code) regarded as relevant for Petoro's business and the parameters determined by the company's form of organisation and ownership. A report is provided below on the main topics in the code with relevance for Petoro AS. The governance system is tailored to the special character of Petoro. That 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 annual report.

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.

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 Act and the company's articles of association, and are defined in more detail by the Ministry of Petroleum and Energy in the annual letter of assignment.

The purpose of the company is, on behalf of the state and at the expense and risk of the state, to be responsible for the commercial aspects related to the state's direct involvement in petroleum activities on the Norwegian continental shelf (NCS), 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's operations are subject to the

Norwegian Limited Liability Companies Act and the Norwegian Petroleum 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 assignment (previously the 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 NCS.

Petoro's strategy is focused on the value potential of the portfolio and positions where Petoro has the greatest ability to exercise influence. The strategy was revised in 2013 and falls into three parts. It continues to be weighted towards an active role in mature fields – both because of their value in the portfolio and because taking investment decisions which secure the recovery of the remaining resources is time-critical. The strategic topics are:

- mature fields: investing for improved recovery
- field development: safeguarding future opportunities
- far north: promoting integrated development.

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 179 production licences and 15 joint ventures and companies for pipelines and terminals at 31 December 2013. 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.

The company 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 Norwegian 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.

EQUITY AND DIVIDENDS

Petoro has a share capital of NOK 10 million and is wholly owned by the Norwegian state. The state guarantees the company's liabilities. 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. The company receives grants to meet its costs and does not pay a dividend. The shares

in the company are not tradable and cannot be transferred.

Petoro AS established Petoro Iceland AS in December 2012 as a wholly owned 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. The Norwegian state's participatory interest in each of these production licences is 25 per cent. From 2013, Petoro AS will present consolidated accounts which include activity in Petoro Iceland AS. Administration of Petoro Iceland AS and funding for the Norwegian state's participation in petroleum operations on the Icelandic continental shelf are covered by a separate item in the central government budget. The branch also manages a 25 per cent participatory interest in a third production licence awarded by the Icelandic government on 22 January 2014.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

The shares in Petoro AS are wholly owned by the Norwegian state. As a result, the company has no personal shareholders and no share transactions occur with close associates. Petoro Iceland AS entered into an agreement with Petoro AS on an overdraft facility during 2013. This agreement was treated in accordance with section 3-8, see section 2-6, first paragraph, nos 1-4, of the Norwegian Limited Liability Companies Act, and was reported to the Norwegian Register of Business Enterprises.

The government has a common ownership strategy to maximise the collective value of its equity holding in Statoil ASA and the state's direct oil and gas interests. On that basis, Statoil ASA undertakes the marketing and sale of the state's petroleum pursuant to a marketing and sale instruction approved by the general meeting of

Statoil ASA. Through article 11 in Petoro's articles of association and the marketing and sale instruction for Statoil ASA, the government has given Petoro responsibility for monitoring that Statoil ASA performs its duties in accordance with this instruction.

A duty of commercial confidentiality applies to information Petoro receives through 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 ASA's securities for as long as the information is not publicly known.

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. Notice of general meetings is issued in accordance with the provisions of the Norwegian Limited Liability Companies Act relating to state-owned companies. The annual general meeting is held before the end of June each year. It considers matters prescribed by Norwegian law, including amendments to the articles of association and approval of the annual accounts. The Petroleum Act lays down guidelines for issues to be considered by the company's general meeting. Owner decisions are taken and resolutions adopted at the general meeting, which also elects the board of directors – with the exception of the worker directors – and the company's external auditor. The board of directors of Petoro AS serves as the general meeting of Petoro Iceland AS.

ELECTION OF DIRECTORS

The company is wholly state-owned, and is therefore subject to the government's procedures for selecting directors. Directors are elected by the general

meeting, which also determines the remuneration of all the directors. Worker directors are elected for two years at a time by and from among the employees. A special nomination committee is appointed for the election of worker directors.

COMPOSITION AND INDEPENDENCE OF THE BOARD

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. All shareholder-elected directors are independent of the owner.

The board considers its composition to be appropriate in terms of expertise, capacity and diversity for following up the company's goals and assignments. Each director and the board as a collective body seek to strengthen their expertise in various ways on a continuous basis. This is done through dedicated study programmes for the board and through participation in courses and conferences.

WORK OF THE BOARD

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 12 times in 2013.

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 topical commercial issues and following up 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 comprising two of the shareholder-elected directors, one of whom is the deputy chair. No other subcommittees have been established. The board has not found it appropriate to establish a separate audit committee. 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. Conflicts of interest are a fixed item on the agenda for the board's meetings and consideration of matters.

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 reviewed the company's CSR, business ethics guidelines and board instructions in 2013.

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 2013 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.

The company publishes information via its website, including press releases as well as 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. The board's presentation of the company's CSR is included in this annual report.

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, including the Petoro Iceland AS subsidiary.