petoro

ANNUAL REPORT FOR THE SDFI AND PETORO 2016

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

Front cover: Oseberg field centre
Photo: Christian Romberg
Right: Installastion of Åsgard subsea
Photo: Øyvind Hagen, Statoil

CONTENTS

Grethe K Moen. Photo: Emile Ashley

A YEAR OF UNPREDICTABILITY

The tragic helicopter accident at Turøy left an indelible mark on 2016. Thirteen people lost their lives on their way home from working on Gullfaks B. Such accidents should not happen. After a number of years of positive development, 2016 saw an increase in the number of serious incidents, not only in Petoro's portfolio, but also on the Norwegian Shelf, and this is disconcerting. Petoro fully supports the operators' and authorities' measures aimed at reversing the trend. This is essential in order to maintain confidence in the industry, as well as the necessary reorganisation work that is under way.

The year has been characterised by volatility in prices and the demand for oil and gas, and expectations for future oil price trends have also been downgraded over the course of the year. Extensive price fluctuations yield a demanding market. The development in cost level for existing as well as new fields and infrastructure is of crucial significance for the Norwegian Shelf's ability to compete in the global energy market.

On the basis of the Paris Agreement, the future of fossil fuels is increasingly uncertain. Climate policy will have an increasing impact on the market for oil and gas over time, both globally, nationally and regionally. This will take place in parallel with rapid technological development, e.g. within renewable energy and the transport sector. At the same time, there is ample access to fossil fuels at a lower cost than previously assumed. This is particularly challenging for the Norwegian Shelf, which has so far been characterised by a relatively high cost level as well as long lead times for new projects.

Today, oil and gas from the Norwegian Shelf is produced in a very energy-efficient manner, and the industry has set concrete goals regarding further emission reductions. Cost effective low-emission production will be crucial for the future competitiveness of the Norwegian Shelf. Norwegian gas is also a better option than coal as regards reducing emissions. It is therefore important for Norway to remain a reliable and long-term supplier of gas to Europe.

We just put behind us another demanding year during which many colleagues in the industry lost their jobs. This has vast consequences for those affected. When the longevity of oil and gas production is questioned as well, one of the consequences is that fewer young people choose to study petroleum subjects. This is disconcerting for future recruitment to the industry, because we need a supply of resourceful, skilled employees who are up-to-date on both technology and societal development.

Fortunately, we are seeing signs of the transition work bearing fruit. The investment projections for several of our new projects have been drastically reduced, which provides a much better basis for making decisions concerning development. Operating costs have also been reduced, while at the same time we are experiencing higher regularity on fields in the SDFI portfolio. It is particularly gratifying that we have achieved what many believed to be impossible, namely cutting the costs per well by 50%, which is already having a positive impact on the SDFI's cash flow and production.

Overall, this warrants optimism both as regards ensuring longer lifetimes for mature fields as well as achieving profitability in new projects, although we believe competition for capital will remain as demanding as before.

The improvements are also reflected in Petoro's net income for the year. There has been a substantial reduction in field costs, and as regards producing fields, costs have been reduced by 24 per cent from 2013 to 2016. This reduction means that we can deliver in excess of NOK 2 billion more to the state in 2016 than if the costs were the same as in 2013.

Petoro has been an active proponent of further development of the Snorre field for a number of years. The increased production will correspond to the size of one Goliat field, which is impressive from a field that has been in production for 25 years. We will work to further improve profitability, and we are very confident that we can make the decision to realise the project over the course of this year.
For many, the Castberg project has become a symbol of what we can achieve on the Norwegian Shelf by thinking outside the box and taking advantage of the ongoing transition work. We are expecting an investment decision here in 2017 as well.

The wells with considerable resource potential to be drilled in the Barents Sea this year feature Petoro as an important partner. We must continue to explore in order to ensure future production. Looking ahead a few years, we see there are few projects after 2021.

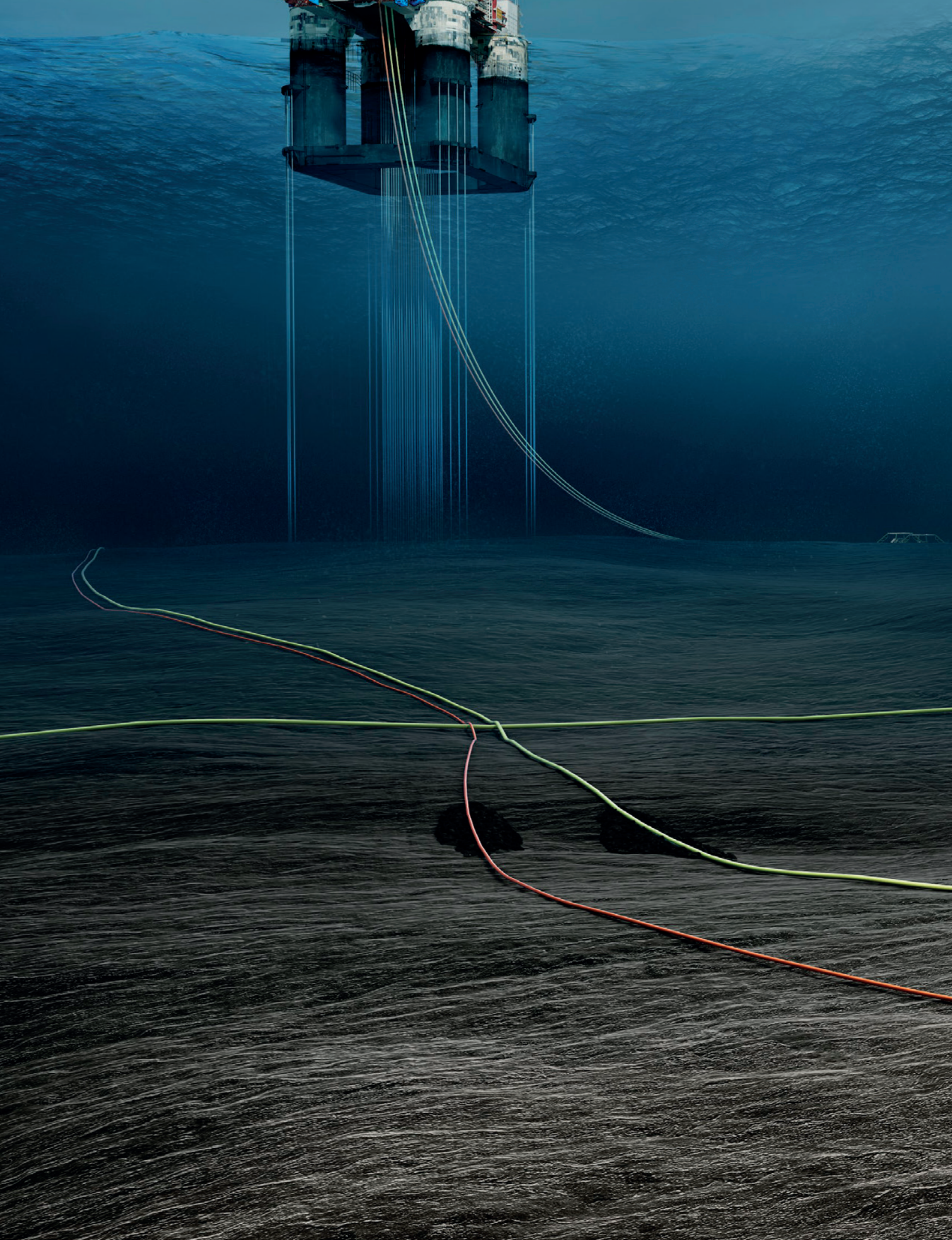
The key to continued improvement depends on the industry's ability to seize the opportunities posed by technology, including technology that already exists. Although the transition work has yielded impressive results so far, as we move forward, it will not be enough to simply do more of the same. Further digitisation represents the greatest potential here. New ways to organise work, not least efficient collaboration between operators and suppliers, will also be important. This will require the industry to dare to challenge itself and become more open through the sharing of data, information and experience. In order to get there, we will have to radically change our mindset by having the courage to try and fail, and avoid becoming introverted.

In turn, this can provide insight into new ways to solve problems and create values, because this is about further reducing the cost level in order to succeed in the competition for global capital. If we can do this, oil and gas will remain Norway's most important industry, and will contribute substantial values for generations to come.

"Coming together is a beginning; keeping together is progress; working together is success."
Henry Ford

Grethe K. Moen

Grethe K Moen
President and CEO, Petoro AS



DIRECTORS' REPORT

PETORO AS AND THE SDFI PORTFOLIO

Dvalin – Illustration: DEA

DIRECTORS' REPORT 2016

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

The SDFI scheme was established in 1985. Under this arrangement, the state participates as a direct investor in petroleum activities on the Norwegian continental shelf (NCS), so that the state receives revenues and meets expenses associated with SDFI's ownership interests. As SDFI manager, Petoro contributed a cash flow of nearly NOK 66 billion in 2016, which represents a significant portion of the state's total revenues from the petroleum activities. Petoro acts as licensee for the state's ownership interests in production licences, fields, pipelines and onshore facilities, and manages this portfolio based on sound business principles.

