

A photograph of an offshore oil rig at sea. The rig is a complex of metal structures, pipes, and platforms. A large horizontal pipe is prominent in the middle ground. The rig is situated on a blue sea under a clear blue sky. The text 'NORRE B' and 'ATOIL' is visible on a yellow panel on the left side of the rig.

FIGUERS FOR 2016

ANNUAL ACCOUNTS PETORO AS

PETORO AS INCOME STATEMENT

PARENT COMPANY				GROUP			
2015	2016	NOTES	All figures in NOK 1 000	NOTES	2016	2015	
267 292	273 625	1	Invoiced government contribution	1	283 925	284 636	
3 884	640	1, 16, 17	Other revenue	1, 16, 17	353	2 509	
(1 416)	660	2	Net deferred revenue recorded	2	660	(1 416)	
269 760	274 925		Total operating revenue		284 938	285 730	
158 006	151 706	3,11	Payroll expenses	3, 11	151 706	158 006	
1 991	2 759	4	Depreciation	4	2 759	1 991	
14 457	13 401	13,15,16	Accounting and business management fees	13, 15, 16	13 586	14 419	
9 456	9 316	14	Office expenses	14	9 316	9 456	
24 051	33 436	15	ICT expenses	15	33 440	24 051	
58 477	69 690	13,16	Other operating expenses	13, 16, 18	79 083	75 072	
266 437	280 309		Total operating expenses		289 890	282 995	
3 323	(5 384)		Operating loss		(4 952)	2 734	
2 180	1 075	5	Financial income	5	1 114	2 324	
(462)	(152)	5	Financial expenses	5	(161)	(510)	
1 718	923		Net financial result		953	1 813	
5 040	(4 461)		Loss before tax expense		(3 999)	4 548	
			Tax expense on ordinary loss	19	69	28	
5 040	(4 461)		NET LOSS		(4 068)	4 520	
			Transfers				
5 040	(4 461)		Transferred to/(from) other equity				
5 040	(4 461)		Total transfers				

PETORO AS BALANCE SHEET AT 31 DECEMBER

PARENT COMPANY				GROUP			
2015	2016	NOTES	All figures in NOK 1 000	NOTES	2016	2015	
ASSETS							
Fixed assets							
Tangible fixed assets							
4 858	4 198	4	Operating equipment, fixtures, etc	4	4 198	4 858	
4 858	4 198		Tangible fixed assets		4 198	4 858	
Financial assets							
0	0	6	Shares in subsidiaries		0	0	
0	0		Total financial assets		0	0	
4 858	4 198		Total fixed assets		4 198	4 858	
Current assets							
408	414	17	Trade debtors		272	305	
12 395	11 666	7	Other debtors	7	12 254	12 396	
197 665	192 627	8	Bank deposits	8	194 425	199 049	
210 468	204 707		Total current assets		206 951	211 750	
215 326	208 905		TOTAL ASSETS		211 149	216 609	
EQUITY AND LIABILITIES							
Equity							
Paid-in capital							
10 000	10 000	9	Share capital (10 000 shares at NOK 1 000)	9	10 000	10 000	
Retained earnings							
11 789	7 328	10	Other equity	10	9 310	13 378	
21 789	17 328		Total equity		19 310	23 378	
Liabilities							
Provisions							
130 425	142 425	11	Pension liabilities	11	142 425	130 425	
4 858	4 198	2	Deferred revenue government contribution	2	4 198	4 858	
135 284	146 623		Total provisions		146 623	135 284	
Current liabilities							
19 747	12 694		Trade creditors		12 694	19 751	
0	0		Tax payable	19	0	0	
9 165	9 583		Withheld taxes and social security		9 583	9 165	
29 341	22 677	12	Other current liabilities	12	22 938	29 032	
58 253	44 954		Total current liabilities		45 215	57 947	
193 537	191 577		Total liabilities		191 839	193 231	
215 326	208 905		TOTAL EQUITY AND LIABILITIES		211 149	216 609	

