

MANAGEMENT AND CONTROL

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BOARD OF DIRECTORS OF PETORO



Standing from left: Lars Kristian Bjørheim, Marit Ersdal, Per-Olaf Hustad and Hilde Myrberg. Seated from left: Nils-Henrik Mørch von der Fehr, Gunn Wærsted and Per A Schøyen. (Photo: Kjetil Alsvik)

GUNN WÆRSTED**Chair**

Years of election/re-election: 2014/2016

Occupation: President, Nordea Bank Norge, and member of corporate executive management.

Other directorships: Director, Nordea Bank Danmark and Nordea Bank Finland, chair, Nordea Life Holding and Nordea Bank SA AB, member of the nomination committee, Schibsted ASA, council member, Veritas ASA, board member, Finance Norway.

Education: MBA, BI Norwegian Business School.

Career: Executive vice president in DnB responsible for capital management and life insurance, CEO, Vital Forsikring ASA and member of corporate executive management, 1999-2002, CEO, SpareBank 1 Gruppen AS, and head, SpareBank 1 Alliance, 2002-07.

PER-OLAF HUSTAD**Director**

Years of election/re-election: 2014/2016

Occupation: Independent consultant.

Education: MSc petroleum technology, Norwegian Institute of Technology (now Norwegian University of Science and Technology)

Career: Statoil, 1976-80, then more than 30 years with Shell – including executive positions in operator companies and major projects. Head of exploration and production for Shell in Norway to 2012.

NILS-HENRIK MØRCH VON DER FEHR**Director**

Years of election/re-election: 2005/2015

Occupation: Professor of community economics, University of Oslo.

Education: Economics degree.

Career: In addition to academic posts at the University of Oslo, has lectured at the Universities of Heidelberg and Oxford. Member/chair of several official committees.

HILDE MYRBERG**Deputy chair**

Years of election/re-election: 2006/2015

Other directorships: Director, Bank of Norway, CGGVeritas SA and Nordic Mining AS. Member, nomination committee, Det norske ASA.

Education: Law degree, MBA from Insead.

Career: Head, market sector, Hydro Oil & Energy, 2002-06. 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.

PER A SCHØYEN**Director**

Years of election/re-election: 2007/2015

Occupation: Consultant.

Education: Law degree, various management programmes.

Career: Partner, Kluge, 2005-14. With Esso/ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also judge and assistant police attorney.

MARIT ERSDAL**Director (elected by the employees)**

Years of election/re-election: 2014/2016

Occupation: Senior adviser, technology department, Petoro AS.

Education: MSc technical physics/reservoir technology, Norwegian Institute of Technology (now Norwegian University of Science and Technology).

Career: Long experience from Norwegian and international companies, mainly in the reservoir and production technology area.

LARS KRISTIAN BJØRHEIM**Director (elected by the employees)**

Years of election/re-election: 2014/2016

Occupation: Senior adviser, licence follow-up, Petoro AS.

Education: MBA, BI Norwegian Business School, 2003.

Career: Experience from various roles in Petoro within accounting and licence follow-up. Has been a consultant in Accenture.

EXECUTIVE MANAGEMENT



From left: Marion Svihus, Nashater Deu Solheim, Grethe Kristin Moen, Olav Boye Siversten, Roy Ruså, Laurits Haga, Kjell Morisbak Lund and Jan Terje Mathisen. (Photo: Kjetil Alsvik)

GRETHE KRISTIN MOEN**President and CEO**

Education: MSc chemical engineering, Norwegian University of Science and Technology (NTNU).

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.

KJELL MORISBAK LUND**Vice president licences**

Education: MSc marine technology, NTNU.

Career: Broad experience from work in upstream and downstream oil and gas business, including as a researcher on marine structures in Sintef. Several project, staff and managerial positions in Statoil – most recently as vice president HSE for midstream and downstream operations.

ROY RUSÅ**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 technology and ICT department.

OLAV BOYE SIVERTSEN**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.

JAN TERJE MATHISEN**Vice president Johan Sverdrup**

Education: MSc marine civil engineering, NTNU, BSc in business economics, BI Norwegian Business School.

Career: Broad experience of project management, field development and business development from Norwegian Contractors, Selmer Furuholmen, own business, Shell, Statoil and others.

LAURITS HAGA**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.

MARION SVIHUS**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 positions in the fields of economics, analysis, finance and strategy. Also eight years of experience from the banking and financial sector.

NASHATER DEU SOLHEIM**Vice president strategy and organisation**

Education: Clinical psychology, PhD in psychology, University of Surrey.

Career: Broad management experience from large organisations such as Statoil, the UK Ministry of Defence, and Britain's public and private health sector. She has also developed her own companies.