EXTERNAL TRENDS

Global economic growth in 2016 was around 3 per cent, which was in line with expectations. In combination with weak oil prices, this contributed to continued growth in global demand for oil, around 1.4 million barrels (bbls) per day in 2016. The price of oil fell below USD 30 per barrel (bbl) in January 2016, but rose substantially towards the summer, based on an expected rebalancing in the market. However, this rebalancing has taken longer than first expected. Despite regular announcements from OPEC countries concerning the necessity of production cuts, production from both OPEC and Russia was higher, while the decline in US shale oil production levelled off. In November, OPEC adopted an agreement mandating production cuts of 1.2 million bbls per day, with the support of certain non-OPEC countries such as Russia. This helped facilitate a stabilisation of the oil price towards the end of the year at around USD 55 per bbl, which was nearly double the price at the beginning of the year. The average price for the year was Norwegian kroner (NOK) 361 per bbl, down NOK 59 from 2015.

European demand for gas in 2016 was somewhat higher than the previous year. The increase was partly a result of lower temperatures, but also higher demand from the power sector in several European countries. Power prices rose in the autumn of 2016 as a consequence of the shutdown of several nuclear power plants, which also contributed to bolster profitability for gas power plants. A significant increase in coal prices was also a contributing factor in improving the competitiveness of gas in the power sector. Russian gas exports to Europe reached record levels in 2016, while LNG imports were lower than expected. Norwegian gas exports remained at approximately the same level as the previous year. Ample gas supplies caused considerable pressure on prices in Europe throughout the year. Prices below NOK 1 per Sm^3 were quoted in August. Prices rallied towards the winter resulting from factors such as low temperatures and increased demand from the power sector. The average gas price achieved for the portfolio was NOK 1.62 per Sm^3 in 2016, compared with NOK 2.14 per Sm^3 in 2015.

A more negative scenario has emerged throughout 2016 as regards long-term demand for both oil and gas. The Paris Agreement was ratified in November and lays the groundwork for a levelling, and ultimately declining, demand for fossil fuels. The EU has confirmed its ambition to achieve comprehensive decarbonisation over the longer term. This commitment places particular focus on energy efficiency – in addition to renewable energy – as important components in reducing consumption, particularly of gas.

As a response to Norway's climate commitments, the industry has worked with the Norwegian Oil and Gas Association in 2016 to establish a road map leading up to 2030 and 2050. This road map includes concrete and ambitious reduction targets for emissions from production and maritime activity on the Norwegian Shelf. The industry will work systematically to develop and implement an operating philosophy along with technology that fosters emission reductions. Examples of proposed measures include low-emission solutions in new projects and energy efficiency measures in existing facilities.

The comprehensive adjustment that the oil and gas industry has undergone in recent years has yielded results. Major cost reductions have been achieved in both operation of facilities and in new projects. Substantial efficiency improvements have also been made, for example in drilling progress and regularity. This development paves the way for new, profitable projects on the Norwegian Shelf. However, the situation is still characterised by significant uncertainty regarding the future price development for oil and gas, profitability and competitiveness. The industry has cut back its investment plans, both in Norway and globally. As a result, further activity linked to development of new production capacity on the Norwegian Shelf is expected to stabilise at a lower level than previously.

A strong driving force in this transformation has been the need for rapid cash flow improvement. The improvement efforts have been aimed at reduced activity, cost/benefit assessment of measures, streamlining and standardisation of solutions and work processes, better planning and renegotiation of contract rates. Further streamlining and initiatives are needed to reduce cost levels and improve profitability in the sector, both short-term and long-term. The potential is great through application of new technology, improved cooperation between players in the supply chains and new operating models. Such measures will entail a comprehensive change in the way the industry works, which means that implementation will take time.

SUMMARY OF SDFI RESULTS

The financial result for 2016 was a net income of NOK 57 billion, NOK 32 billion lower than in 2015. Cash flow to the state was NOK 66 billion in 2016, 30 per cent lower than in 2015.

Significantly lower oil and gas prices in 2016, compared with 2015, impacted both the cash flow and the financial result for the year. Total production was 1 040 000 bbls of oil equivalents (o.e.) per day. Production was 3 per cent lower than in 2015, primarily due to lower gas production. The high gas production in 2015 was due to shifting gas volumes from 2014 to 2015. Regularity remained good in 2016.

Investments in 2016 amounted to NOK 28 billion, which is the same level as the previous year. Production drilling accounts for approximately one-half of the investments.

The book value of assets at 31 December 2016 was NOK 241 billion. The assets consist of operating facilities related to field installations, pipelines and onshore plants, as well as current debtors. Year-end equity was NOK 153 billion.

HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

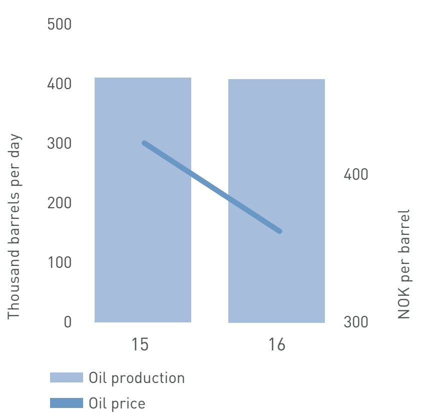
2016 was marked by the tragic helicopter accident near Turøy on 29 April in which 13 people lost their lives. There has also been an increase in serious near-miss incidents throughout the year, which has resulted in intensified focus on the part of both licensees and the Petroleum Safety Authority. This very negative development is reflected in Petoro's HSE results, where the serious incident frequency (number of serious incidents per million hours worked) increased from 0.5 in 2015 to 1.0 in 2016. The personal injury frequency (number of personal injuries per million hours worked) has also developed negatively, and the result was 4.1 in 2016 compared with 3.3 for the previous year. No serious discharges to sea were recorded in 2016.

The comprehensive transition and change processes in the industry impact the overall risk picture. Petoro has addressed this in 2016 as a topic in the work to follow up major accident risk in the licences. A number of management visits have been conducted in 2016 as well, focusing on health, safety and the environment on selected fields and installations.

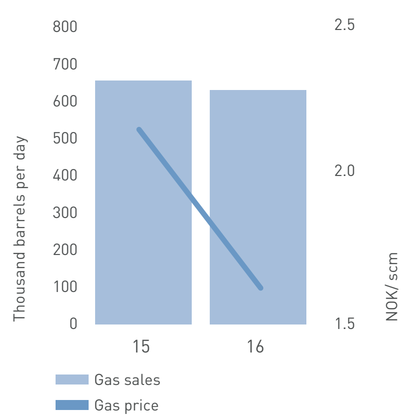
PRINCIPAL ACTIVITIES IN 2016

As of the end of 2016, the portfolio consisted of 180 production licences, 6 more than at the beginning of the year. In January 2016, Petoro was awarded participating interests in 13 production licences in predefined areas (APA 2015). In the 23rd licensing round in May 2016, Petoro was granted participating interests in 5 production licences, all in the Barents Sea,

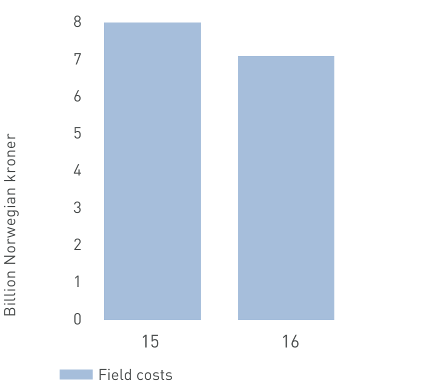
OIL PRODUCTION/PRICE



GAS SALES/-PRICE



FIELD COSTS



where two exploration wells are expected to be drilled in 2017. Petoro also received participating interests in 13 production licences in predefined areas (APA 2016) in January 2017.

The company's strategy was revised in 2016. Through focused follow-up, supported by in-depth professional commitment, Petoro will reinforce value creation opportunities with emphasis on long-term business development. This is a two-part strategy: Increase the competitiveness of the portfolio and realise value in mature fields.

The board considers the company's climate policy, which was established in 2016, as a step toward realising the strategy. The policy emphasises Petoro's contribution to ensuring that the oil and gas industry on the Norwegian Shelf leads the way in addressing climate challenges.

The main effort exerted by the company aims at influencing decision processes in the licences. Petoro is also a driving force for improving and further developing activity on the Norwegian Shelf through active dialogue with the industry, based on own analyses.