Stavanger, 3 March 2017



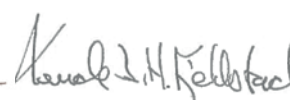
Gunn Wærsted
Chair



Bjørn Bjordal
Deputy chair



Per Arvid Schøyen
Director



Trude J H Fjeldstad
Director



Per-Olaf Hustad
Director



Ove Skretting
Director elected by employees



Heidi Iren Nes
Director elected by employees



Grethe K Moen
President and CEO

PETORO AS CASH FLOW STATEMENT

PARENT COMPANY			GROUP	
2015	2016	All figures in NOK 1 000	2016	2015
LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES				
5 040	(2 743)	Income before tax	(3 999)	4 548
1 991	2 759	+ Depreciation	2 759	1 991
0	0	+ Tax paid	(69)	(54)
1 590	(6)	+/- Change in trade debtors	33	1 616
(151)	(7 053)	+/- Change in trade creditors	(7 057)	(151)
19 118	4 104	+/- Change in accrued items	5 807	16 178
27 588	(2 939)	Net change in liquidity from operating activities	(2 525)	24 128
LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES				
(3 407)	2 099	- Invested in tangible fixed assets	(2 099)	(3 407)
3 407	(2 099)	Net change in liquidity from investing activities	(2 099)	(3 407)
LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES				
0	0	+ Proceeds from share issue	0	0
0	0	Net liquid assets provided by/used in investing activities	0	0
24 181	(5 038)	Net change in liquid assets	(4 624)	20 721
173 484	197 665	+ Cash and cash equivalents at 1 Jan	199 049	178 328
197 665	192 627	Cash and cash equivalents at 31 Dec	194 425	199 049

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 objective 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 associated activities.

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

Petoro AS is also responsible for presenting separate annual accounts for the SDFI portfolio. 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 objective of the company is, on behalf of the Norwegian state and at the expense and risk of the state, to be responsible for the commercial aspects related to the State's Direct Financial Involvement in petroleum activities on the Icelandic Continental Shelf, and associated activities. The company has no employees. A management contract has been entered into with Petoro AS.

GROUP AND CONSOLIDATION

The consolidated accounts include the parent company, Petoro AS, and the Petoro Iceland AS subsidiary. They have been prepared as if the group was a single financial unit where transactions and accounts between the companies are eliminated.

The consolidated accounts have been prepared on the basis of uniform principles in that the subsidiary applies the same accounting principles as the parent company.

CLASSIFICATION OF ASSETS AND LIABILITIES

Assets intended for ownership or use over a longer period are classified as fixed assets. Other assets are classed as current assets. Receivables 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

Investments in subsidiaries are assessed in accordance with the cost method.

RECEIVABLES

Accounts receivable and other receivables 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

Petoro implemented a new pension plan with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act. The company has a transitional arrangement for employees who are less than 15 years from retirement age. Premiums for the defined contribution plan are expensed on a continuous basis.

The capitalised obligation relating to the defined benefit plan for employees who remain in the defined benefit scheme, is the present value of the defined obligation on the balance sheet date 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 liability includes payroll tax.

Net pension expense is included in payroll expenses and comprises premiums for the defined contribution scheme and 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 from the defined benefit scheme. Payment of earned pension rights in the event of early retirement is reported as pension.

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.

TAXES

The company is exempt from tax with regard to Petoro AS pursuant to Section 2-30 of the Taxation Act. Tax expense in the consolidated accounts applies to Petoro Iceland AS.

OPERATING REVENUES

The company receives appropriations from the government for services provided to the Ministry of Petroleum and Energy in accordance with the company's objective. 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 costs expended in the projects (matching principle).

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 on the transaction date. Receivables and liabilities in foreign currencies are recorded at the exchange rate on the balance sheet date.

CASH FLOW STATEMENT

The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalents include cash in hand and at bank, as well as other current liquid assets.

NOTE 1**GOVERNMENT CONTRIBUTION AND OTHER REVENUE**

The company recorded an operating contribution from the Norwegian government totalling NOK 273.6 million excluding VAT as income in 2016. For the group, the amount was NOK 283.9 million. The appropriation for the year, excluding VAT, was NOK 274.9 million for Petoro AS and NOK 10.3 million for Petoro Iceland AS, giving a total amount of NOK 285.2 million for the group. The figures above include an extra appropriation for Petoro AS for 2016 totalling NOK 4.2 million excluding VAT to cover external legal assistance and various technical assistance in ongoing legal disputes.