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.

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 the government's principle for good corporate governance as expressed in Report no 27 (2013-2014) to the Storting on a diversified and value-creating ownership, and those sections of the Norwegian code of practice for corporate governance 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 with relevance for Petoro AS. The governance system is tailored to Petoro's special character. Petoro reports on the follow-up of its corporate social responsibility (CSR) in a separate chapter of this annual report.

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 vigorous, responsible, inclusive and bold.

THE BUSINESS

Petoro's 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 management of the SDFI's activities are governed by the Ministry of Petroleum and Energy's instructions for financial management of the SDFI and the annual letter of assignment. New instructions for financial management of the SDFI were issued by the ministry in December 2014. 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.

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 is 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 company is the licensee – with the same rights and obligations as the other licensees – for the state's portfolio on the NCS. 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. 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 commercial follow-up of Norwegian participatory interests in production licences awarded by the Icelandic government. The consolidated accounts of Petoro AS include activities 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.

EQUAL TREATMENT OF SHAREHOLDERS

The shares in Petoro AS are owned by the Norwegian state, and the company has no personal shareholders. Petoro Iceland AS entered into an agreement with Petoro AS on an overdraft facility during 2013.

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. Guidelines for issues to be considered by the company's general meeting are laid down in the Petroleum Act. Owner decisions are taken and resolutions adopted at the general meeting, which also elects 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 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.

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 10 times in 2014.

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.

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 sub-committees have been established. 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 2014.

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 integrated in Petoro's performance management system.

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.

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 2014 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 presents a broad description of its operations as well as the directors' report and the annual accounts. 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 RS800 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 this role, the company audits the internal control systems in accordance with instructions and an annual plan approved by the board. The 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.

PRESENTATION OF CORPORATE SOCIAL RESPONSIBILITY

Petoro's presentation of its CSR builds on guidelines for exercising CSR adopted by the company, and is tailored to its activities as a licensee on the Norwegian continental shelf (NCS). CSR embraces the responsibilities which companies are expected to fulfil for people, societies and the environment affected by their operations. Petoro's funding for performing its management duties and for running the company is provided through appropriations from the government. Pursuant to its mandate, Petoro has no opportunity to provide monetary support for social purposes.

The owner's expectations on CSR are expressed in Report no 27 (2013-2014) to the Storting, which refers to the UN's Global Compact. The board's presentation below, tailored to Petoro's role and mandate, is rooted in the owner's expectations and the company's guidelines for CSR.

Petoro undertakes to pursue its business activities in an ethically acceptable, sustainable and responsible manner. The board emphasises that the company's CSR forms an integral part of its activities and strategies, and is reflected in part through its values. These include vigorous, responsible, inclusive and bold. The company's guidelines on business ethics support these values.

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. Health, safety and environmental results in the portfolio have improved over a number of years. Petoro participates every year in HSE management inspections on selected fields and installations.

Power from shore will be assessed for new fields and major conversions, providing a technically feasible solution is available at an acceptable abatement cost. Petoro is a licensee in Martin Linge, which is being developed with power from shore, and in Johan Sverdrup where the partners have chosen this approach for the field's first development phase. Total carbon emissions from these fields will thereby be reduced.

The company contributes to creating environmentally conscious attitudes among all its employees through waste sorting and an incentive scheme to encourage increased use of public and environment-friendly transport. Petoro give emphasis to efficient ICT solutions and good communication systems which can replace travel to meetings with videoconferencing.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of its annual report on the environment, based on figures obtained from the operators. The company is concerned that the industry takes account of the environment and would note, in this context, that emissions/ discharges on the NCS have been low by international standards for many years. No significant emissions to the air or discharges to the sea occurred from the SDFI portfolio during 2014. The figures will be reported in the external annual report as soon as they are available.

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. Employees annually sign the company's ethical guidelines, which 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.

Petoro's employees discharge 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 health, safety and the environment. The company's guidelines on business ethics include requirements on ethical behaviour by all employees. Petoro's goal is a good mental and physical working environment for all personnel. PetroAktiv organises a number of social, cultural and sporting activities for employees, and participation in the various events is good.

Petoro does not discriminate on the basis of gender, religion, national or ethnic affiliation, social group or political views. 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. Working conditions at Petoro are customised to allow people with disabilities to work for it.

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 2014.

Petoro expects its partners and contractors/suppliers to maintain the same ethical standards set for its own business operations. 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. An extract of the company's guidelines on business ethics is incorporated in all Petoro's standard contracts as the norm to be met. The management committee in each joint venture is responsible for considering and deciding issues related to the procurement and contract strategy.