Production from mature oil fields continues to dominate oil production in the SDFI portfolio. Troll, Åsgard, Oseberg, Heidrun, Snorre and Gullfaks accounted for 60 per cent of total liquids production. Approximately 70 per cent of the gas production came from Troll, Ormen Lange and Åsgard. In 2016, gas accounted for 61 per cent of overall production.

In keeping with the strategy of realising value in mature fields, particular effort has been devoted to Snorre, Heidrun and Oseberg in 2016.

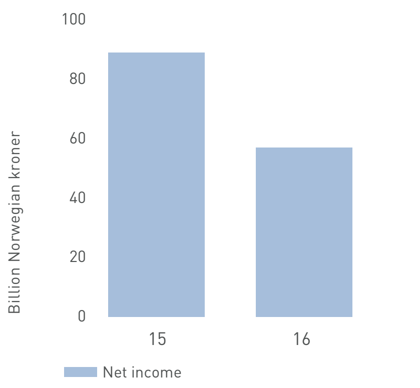
For many years, Petoro has been a strong advocate for realising profitable reserves on Snorre. These efforts have mainly been aimed at reinforcing the reserve potential, and have contributed to a December 2016 licence decision to continue a further development project based on a seabed solution that will provide for 24 new wells. An investment decision is planned in 2017, with production start-up in 2021. This expansion project will facilitate the realisation of significant remaining values in Snorre.

On Heidrun, Petoro has used its own simulation studies to increase understanding of the reservoir, and has contributed to increased basis reserves on the field. A concept selection for Heidrun lifetime extension was made in 2016, and this will facilitate long-term maturing of reserves. The efforts have largely focused on establishing a robust resource base for further development of the field, with particular emphasis on the northern parts.

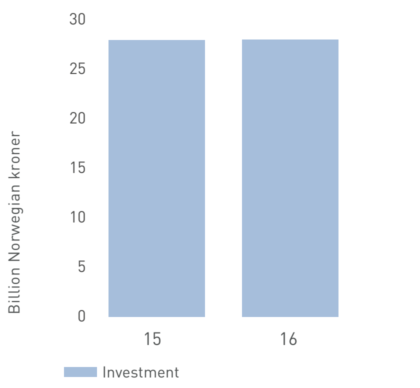
Petoro's efforts on Oseberg in 2016 have focused on increasing the resource base and thus laying the groundwork for new investments in the "Oseberg further development" project.

Work got under way in the Troll licence in 2016 to assess the possibility of producing the gas cap in Troll Vest (Troll phase 3). Petoro has contributed to the scope and timeframe for the work to ensure a comprehensive approach to

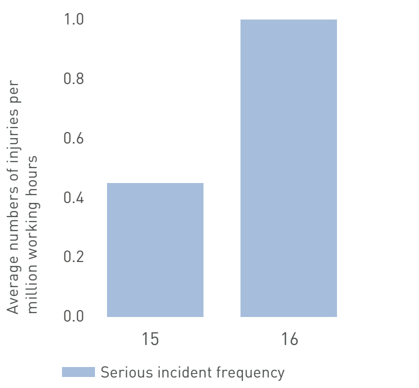
NET INCOME



INVESTMENT



SERIOUS INCIDENT FREQUENCY



further development of the Troll field.

Johan Sverdrup phase 2 and Johan Castberg are two major projects currently in the planning stages. Petoro's focus in 2016 has been on contributing to improved profitability and future-oriented development solutions that will allow sound further development in the operations phase. A decision to continue project planning was made for Johan Castberg in December 2016 with a production ship as the development concept. An investment decision is planned in the licence in 2017, with production start-up in 2022.

One plan for development and operation (PDO) with SDFI participation was approved in 2016: Oseberg Vestflanken 2. A PDO was also submitted to the authorities for Dvalin (PL 435) in October 2016. Petoro became a licensee in December, following takeover of a 35 per cent ownership interest in the licence. The plan is to develop Dvalin with tie-in to Heidrun and gas transport via Polarled and Nyhamna. The authorities approved the PDO in January 2017.

The need for streamlining and cost reductions within the drilling and well service area has been an important issue for Petoro over several years. As part of this effort, Petoro has monitored the development in drilling pace on 10 fixed installations on 5 selected fields in the portfolio. For this selected sample, the number of wells has doubled and drilling costs per well have been cut in half over the last three years. This result can mainly be attributed to increased drilling efficiency, simplified well design and increased availability of drilling facilities.

As part of the strategy, Petoro has focused on enhancing the competitiveness of the portfolio. Consistent improvements have been achieved in all areas in the value chain, as illustrated by reduced investment estimates totalling NOK 15 billion (SDFI share) for the three major new projects: Johan Sverdrup, Johan Castberg and Snorre expansion. Recoverable resources for these major new projects are virtually unchanged, which means that competitiveness has increased, and provides a better basis for maturing profitable new projects in the portfolio. Another example of the results of improvement efforts is the 24 per cent reduction in field costs for producing fields since 2013.

Petoro works continuously to ensure that measures implemented to reduce costs are sustainable in both the short and long term perspective, and that they entail actual efficiency improvements, not just reduced activity.

Petoro is concerned with ensuring that the substantial rig capacity committed to the SDFI portfolio is utilised in value-generating activity in the licences and not left idle. There is still a considerable need to drill new wells in mature fields in order to realise the value potential, and drilling makes up a considerable share of investments in long-term prognoses.

Following a number of years of high exploration activity, 36 exploration wells were drilled on the Norwegian Shelf in 2016, down 20 from the year before. Petoro participated in 12 of the exploration wells completed during the year. A total of 5 new and generally minor discoveries were made in the SDFI portfolio; 4 of which are considered to be commercial. The largest is the gas/condensate discovery Herja, northeast of Martin Linge, with a preliminary resource estimate between 2 and 11 million Sm3 of recoverable o.e. The plan is to produce these volumes from Martin Linge.

At the end of 2016, the portfolio's anticipated remaining reserves of oil, condensate, NGL and gas amounted to 5968 million barrels of oil equivalent (boe). This is down 308 million boe from the end of 2015. The reduction in SDFI portfolio reserves is mainly attributed to production, in addition to the fact that there have been no major development decisions in 2016.

RESEARCH AND DEVELOPMENT

Petoro contributes to research and development (R&D) through the SDFI meeting its share of these costs in the production licences. The funds are managed by the respective operators. This amounted to NOK 546 million in 2016. Additionally, projects aimed at field-specific qualification of new solutions or pilot application of technology in licences, where the costs are charged to the joint ventures. Petoro does not initiate its own technology development and research projects.

MARKETING AND SALE OF THE PRODUCTS

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

In 2016, Petoro has prioritised focus on the implementation of a new follow-up system for sale and marketing. Furthermore Petoro has contributed to introduction of a revised formula for LPG from 2017.

The continued demanding market situation in oil and gas has led the company to devote attention to ensuring that the products are sold in markets where the highest price can be achieved. Optimum utilisation of the capacity and flexibility in production facilities and infrastructure is of great significance in this context, and follow-up has been important.

The role of gas in Europe's future energy mix is increasingly challenged by EU energy and climate policy. Petoro is keeping a close eye on this development.

Verifications have been conducted to ensure that SDFI receives its rightful share of sales-related costs and revenues.

WORKING ENVIRONMENT AND EXPERTISE

The company's human resources policy aims to ensure diversity and equal opportunities, develop expertise and facilitate a good working environment that prevents discrimination on the basis of age, gender or cultural and geographical background.

Petoro personnel have extensive experience from the petroleum industry and a high level of expertise. The individual employee is crucial to the company's deliveries and success, and the board places emphasis on ensuring that Petoro provides competitive terms and a stimulating working environment that attracts people with the right expertise and positive attitudes. Opportunities for professional and personal development will help retain, develop and attract skilled personnel.

Petoro had 64 employees at 31 December 2016, the same as the year before. Three staff members resigned during the year, one temporary position ended and four new appointments were made. No occupational accidents were recorded among Petoro's personnel in 2016.

Women accounted for 38 per cent of the total workforce in 2016, and 43 per cent of the company's directors and executive management. Petoro emphasises equal opportunities for professional and personal development as well as pay. The company customises working conditions so that people with disabilities can also work for Petoro. Absence due to illness came to 1.7 per cent, compared with 1.8 per cent in 2015. Petoro has an inclusive workplace (IA) agreement, and utilises close follow-up and dialogue to promote good health and prevent absence due to illness.

Collaboration with the company's working environment committee (AMU) and works council (SAMU) lays an important foundation for a good working environment. These bodies also functioned well in 2016.

In light of the pension reform, Petoro changed its pension scheme as of 1 January 2016.