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 2.1 million in investments made during 2016, as well as NOK 2.8 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)	2016	2015
Wages and salaries	97 225	98 681
Directors' fees	1 778	1 737
Payroll tax	15 214	15 044
Pensions (see Note 11)	32 852	38 881
Other benefits	4 637	3 663
Total	151 706	158 006

Number of employees as of 31 Dec.	64	64
Employees with a signed contract who had not started work at 31 Dec.	0	0
Average number of full-time equivalents employed	62.7	65.5

Remuneration of senior executives (all figures in NOK 1 000)	Fixed salaries¹	Loyalty scheme²	Cash allowance³	Other administratively set remuneration⁴	Taxable salaries	Expensed pension
Grethe K Moen	3 184	0	291	176	3 651	1 844
Rest of the management team (seven people):						
Olav Boye Sivertsen	1 825	148	54	161	2 189	394
Marion Svihus	2 159	166	291	151	2 767	935
Laurits Haga	2 284	172	308	164	2 928	595
Roy Ruså	2 258	168	304	158	2 888	606
Jan Terje Mathisen	2 165	90	292	149	2 697	920
Kjell Morisbak Lund ⁵	2 567	0	291	156	3 014	167
Nashater Solheim ⁶	1 146	0	0	67	1 214	78
Hege Manskow ⁷	445	0	0	51	495	62
Rest of the management team (seven people)	14 849	745	1 541	1 057	18 191	3 758

1. Fixed salaries consist of basic salary and holiday pay
2. The company's loyalty scheme made disbursements in January 2016 to five managers who satisfied the terms for the scheme.
This disbursement is not included in pensionable income
3. Cash allowance not included in pensionable income
4. Other administratively set remuneration, primarily fixed car allowance
5. Fixed salaries include cash allowance as compensation for loss of the defined benefit pension scheme calculated based on actuarial assumptions and pension earning income.
6. Remuneration through 31 May
7. Remuneration since 2 September

Expensed pension represents the current year's estimated cost of the overall pension liability for the CEO plus the rest of the management team, including calculated premium in the defined contribution scheme for managers covered by this. Benefits for management personnel include funds accrued in the loyalty scheme when they are disbursed. No funds were accrued in the loyalty scheme in 2016.

DECLARATION ON SENIOR EXECUTIVE PAY FOR PETORO AS

The declaration on remuneration for the CEO and other senior executives is in line with the provisions of the Norwegian Public Limited Liability Companies Act and the guidelines for state ownership, including the Guidelines on pay and other remuneration for senior executives in wholly or partly state-owned enterprises and companies, which came into force on 13 February 2015.

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 shall be predictable, motivational, clear and easy to communicate. Petoro has a uniform 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 for the CEO, who in turn determines the compensation for other members of the company's senior management. The board has appointed a compensation sub-committee comprising the deputy chair and another director. The human resources manager 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 accounting year

Petoro's wage policy is to be competitive without being a pacesetter on overall remuneration, including the company's pension schemes.

The compensation package for the CEO and the other senior executives shall 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 in accordance 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 equal footing with others in the company, including car allowance as well as pension and insurance benefits, as well as a system for communication allowance.

The management team, with the exception of the CEO, are also covered by a loyalty scheme like other employees. The board determines from year to year whether or not to allocate funds to the scheme. No allocation was made to the scheme in 2016. The first disbursement from the scheme took place in January 2016 for employees who satisfied the conditions. The scheme was originally established in 2011 for executives. Certain executives therefore received one-third of a five-year allocation in January 2016.

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 oil and gas industry 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. Basic pay is subject to an annual assessment. The annual need for a cash allowance is also assessed in order to reflect market developments during the previous calendar year. This cash allowance is not pensionable.

Petoro implemented a new pension plan with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act. From the same date, Petoro has no collective pension plan for employees with pay above 12 G. Petoro has a transitional scheme that is still defined-benefit for pay above 12 G. This is the same for executives as for other employees less than 15 years from retirement age (67). Senior executives with employment contracts entered into before 13 February 2015 are covered by the same transitional scheme as other employees.

The CEO's retirement age is 67. Her employment contract stipulates a mutual six-month period of notice. Agreement has been entered into on a pay guarantee scheme of 12 months in addition to the period of notice. One member of the management team has the opportunity to retire on a full pension upon reaching the age of 62. Two members of the management team can choose to resign at age 65 with reduced benefits. The remaining executives retire at 67. These pension agreements were established before the revised guidelines on employment terms for senior executives in state-owned companies came into force.

Senior executives appointed after the new guidelines came into force on 13 February 2015 will only be covered by the company's defined contribution plan for pay below 12 G. Consequently, after these new guidelines came into force, Petoro will have no new senior executives with a defined benefit pension and no pension expenses over and above those which follow from the tax-favoured defined benefit plan.

Remuneration principles and their implementation in the preceding year

The annual evaluation of the basic pay of the CEO and other senior executives is conducted with effect from 1 July. In 2016, the evaluation of other executives was carried out in the second quarter. The board considered the CEO's pay evaluation at its meeting on 26 May 2016.