CORPORATE GOVERNANCE

The board emphasises good governance to ensure that the portfolio is managed in a way which maximises financial value creation in a long-term perspective. Requirements for governance in the public sector are specified in Regulations on Financial Management in Central Government and in standards for good corporate governance. The board observes the Norwegian State's principles for sound corporate governance as expressed in Meld. St. 27 2013-2014 "Et mangfoldig og verdiskapende eierskap" (Report No. 27 to the Storting (2013-2014) "Diverse and productive ownership") and those sections of the Norwegian Code of Practice for Corporate Governance regarded as relevant to Petoro's activities and the frameworks established by its form of organisation and ownership.

The management system is tailored to Petoro's distinctive nature, and enterprise management is based on management by objectives, under which objectives are established that support the company strategy. For further details see the separate section in the annual report.

Petoro's values base and ethics are embedded in its values and guidelines on business ethics.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Petoro discharges its corporate social responsibility in line with the relevant guidelines, which are tailored to the company's role. Funding for discharging its management duties and for running the company is provided through appropriations from the State, and Petoro is unable to provide monetary support for social purposes.

Measures which ensure that Petoro discharges its CSR include ethical guidelines, openness regarding cash flows, the HSE declaration, climate policy and an HR policy that ensures diversity and equal opportunity. Petoro reports annual cash flows related to the SDFI portfolio to the Extractive Industries Transparency Initiative. Activity outside Norway is very limited. The board provides a more detailed presentation of the exercise of CSR in a separate section of the annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The board conducted an assessment of the risk picture in 2016 on the basis of the approved strategy, and set targets for the coming year. Measures were identified for reducing the most significant risks which Petoro has an opportunity to influence within the company's established frameworks.

Three internal audit projects were carried out in 2016; they assessed enterprise management and internal control, currency forecasts for Norges Bank and the handling of confidential information. The results were summarised in a report to the board describing the audit actions undertaken, findings, as well as proposed and implemented measures.

The internal audit projects in 2016 were conducted by PricewaterhouseCoopers (PwC), which has also been responsible for the annual audit of SDFI for the 2016 accounting year.

WORK OF THE BOARD

The board held 11 meetings in 2016. It has established a meeting and work plan with emphasis on addressing strategy, goals, budgets and interim results. The board is concerned with value creation from the overall portfolio, and ensuring that the state receives its rightful share and is not charged for a larger proportion of costs than is warranted. Balanced scorecards are a key instrument used by the board in following up the company's results, and it measures the results achieved against established commercial and organisational goals.

The board considers major investment decisions in the portfolio, and follows up and considers the commercial activities, which includes monitoring Statoil's duties under the marketing and sale instructions. It also monitors the company's overall risk picture. The board ensures that control systems have been established and that activities are conducted in accordance with the company's values base and guidelines on business ethics. A declaration has been drawn up by the board on remuneration of the chief executive and senior personnel. The board has organised its preparatory work on compensation arrangements in a sub-committee.

Conflicts of interest are a fixed item on the agenda at board meetings, and directors with such a conflict withdraw from the board's consideration of the relevant issue. The board conducts an annual evaluation of its own work, which also includes a review of company guidelines on business ethics and CSR, as well as instructions for the board. Directors must routinely report their ownership of shares or similar interest in other companies which could constitute or which could be perceived as constituting a conflict of interest with their position. They are furthermore required to report other relationships with licensees involved in petroleum activities on the NCS or with companies that supply licensees.

Each director and the board as a collective body seek to strengthen their expertise in various ways. These include participation in courses and conferences and generally following developments in the area.

Petoro's board comprises Gunn Wærsted as chair, Brian Bjordal as deputy chair, Per Arvid Schøyen, Trude J H Fjeldstad and Per-Olaf Hustad as shareholder-elected directors, as well as Ove Skretting and Heidi I Nes as directors elected by and from among the employees.

PETORO AS AND THE GROUP

SHARE CAPITAL AND SHAREHOLDER

Petoro AS was established as part of the restructuring of the state's oil and gas activities in 2001, when Statoil was partially privatised and management of the SDFI was assigned to Petoro. The company's operations are regulated by Chapter 11 of the Petroleum Act. Its general meeting is the Ministry of Petroleum and Energy.

Petoro's share capital at 31 December 2016 was NOK 10 million, distributed among 10 000 shares owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government. Petoro's business office is in Stavanger.

PETORO ICELAND AS

Petoro Iceland AS was established in December 2012 as a wholly-owned subsidiary of Petoro AS. Through a branch registered in Iceland, it is a licensee and participant in production licences in which the Norwegian government chooses to participate. The company's share capital at 31 December 2016 comprised NOK 2 million, distributed among 2 000 shares. It has no employees and has entered into a management agreement with Petoro AS.

NET INCOME AND ALLOCATIONS

Petoro AS maintains separate accounts for all transactions relating to participating interests in the joint ventures. Revenue and expenses from the portfolio are kept separate from day-to-day operation of the company. Cash flow from the portfolio is transferred to the central government's own accounts with Norges Bank. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act and Norwegian generally-accepted accounting principles (NGAAP).

Funds for operating Petoro AS and Petoro Iceland AS are provided by the government, which is directly responsible for the contractual obligations incurred by the companies. The consolidated accounts comprise the parent company and Petoro Iceland AS. Amounts related to intra-group transactions are eliminated in the consolidated accounts.

NOK 338.4 million (including VAT) was appropriated for ordinary operation of Petoro AS in 2016. Petoro AS also received a supplementary appropriation of NOK 5.3 million to cover external legal assistance and other technical assistance in ongoing legal disputes. The appropriation for Petoro Iceland was NOK 11.1 million.

Operating expenses in 2016 were in accordance with the board's approved budget, the company's appropriation and allocation letter. Petoro AS' net loss of NOK 4.5 million is due to planned high activity to realise the company's objectives and strategy. The group posted a net loss of NOK 4.1 million. The board proposes that the loss in Petoro AS is covered by a transfer from other equity, thus reducing other equity to NOK 7.3 million at 31 December 2016. The group's reserves of NOK 9.3 million comprise other equity in the parent company, NOK 2 million in grants from the Norwegian State related to establishing Petoro Iceland AS and accumulated results in the subsidiary.

Pursuant to Sections 3-3 and 3-2a of the Norwegian Accounting Act, the board affirms that the annual accounts for the portfolio and the company provide a true and fair picture of the company's assets and obligations, financial position and results of the business, and that the annual accounts have been prepared under the assumption that the company is a going concern. The company has satisfactory equity and low financial risk.

PROSPECTS

It is presumed that the oil market will be reasonably balanced toward the end of 2017, presuming that OPEC and other countries implement their announced production cuts. Rising oil prices toward the end of 2016 contributed to a substantial increase in drilling activity for US shale oil. A moderate increase is expected in the production of shale oil in 2017. Continued growth in global demand for oil will support a rebalancing of the market.

In broad terms, demand in the European gas market in 2017 is expected to be on par with the previous year. A stable, high supply of Russian gas is also presumed. Global LNG capacity will increase further in 2017. Depending on developments in the global gas market, Europe may increasingly become the preferred market for LNG volumes, which will contribute to an additional increase in supply. The combination of ample gas supply and relatively flat gas demand indicates continued pressure on gas prices in 2017 as well.

The last two years have involved considerable efforts aimed at improving cash flows from fields over the short term, as well as profitability in new projects. Good results with considerable commercial impact have been achieved. The board would like to acknowledge the positive efforts expended in the industry as a whole and which have helped make the Norwegian Shelf more competitive. The board nevertheless concludes that there is a need for further improvement of profitability in order to bolster the competitiveness of future projects in the SDFI portfolio.

A number of exploration wells are planned in 2017 in licences awarded in the 23rd licensing round in the Barents Sea. The results from these wells will be crucial for further development in the far north, and most likely also for the addition of major new projects and new production over the long term.

Stavanger, 3 March 2017

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Trude J H Fjeldstad
Director

Per Arvid Schøyen
Director

Per-Olaf Hustad
Director

Ove Skretting
Director
elected by employees

Heidi Iren Nes
Director
elected by employees

Grethe K Moen
President and CEO

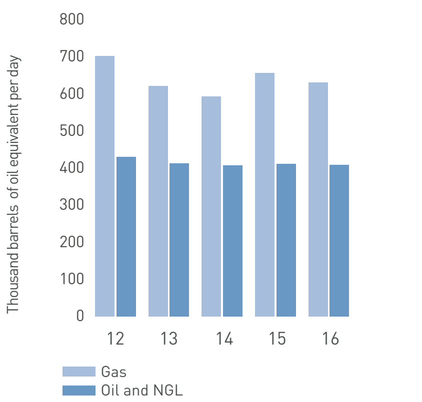
KEY FIGURES 2016 SDFI

Net income in 2016 came to NOK 57 billion, compared with NOK 89 billion in 2015. Total operating revenue was NOK 121 billion, compared with NOK 158 billion the year before. Cash flow to the state came to NOK 66 billion in 2016 as against NOK 94 billion in 2015. Total production averaged 1 040 000 barrels of oil equivalent per day (boe/d) – slightly lower than the production in 2015 of 1 068 000 boe/d. Paid investments (in capital accounts) were about NOK 28 billion in 2016.

NGAAP

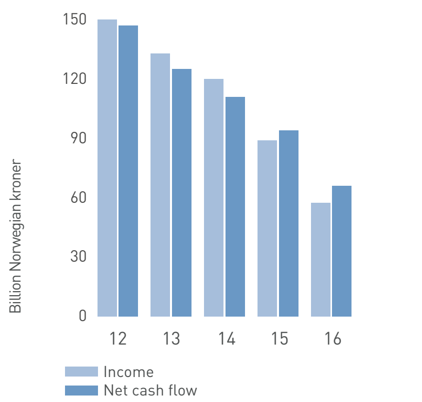
	2016	2015	2014
Operating revenue (NOK million) (NGAAP)	**121 224**	157 753	179 797
Field costs producing fields (NOK million) (NGAAP)	**7 057**	8 021	9 094
Net income for the year (in NOK million) (NGAAP)	**57 426**	88 999	119 671
Investment (in NOK million) in the capital accounts	**27 815**	28 955	35 372
Net cash flow (in NOK million)	**65 897**	93 639	111 068
Production — oil and NGL (1 000 bbl/d)	**409**	411	407
Production - dry gas (million scm/d)	**100**	105	94
Oil, NGL and dry gas production (1 000 boe/d)	**1 040**	1 068	1 000
Remaining reserves (million boe)	**5 968**	6 276	6 145
Reserve replacement rate (annual percentage)	**22**	133	24
Reserves added (million boe)	**82**	520	88
Oil price (USD/bbl)	**43**	53	99
Oil price (NOK/bbl)	**361**	420	617
Gas price (NOK/scm)	**1.62**	2.14	2.23

PRODUCTION



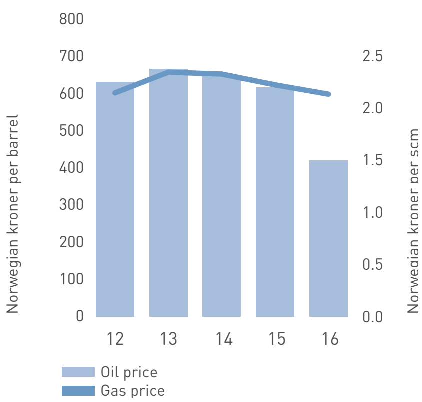
Total production was 1 040 000 bbls of oil equivalent (boe) per day, about 3 per cent lower than in 2015, primarily as a result of lower gas production. Gas production in 2015 was high as a result of shifting gas volumes from 2014 to 2015. A higher drilling pace and improved regularity have offset the natural production decline so that liquids production was on par with 2015.

INCOME AND CASH FLOW



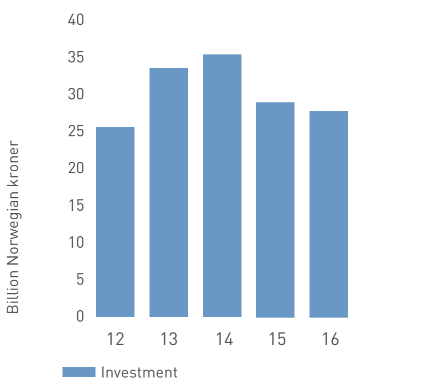
Net income for 2016[1] was NOK 57 billion, down by about 35 per cent from NOK 89 billion in the previous year. This figure was affected by developments in oil and gas prices, and yielded a cash flow to the state of NOK 66 billion, compared with NOK 94 billion in 2015.

OIL AND GAS PRICES



The price of oil averaged USD 43 per barrel in 2016, compared with USD 53 the previous year. Converted to NOK, the average oil price was NOK 361 per barrel, compared with NOK 420 in 2015. The average price of gas was NOK 1.62 per scm in 2016, compared to NOK 2.14 per scm in 2015.

INVESTMENT

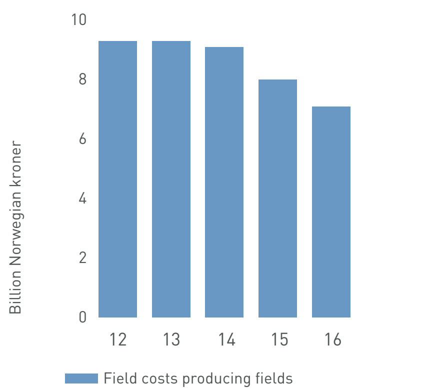


Investment in 2016 amounted to NOK 28 billion, which was virtually on par with 2015. Production drilling accounts for approximately one-half of the investments.

REMAINING RESERVES

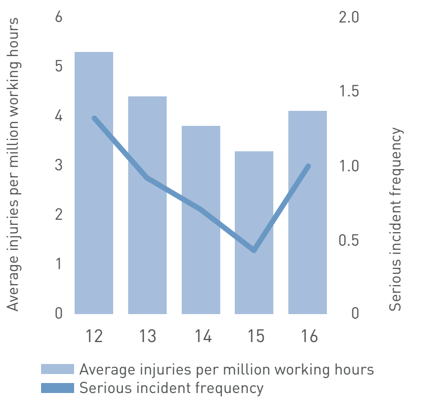
At the end of 2016, the portfolio's anticipated remaining reserves of oil, condensate, NGL and gas amounted to 5 968 million barrels of oil equivalent (boe). This is down 308 million boe from the end of 2015. Production in 2016 came to 381 million boe.

FIELD COSTS PRODUCING FIELDS



There has been a substantial reduction in field operating costs. The figure illustrates the development in field costs for producing fields and shows that the costs needed to operate the same fields have been reduced by 24% since 2013.

HSE



2016 was marked by the tragic helicopter accident near Turøy on 29 April in which 13 people lost their lives. There has also been an increase through the year in the number of situations that could have developed into serious incidents. This very negative development is reflected in Petoro's HSE results, where the serious incident frequency (number of serious incidents per million hours worked) increased from 0.5 in 2015 to 1.0 in 2016. The personal injury frequency (number of personal injuries per million hours worked) has also developed negatively, and the result was 4.1 in 2016 compared with 3.3 for the previous year.

[1] In accordance with the Norwegian Accounting Act and generally accepted accounting principles (NGAAP)

Heidrun – Photo: Øyvind Hagen, Statoil ASA

RESULTS AND GOALS ACHIEVED

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RESULTS AND GOALS ACHIEVED

Reference is made to the letter of assignment to Petoro AS for 2016, and to the business plan for Petoro AS. The targets set in the letter of assignment and Petoro's performance in relation to these are presented below.

SAFEGUARDING THE STATE'S DIRECT PARTICIPATING INTERESTS

Petoro shall be an active partner that helps maximise the value of the SDFI portfolio through comprehensive assessments. The work shall be focused on areas and tasks where the company, based on the portfolio and in interaction with other players on the Norwegian Continental Shelf, can provide a particular contribution toward increased value creation, considering the state's overall financial interests. Petoro shall ensure efficient and profitable development and operations, as well as the safety of people and the environment.

OPERATIONAL TARGETS

"Petoro shall establish operational targets as regards achieving liquids production in accordance with the 2016 budget."

Management parameters: Liquids production, 1 000 bbls per day. Explanation and development over time.

Total liquids production in 2016 was 409 000 bbls per day. Production in 2016 was on a par with 2015 as a result of the natural production decline being offset by an increased drilling pace, as well as improved regularity.

Total production was 1 040 000 bbls of oil equivalent (boe) per day, about 3 per cent lower than in 2015, primarily as a result of lower gas production. Gas production in 2015 was particularly high, as gas volumes were shifted from 2014 to 2015. Regularity has been good throughout the year.

In addition to ordinary licence follow-up, where the operator and partners set production targets and the operator is challenged on nonconformity management and mitigating measures, Petoro's efforts were particularly aimed at measures to increase drilling efficiency. This represents an important instrument for implementing the planned drilling programme and maintaining high production.

"Petoro shall prepare operational targets as regards achieving: Reduced costs in order to ensure profitable development and attaining permanent reductions."

Management parameters: Field costs (percentage reduction from the previous year) Investment costs in NOK billion. Explanation and development over time.

Cost efficiency measures in the licenses have been an important part of Petoro's work in 2016, and have been aimed specifically at drilling, as well as operations and maintenance.

In 2016, Petoro has been a driving force for ensuring that ambitious goals are set for cost improvements in the licenses, e.g. by guaranteeing that both achieved and anticipated future improvements are reflected in an unbiased manner in the budgets. In its follow-up, Petoro has furthermore focused on ensuring that cost reductions are sustainable over the long term, so that the measures entail actual efficiency improvements and not merely a reduction in activity.