NOTE 4

TANGIBLE FIXED ASSETS

All figures in NOK 1 000	Fixtures and fittings	Operating equipment	ICT	Total
Acquisition cost 1 Jan. 2016	4 434	8 520	29 825	42 780
Additions fixed assets	-	32	2 067	2 099
Disposal fixed assets/obsolescence	-	-	-	-
Acquisition cost 31 Dec. 2016	4 434	8 553	31 892	44 879
Acc. depreciation 1 Jan. 2016	4 144	7 924	25 853	37 921
Returned accumulated depreciation				-
Depreciation for the year	87	486	2 186	2 759
Acc. depreciation 31 Dec. 2016	4 231	8 410	28 040	40 680
Book value 31 Dec. 2016	204	143	3 852	4 198
Economic life	Until lease expires in 2020	3/5 years	3 years	
Depreciation schedule	Straight line	Straight line	Straight line	

Operational leasing contracts include office equipment and machines. The initial lease period is 3-5 years.

NOTE 5

FINANCIAL ITEMS

Financial items (all figures in NOK 1 000)	2016	2015
Financial income		
Interest income	933	2 093
Currency gain	142	86
Financial expenses		
Interest expenses	-	33
Currency loss	152	428
Other financial expenses	-	-
Net financial items Petoro AS	923	1 718
Net financial items from subsidiary	30	95
Net financial items group	953	1 813

NOTE 6**INVESTMENTS IN SUBSIDIARY**

Company	Acquisition date	Business office	Interest	Voting share	Equity 31 Dec.	Loss 2016
Petoro Iceland AS	11 Dec. 2012	Stavanger	100%	100%	1 983	394

Petoro AS received a contribution of NOK 2 million in 2012 which was 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 AS has been recorded as NOK 0 in the balance sheet.

Petoro Iceland AS receives its own appropriations over the central government budget to fund its operations. It has also entered into an agreement with the parent company, Petoro AS, on an overdraft facility of NOK 3 million. This agreement has been established according to the arm's-length principle and is based on normal commercial terms and principles, and is thereby considered to accord with the pricing of corresponding financial services in the market. The facility remained undrawn at 31 December 2016.

NOTE 7**OTHER RECEIVABLES**

Other receivables 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**

Of consolidated bank deposits totalling NOK 194.4 million, Petoro AS accounts for NOK 192.6 million. This includes NOK 140.5 million in withheld tax and pension plan assets.

NOTE 9**SHARE CAPITAL AND SHAREHOLDER INFORMATION**

The company's share capital at 31 December 2016 comprised 10 000 shares with a nominal value of NOK 1 000 each. All 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**

Petoro AS (All figures in NOK 1 000)	Share capital	Other equity	Total
Equity at 1 Jan. 2016	10 000	11 789	21 789
Change in equity for the year			
Net loss		(4 461)	(4 461)
Equity at 31 Dec. 2016	10 000	7 328	17 328

Group (All figures in NOK 1 000)	Share capital	Other equity	Total
Equity at 1 Jan. 2016	10 000	13 378	23 378
Change in equity for the year			
Net loss		(4 068)	(4 068)
Equity at 31 Dec. 2016	10 000	9 310	19 310

Consolidated reserves include a contribution of NOK 2 million from the Norwegian government in connection with establishment of Petoro Iceland AS.

NOTE 11**PENSION COSTS, ASSETS AND LIABILITIES**

The company is obliged to operate an occupational pension scheme under the Norwegian Act on Mandatory Occupational Pension Schemes. The company's pension plans comply with the requirements of this Act.

Petoro implemented a new pension plan with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act. The company has a transitional arrangement for employees who are less than 15 years from retirement age. Premiums for the defined contribution plan are expensed on a continuous basis.

Net pension costs (Figures in NOK 1 000)	2016	2015
Present value of benefits earned during the year	16 314	29 569
Interest expense on pension obligation	7 240	5 278
Return on pension plan assets	(3 428)	(3 409)
Recorded change in estimates	5 912	5 369
Recorded change in pension plan	(213)	(2 766)
Payroll tax	2 300	4 770
Pension cost, defined benefit scheme	28 125	38 811
Pension cost, defined contribution scheme	4 727	70
Net pension cost	32 852	38 881

Capitalised pension obligation	2016	2015
Estimated pension obligation at 31 Dec.	274 435	291 320
Pension plan assets (market value)	(83 035)	(99 919)
Net pension obligations	191 400	191 401
Unrecorded change in estimates	(48 975)	(60 975)
Capitalised pension obligation	142 425	130 426

Financial assumptions applied in calculating net pension expense for the year relate to the preceding year for net pension costs and to the present year for the net pension obligation. The change to pension plans at the end of 2016 is reflected in the capitalised pension obligations at 31 December.