The field cost for all producing fields in the portfolio was reduced by 12 per cent from 2015, which means that the rate of improvement from 2015 continued in 2016. Field costs have been reduced by 24 per cent since 2013. The improvement was achieved without negative impacts on regularity or underlying KPIs for maintenance.

Drilling efficiency compared with 2015 has levelled out - the average cost and time per well has remained at the 2015 level. However, the drilling pace in 2016 was the highest in 10 years on the fixed installations in the portfolio. The improvement in 2016 was mainly due to the drilling facility's increased availability to drill additional wells per year.

Investment in 2016 amounted to NOK 28 billion, which was on a par with 2015. Production drilling accounts for approximately one-half of the investments.

"Petoro shall prepare operational targets as regards safeguarding safety and environmental concerns."

Management parameters: Serious incidents (frequency) and CO2 emissions (tonnes). Explanation and development over time.

2016 was marked by the tragic helicopter accident near Turøy on 29 April in which 13 people lost their lives. There has also been a very negative development in Petoro's HSE performance throughout the year, in which the serious incident frequency increased from 0.5 for 2015 to 1.0 in 2016. The personal injury frequency increased from 3.3 for 2015 to 4.1 in 2016. The last time HSE performance was at this level was in 2013.

A KPI for CO2 emissions (tonnes) was established for learning purposes in 2016 on the basis of the portfolio's eight largest emission sources on a field basis, which represents about 70 per cent of total emissions. The results show the same overall level, 2.3 million tonnes, for 2016 as for 2015, but with variations between fields. Reduced emissions have been registered on multiple fields resulting from energy efficiency measures, but this is largely offset by increased emissions from operational incidents, as well as start-up of Åsgard subsea compression.

No serious discharges to sea were recorded in 2016.

The comprehensive transition and change processes in the industry impact the overall risk picture. Petoro has addressed this in 2016 as a topic in the work to follow up major accident risk in the licences. A number of management visits have been conducted in 2016 as well, focusing on health, safety and the environment on selected fields and installations.

PRIORITY TARGETS AND ACTIVITIES IN 2016

MODNE FELT

"Petoro shall endeavour to reduce uncertainty in the reserve and resource base, to promote evaluation and approval of additional wells, and to ensure that robust facility solutions are established. As part of this, Petoro shall pursue operational improvements as well as increased efficiency, in particular within drilling."

Management parameters: Describe how Petoro has contributed to reduce uncertainty in the reserve and resource base, and increase the number of wells. Describe how Petoro has continued to work as a driving force for reducing costs in order to achieve profitable development and lasting reductions. Particular focus on Petoro's contributions to increased drilling efficiency.

Petoro's commitment related to the mature fields aims to improve recovery from priority fields by choosing good solutions for long-term field development, drilling more wells per year, and drilling more efficiently.

The SDFI portfolio is dominated by large holdings in mature fields. In addition to the volumes covered by today's plans, Petoro has identified more than 100 million scm in remaining reserves and additional resources with potential profitability in the mature fields portfolio. Factors that affect their realisation include marginal profitability, time-criticality and investment requirements. Petoro has long worked to clarify the reserve and resource base by mapping the remaining resource potential, and by identifying associated well targets so that field development decisions can be made on the basis of realistic long-term plans in the licences.

The need for streamlining and cost reductions within the drilling and well service area has been an important issue for Petoro over several years. As part of this effort, Petoro has monitored the development in drilling pace on 10 fixed installations on 5 selected fields in the portfolio. For this selected sample, the number of wells has doubled and drilling costs per well have been cut in half over the last three years. This result can mainly be attributed to increased drilling efficiency, simplified well design and increased availability of drilling facilities.

2016 has also seen impressive results in drilling progress, and the field cost for all producing fields was substantially lower than the previous year. This provides a good starting point for further improvement efforts in 2017, but new measures are necessary in order to realise additional improvement.

"Petoro shall direct its efforts towards projects for improved recovery from Snorre, Heidrun and Oseberg. These joint ventures are facing important choices and investment decisions over the next few years that will contribute to improved recovery and reduce the risk of loss of reserves."

Management parameters: Describe how Petoro has contributed to realising improved recovery projects on selected fields, including how it has been a driving force for identifying new well targets, utilising rig capacity as well as fixed drilling facilities.

In keeping with the strategy of realising value in mature fields, particular effort has been devoted to Snorre, Heidrun, Troll and Oseberg in 2016.

For many years, Petoro has been a strong advocate for realising profitable reserves on Snorre. These efforts have mainly been aimed at reinforcing the reserve potential, and have contributed to a December 2016 licence decision to continue a further development project based on a seabed solution that will provide for 24 new wells. An investment decision is planned in 2017, with production start-up in 2021. This expansion project will facilitate the realisation of significant remaining values in Snorre.

On Heidrun, Petoro has used its own simulation studies to increase understanding of the reservoir, and has contributed to increased basis reserves on the field. A concept selection for Heidrun lifetime extension was made in 2016, and this will facilitate long-term maturing of reserves. The efforts have largely focused on establishing a robust resource base for further development of the field, with particular emphasis on the northern parts.

In the Troll license, Petoro has been a driving force to guarantee utilisation of rig capacity by undertaking comprehensive assessments in well approval processes. Work also got under way in the Troll licence in 2016 to assess the possibility of producing the gas cap in Troll Vest (Troll phase 3). Petoro has contributed to the scope and timeframe for the work to ensure a comprehensive approach to further development of the Troll field.

Petoro's efforts on Oseberg in 2016 have focused on increasing the resource base and thus laying the groundwork for new investments in the "Oseberg further development" project.

FIELD DEVELOPMENT

"Petoro shall contribute to the selection of good solutions for new field developments in the SDFI portfolio, thus ensuring that they have sufficient flexibility to safeguard new opportunities and facilitate profitable long-term production."

Management parameters: Describe how Petoro has contributed to the selection of good, profitable solutions for new field developments.

Part of Petoro's revised 2016 strategy has been to focus on enhancing the competitiveness of the portfolio.
As regards new field developments in the planning phase, substantial reductions have been achieved in investment estimates. At the same time, functionality has been retained which ensures that recoverable reserves are virtually unchanged. This means that competitiveness has increased, which provides an improved basis for maturing new, profitable projects in the portfolio.

On the basis of its experience, Petoro has chosen to concentrate attention on flexibility in development solutions that safeguard future opportunities, as well as facilitating long-term profitable lifetimes, rapid and effective use of technological opportunities for improved recovery, reservoir descriptions and subsea processing. In 2016, Petoro has focused on influencing concept choices in the Johan Castberg and Johan Sverdrup projects. In 2016 resources were expended, especially on following up Johan Sverdrup; see separate discussion below.

"Petoro shall contribute to ensure that a concept selection is made for phase 2 in Johan Sverdrup that also facilitates realisation of the volume basis in subsequent phases."

Management parameters: Describe initiatives and measures implemented to attain the objective, as well as the results and effects the measures will have on later phases.

In 2016, Petoro made a strong contribution to the choice of concept for Johan Sverdrup phase 2, which safeguards the functionality necessary for the greatest possible value creation. Several alternatives with various needs for investments and associated consequences for functionality have been considered. Before the summer, the joint venture agreed to continue the solution from 2015 involving a new process platform with a separate "power from shore" module, in accordance with the original concept choice. This solution also provides adequate capacity to install future IOR measures. The project has been matured through 2016 leading up to a planned DG2 decision in March 2017. Investment costs have been significantly reduced through optimisation, and the project currently appears to be robust. Start of production for phase 2 is planned in the last six months of 2022.

"Petoro shall work towards a concept selection in Johan Castberg that maximises value and preserves options for future development."

Management parameters: Describe initiatives and measures implemented in order to achieve the goal and what results and effects the measures may have to secure good solutions for future development.

The license made a DG2 decision in December, and a final investment decision is planned for late 2017. The administration's efforts have been aimed at increasing value creation opportunities in the project as well as maintaining flexibility in the chosen concept.

MONITORING STATOIL'S MARKETING AND SALE OF THE STATE'S PETROLEUM

"Petoro shall monitor to ensure that Statoil conducts the marketing and sale of the state's petroleum alongside its own in accordance with the marketing and sale instructions issued to Statoil ASA. This includes contributing to equitable distribution of income and costs."

"As part of the company's monitoring of Statoil's marketing and sale, Petoro shall monitor the marketing and sale of the state's petroleum with emphasis on the changed market situation, as well as issues of great significance in value terms or matters of principle."

Management parameters: Describe which initiatives and activities have been carried out and which considerations form the basis for the company's priorities. What kinds of results have been achieved through the activities and what impacts this has had as regards values.

"As part of its monitoring of Statoil's marketing and sale, Petoro shall complete its work on revising the formula for oil and wet gas."

Management parameters: Report on results of the revision efforts, which should be complete during the first six months of the year. The revised formula for oil and wet gas should be implemented starting from the last six months of 2016.

All oil and NGL from the portfolio is sold to Statoil. Statoil is responsible for marketing all the SDFI's natural gas alongside its own gas as a single portfolio, but at the state's expense and risk. Petoro is responsible for monitoring that Statoil's sales of the SDFI's petroleum achieve the highest possible value, and for ensuring an equitable division of total value creation. In this effort, Petoro concentrates on Statoil's marketing and sales strategy, issues of great significance in value terms, matters of principle and questions relating to incentives.
In 2016, Petoro has prioritised focus on the implementation of a new follow-up system
for sale and marketing. This follow-up system will facilitate better reporting to Petoro on continuous activities, including a scorecard for the joint activity.

Petoro has furthermore contributed to the introduction of a revised formula for

LPG as of 2017. The changes will result in more equitable distribution of value creation than before.

The continued demanding market situation for oil and gas has led the company to devote attention to ensuring that the products are sold in markets where the highest price can be achieved. Optimum utilisation of the capacity and flexibility in production facilities and infrastructure is of great significance in this context, and follow-up of this has been a prioritised area. The role of gas in Europe's future energy mix is increasingly challenged by EU energy and climate policy. Petoro is keeping a close eye on this development.
Verifications have been conducted to ensure that SDFI is subject to its fair share of sales-related costs and revenues.

FINANCIAL MANAGEMENT

"Petoro shall;

- **ensure sound financial management and control of SDFI pursuant to Regulations on Financial Management in Central Government and instructions for financial management of the SDFI**
- **prepare and follow up budgets and forecasts, conduct accountancy and perform periodic variance analyses and reporting on the SDFI's financial standing and development.**
- **secure good reconciliation routines and follow up to verify that the operators comply with the deadline set for submitting auditor's reports. "**

In 2016, Petoro has also ensured sound financial management and control of the SDFI in line with the Regulations on Financial Management in Central Government and instructions for financial management of the SDFI. Petoro implemented a new version of the accounting system in 2016 that provides enhanced performance and greater opportunities for efficiency improvements in the reporting of achieved goals and results. Requirements for a new payment format have been introduced. In an assessment of overall management and control in 2016, internal audits concluded that Petoro has a good structure for management and control.

Petoro has also bolstered the quality of decision processes by expanding the basis for decisions on important SDFI matters.
Petoro has been responsible for accountancy and has also undertaken periodic variance analyses and reporting on the SDFI's financial standing and development as regards deadlines specified in the Letter of Assignment. Petoro has also ensured good reconciliation routines and followed up operators' compliance with deadlines set for submitting auditor's reports.

Petoro uses an accounting supplier for the SDFI accounts. In addition to its focus on quality, Petoro sets requirements for efficient deliveries from the accounting supplier as well. The contract has incorporated incentive schemes through a contractual target price. This has resulted in shorter lead times from the supplier and lower costs for Petoro.
The company also received a clean auditor's statement from the Office of the Auditor General for 2015.

RESOURCE ACCOUNTS 2016

The tables below present remaining reserves in resource classes 1 to 3, as well as resources in classes 4 to 8.

		Remaining recoverable resources		
	Resource classes 1-8	**Oil, NGL and condensate** mill scm	**Gas** bn scm	**Oil equivalent** mill scm
RC 1-3	Reserves	236.7	711.6	948.3
RC 4	Resources in the planning phase	63.0	36.1	99.2
RC 5	Recovery likely but not clarified	40.8	46.0	86.7
RC 6	Development unlikely	11.3	9.6	20.9
RC 7	Resources in new discoveries not evaluated and potential future IOR measures	61.0	38.9	99.9
RC 8	Prospects	18.3	14.8	33.1
	Total	**431.2**	**856.9**	**12 88.1**

	Original recoverable reserves			Remaining reserves		
Field	**Oil and NGL*** mill scm	**Gas** bn scm	**Oil equivalent** mill scm	**Oil and NGL*** mill scm	**Gas** bn scm	**Oil equivalent** mill scm
ATLA	0.10	0.41	0.51	0.04	0.04	0.08
DRAUGEN	71.60	0.81	72.41	3.06	0.01	3.07
DVALIN	0.30	6.28	6.58	0.30	6.28	6.58
EKOFISK	28.76	7.95	36.71	4.24	0.68	4.91
ELDFISK	7.07	2.17	9.25	1.23	0.14	1.37
EMBLA	0.65	0.34	0.99	0.06	0.13	0.19
FLYNDRE	0.01	0.00	0.01	0.01	0.00	0.01
FRAM H-NORD	0.08	0.00	0.08	0.02	0.00	0.02
GIMLE	0.85	0.26	1.11	0.07	0.05	0.11
GJØA	9.01	10.81	19.82	2.92	4.69	7.60
GRANE	41.68	0.00	41.68	10.83	0.00	10.83
GULLFAKS	115.33	6.92	122.25	4.83	0.00	4.83
GULLFAKS SØR	25.63	25.41	51.04	7.06	11.43	18.49
HEIDRUN	110.32	28.32	138.64	20.15	18.17	38.32
JETTE	0.13	0.00	0.13	0.00	0.00	0.00

	Original recoverable reserves			Remaining reserves		
Field	**Oil and NGL*** mill scm	**Gas** bn scm	**Oil equivalent** mill scm	**Oil and NGL*** mill scm	**Gas** bn scm	**Oil equivalent** mill scm
JOHAN SVERDRUP	50.25	1.48	51.73	50.25	1.48	51.73
KRISTIN	7.08	5.68	12.76	0.87	1.04	1.92
KVITEBJØRN	16.24	28.94	45.18	5.55	8.95	14.50
MARIA	8.65	0.67	9.32	8.65	0.67	9.32
MARTIN LINGE	4.43	7.75	12.18	4.43	7.75	12.18
NORNE	50.68	5.49	56.17	1.43	1.63	3.06
ORMEN LANGE	7.11	108.82	115.94	2.51	45.20	47.71
OSEBERG	142.31	39.00	181.31	10.34	23.98	34.32
OSEBERG SØR	23.21	7.26	30.47	4.92	3.53	8.45
OSEBERG ØST	9.18	0.13	9.31	2.32	0.02	2.34
REV	0.27	0.80	1.06	0.02	0.00	0.02
SKIRNE	0.70	3.20	3.90	0.10	0.14	0.25
SKULD	1.42	0.09	1.51	0.61	0.01	0.62
SNORRE	85.76	1.99	87.75	20.69	0.08	20.78
SNØHVIT	12.37	67.13	79.51	9.15	54.73	63.89
STATFJORD NORD	13.11	0.65	13.76	1.30	(0.06)	1.23
STATFJORD ØST	12.57	1.22	13.79	0.66	0.01	0.67
SVALIN	2.80	0.00	2.80	1.49	0.00	1.49
SYGNA	3.38	0.00	3.38	0.30	0.00	0.30
TORDIS	20.93	1.45	22.38	2.29	0.16	2.45
TROLL	185.69	802.35	988.04	29.46	481.44	510.91
TUNE	1.49	7.47	8.96	(0.05)	(0.36)	(0.40)
URD	1.98	0.07	2.05	0.45	0.01	0.45
VALEMON	0.90	4.98	5.88	0.68	3.69	4.37
VEGA	5.52	4.95	10.47	2.95	2.84	5.79
VESLEFRIKK	21.74	2.07	23.81	0.59	0.81	1.40
VIGDIS	21.48	0.54	22.02	3.01	0.00	3.01
VISUND	15.39	16.69	32.08	5.96	13.12	19.08
VISUND SØR	1.29	1.79	3.07	0.48	0.97	1.45
ÅSGARD	70.03	76.31	146.35	10.47	18.11	28.58
Total	**1209.49**	**1288.65**	**2498.14**	**236.70**	**711.58**	**948.28**

* Including condensate

Driller at Johan Sverdrup field – Photo: Kjetil Eide, Statoil

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS OF PETORO AS

From left: Heidi I Nes, Per-Olaf Hustad, Gunn Wærsted, Brian Bjordal, Trude J H Fjeldstad, Per A Schøyen and Ove Skretting. (Photo: Kjetil Alsvik)

GUNN WÆRSTED
Chair

Year of election: 2014
Other directorships: Chair of Telenor
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, 2002-2007. Global head of wealth management, president of Nordea Bank Norge and member of the corporate executive management of Nordea, 2007-2016.

PER A SCHØYEN
Director

Year of election: 2007
Occupation: Consultant
Education: Law degree, various management programmes
Career: Partner, Kluge, 2005-2014. With Esso/ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also associate judge and assistant police attorney as well as scientific assistant, University of Oslo.

PER-OLAF HUSTAD
Director

Year of election: 2014
Occupation: Self-employed.
Other directorships: Chair of NOBU Group AS
Education: MSc petroleum technology, Norwegian Institute of Technology (now Norwegian University of Science and Technology)
Career: Statoil 1976-1980, then more than 30 years with Shell - including executive positions in operating companies and major projects. Head of exploration and production for Shell in Norway until 2012.