	2016	2015
Discount rate	2.60%	2.50%
Expected return on plan assets	3.30%	3.30%
Expected increase in pay	2.25%	2.50%
Expected increase in pensions	0.00%	0.00%
Expected adjustment of the National Insurance Scheme's Basic Amount (G)	2.00%	2.25%

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 group's chosen auditor. Fees charged for external auditing of the group's financial statements in 2016 totalled NOK 0.4 million. The figure for Petoro AS was NOK 0.3 million.

In accordance with the Act relating to the Office of the Auditor General of 7 May 2004, the OAG is the external auditor for the SDFI. PricewaterhouseCoopers AS (PwC) has been engaged as the company's financial accountant in order to prepare a financial audit of the SDFI accounts as part of the company's internal auditing. PwC invoiced NOK 1.2 million for financial auditing in 2016. PwC has also delivered services within partner auditing totalling NOK 3 million.

NOTE 14**LEASES**

Petoro AS entered into a lease with Smedvig Eiendom AS for office premises in the autumn of 2003. The ordinary term of the lease expired on 31 December 2014. Petoro chose to exercise its option to extend the lease to 31 December 2020. The remaining term of the lease is now four years, with an option to renew for a further five-year period. Rent for the year totalled NOK 9.3 million, which included all operating and shared expenses.

NOTE 15**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. This agreement entered into force on 1 March 2014 and runs for five years with an option for Petoro to extend it for a further year. Evry is the sub-contractor for ICT services. The recorded accounting fee for UPAX in 2016 amounted to NOK 13.6 million. Other services purchased from the contractor totalled NOK 4.3 million.

NOTE 16**CLOSE ASSOCIATES**

Statoil ASA and Petoro AS have the same owner, the Ministry of Petroleum and Energy, and are close associates. Petoro purchased services in 2016 relating to the audit of licence accounts, insurance services for the State Petroleum Insurance Fund and other minor services. These were purchased at market price on the basis of hours worked. NOK 0.02 million has been invoiced for services rendered to Statoil ASA at market price, based on hours worked by Petoro personnel and contract staff.

NOTE 17**INTRA-GROUP TRANSACTIONS**

Petoro Iceland AS has entered into a management agreement with Petoro AS. The objective of the agreement is for Petoro AS to manage the operations of Petoro Iceland AS on the terms and conditions specified in the agreement. NOK 0.3 million was invoiced in 2016 for the purchase of hours and services. These services are calculated at market price on the basis of hours worked and the government rates for travel expenses. The parent company has a credit of NOK 0.1 million with the subsidiary. The amounts have been eliminated in the consolidated accounts.

NOTE 18**LICENCES/INTERESTS**

The Icelandic government awarded two licences on 4 January 2013 to explore for and produce hydrocarbons on the Icelandic Continental Shelf. A third licence was awarded in January 2014. The Norwegian government has decided that Petoro Iceland AS, through its branch office in Iceland, shall manage the Norwegian participating interest of 25 per cent in these licences. The work programme in the licences is divided into three phases, and the licensees can opt to relinquish the licences at the end of each phase. At 31 December 2016, Petoro Iceland AS had participating interests in one production licence. Both production licenses awarded in 2013 have been relinquished.

NOTE 19**TAX - CONSOLIDATED**

Tax expense for the year, broken down as follows:	2016	2015
Tax payable	0	26
Icelandic tax	69	28
Total tax expense	69	28
Calculation of tax base for the year		
Profit before tax expense	463	(493)
Permanent differences	0	0
Change in temporary differences	0	0
Loss carried forward	(463)	0
Tax base for the year	0	(493)
Tax payable	0	0


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Statsautorisert revisor

medlem av Den norske Revisorforening

To the Shareholders' Meeting of Petoro AS

Independent auditor`s report (translated from Norwegian)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Petoro AS (the Company), showing a loss of NOK 4 461 000 in the financial statements of the parent company and a loss of NOK 4 068 000 in the financial statements of the group, in our opinion:

- The financial statements are prepared in accordance with laws and regulations
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at December 31, 2016, and of 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.
- The accompanying financial statements give a true and fair view of the financial position of the group as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at December 31, 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at December 31, 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Other Information

Management is responsible for the other information. The other information comprises the information included in the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Groups's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Refer to <https://revisorforeningen.no/revisjonsberetninger> which contains a description of Auditor's responsibilities.

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 and in the statements on Corporate Governance and Corporate Social Responsibility 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, 3 March 2017
Erga Revisjon as

Sven Erga
State Authorized Public Accountant