HEIDI IREN NES
Director (elected by the employees)

Year of election: 2016
Occupation: Senior consultant, Marketing and sales, Petoro AS
Education: MSc in business economics, Norwegian School of Economics, Bergen.
Career: Controller in the Finance Department in Petoro AS and Subsea 7 Norway

BRIAN BJORDAL
Deputy chair

Year of election: 2016
Occupation: Self-employed
Other directorships: Deputy chair Fonna Health Trust; member of the Government-appointed Security Council
Education: Civil engineer, BSc, Heriot Watt University, Edinburgh
Career: 1977-1979: Stoltz Røthing (construction); 1979-1984: Taugbøl & Øverland; 1984-2001: Statoil ASA, Senior Engineer pipelines & structures; head of Pipeline & Platform Inspection, asset owner representative Europipe development, head of early-phase studies Europipe II, Åsgard Transport, Ekofisk by-pass, Franpipe, director of Process plant Kårstø, director Troll / Sleipner area (Development and Production Norway); 2001-2015: Gassco AS, President and CEO.

TRUDE J H FJELDSTAD
Director

Year of election: 2015
Occupation: Chief executive, Statkraft Treasury Centre, Brussels.
Education: Economics degree, University of Oslo, financial analyst and MBA in corporate finance, Norwegian School of Economics.
Career: Previously secretary to the board, Statkraft; senior gas manager, Statkraft; chief executive, Plaine de l'Ain Power SAS and portfolio manager for gas in Norsk Hydro ASA.

OVE SKRETTING
Director (elected by the employees)

Year of election: 2016
Occupation: Senior adviser; Licence follow-up, Petoro AS.
Education: Economics degree.
Career: Experience as special adviser in Petoro within Marketing and sales, adviser in ExxonMobil within gas marketing, CEO of Terotech A/S, procurement manager in Norwegian Contractors, Transocean and Mobil Exploration Norway.

EXECUTIVE MANAGEMENT

From left: Hege Waldenstrøm Manskow, Marion Svihus, Kjell Morisbak Lund, Grethe Kristin Moen, Ole Njærheim, Olav Boye Siversten and Roy Ruså, (Photo: Kjetil Alsvik)

GRETHE KRISTIN MOEN
President and CEO
Education: MSc chemical engineering, Norwegian University of Science and Technology (NTNU)
Career: Extensive experience from Norwegian and international oil and gas activities. 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.

OLE NJÆRHEIM
Vice president marketing and sales
Education: MBA from the University of Agder, MSc University of Surrey and Certified European Financial Analyst, Norwegian School of Economics (NHH)
Career: Has previously held positions as an adviser in Petoro, investment director in IKM Invest and as CEO of ECON Consulting Group. Has extensive international experience from consultancy assignments within energy and investment activity.

OLAV BOYE SIVERTSEN
Vice president legal affairs
Education: Law degree from the University of Oslo.
Career: Has previously held posts as legal affairs officer at ExxonMobil, head of the legal affairs department for Mobil Norway, as well as public administration posts with 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.

MARION SVIHUS
Chief financial officer
Education: MSc in business economics, Norwegian School of Economics, Bergen.
Career: Extensive experience from Statoil, where she held a number of senior management positions in the fields of economics, analysis, finance and strategy. She also has eight years of experience from the banking and financial sector.

ROY RUSÅ
Vice president technology
Education: BSc petroleum, Rogaland Regional College.
Career: Extensive experience in Norwegian oil and gas activities from Statoil and Baker Hughes INTEQ. Previously headed Petoro's technology and ICT department.

KJELL MORISBAK LUND
Vice president licences
Education: MSc marine technology, NTNU.
Career: Broad experience from work in upstream and downstream oil and gas activities. This includes positions as a researcher on marine structures in SINTEF, multiple project, staff and management positions in Statoil - most recently as HSE director for midstream and downstream activities.

HEGE WALDENSTRØM MANSKOW
Vice president organisation and business support
Education: Norwegian Air Force officer's training school, Bachelor of Arts and Human Resources Management Master programme
Career: Broad and extensive experience from the Norwegian Armed Forces, Aker hospital, Leif Höegh & Co, Nexans and DONG E&P Norge. Has held posts including chief personnel officer and, most recently, head of HR and business support in DONG E&P Norge.

CORPORATE GOVERNANCE

Petoro's management of substantial assets on behalf of the Norwegian state requires sound enterprise management which fulfils the expectations of its stakeholders and society at large. The State's Direct Financial Interest (SDFI) portfolio comprises one-third of Norway's oil and gas reserves.

Petoro's board of directors complies with requirements for governance in the public sector as specified in "Regulations on Financial Management in Central Government" and in standards for good corporate governance. The board observes the Norwegian State's principles for sound corporate governance as expressed in Meld. St. 27 2013-2014 "Et mangfoldig og verdiskapende eierskap" (Report No. 27 to the Storting (2013-2014) "Diverse and productive ownership") and those sections of the Norwegian Code of Practice for Corporate Governance regarded as relevant to Petoro's activities and the frameworks established by its form of organisation and ownership. A report is provided below on the main topics with relevance for Petoro AS. The management system is tailored to Petoro's distinctive character. Petoro reports on the follow-up of its corporate social responsibility (CSR) in a separate chapter of this annual report.

The board emphasises good corporate governance and management in order to ensure that the portfolio is managed in a way which maximises financial value creation, and creates a basis for confidence in the company by the owner, the employees, the oil industry and other stakeholders, as well as society at large. Petoro's enterprise management is founded in balanced management by objectives, where objectives are established that support the company strategy.

Petoro has a values base which is integrated in its business activities. The objective of these values is to provide the company and its employees with a shared platform for attitudes and actions in Petoro. The company's core values are dynamic, 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 objective 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 Financial Involvement in petroleum activities on the Norwegian Continental Shelf (NCS), and associated activities.

Petoro's principal objective is to generate the greatest 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 participating interests in the joint ventures where the state has such interests at any given time.
- Monitoring Statoil's marketing and sale of petroleum produced from the state's direct participating interests, pursuant to the marketing and sale instruction issued to Statoil.
- Financial management, which includes preparing and following up budgets as well as accounting and financial reporting, on behalf of the state's direct participating interests.

Petoro's operations are subject to the Norwegian Limited Liability Companies Act and the Norwegian Petroleum Act, as well as the Regulations on Financial Management in Central Government — including the rules on appropriations and accounting. Its management of the SDFI's activities is governed by the Ministry of Petroleum and Energy's instructions for financial management of the SDFI and the annual letter of assignment. 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 exercising Petoro's activities.

Petoro's strategy is based on assessments of the challenges faced by the industry as well as Petoro's ability to create values, and has two strategic directions:
Increase the portfolio's competitiveness
- Reduce uncertainty in the reserve and resource base
- New technology and innovation for efficiency improvements
- Effective climate solutions

Realising the values in mature fields
- Identify remaining reserves
- More wells and more efficient drilling
- Comprehensive business cases

Petoro recognises that climate challenges make it necessary to restrict anthropogenic climate impact, and the company adopted a climate policy in 2016. The company wants to contribute to ensuring that the oil and gas industry on the Norwegian Shelf leads the way in addressing climate challenges.

The company is the licensee — with the same rights and obligations as the other licensees — for the state's portfolio on the NCS. The scope of the SDFI portfolio gives Petoro the overview and insight to be a driving force on the Norwegian Shelf. Through focused follow-up, supported by in-depth professional commitment, Petoro will reinforce value creation opportunities with emphasis on long-term business development. Petoro's follow-up of activities in fields/licences is differentiated on the basis of its capacity and the commitment required to perform its role. The company endeavours to achieve good governance in the joint ventures, and cooperates with other operators and 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 that is not publicly known and/or expressly defined as "inside information" within the meaning of the Norwegian Securities Trading Act. Information that may have an impact on the stock market must be treated as "inside information".

A special system has also been established for approving external directorships held by employees. Employees must ensure that their ownership of shares does not create any conflict between their personal interests and management of the state's participating interests or the interests of Petoro AS. Senior employees (CEO and employees who report directly to the CEO) are prohibited from owning shares in licensee companies.

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 Norges Bank. Petoro reports annual cash flows from petroleum activities on the NCS to the government in accordance with the Regulations regarding reporting and reconciliation of cash flows from petroleum activities (the EITI[2] Regulation), 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 costs are covered by annual appropriations over the fiscal budget. The operating contribution is presented as operating revenue in the limited company's accounts. The company receives appropriations to meet its costs and does not pay a dividend. Shares in the company cannot be traded or 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 ongoing commercial follow-up of Norwegian participating interests in production licences awarded by the Icelandic authorities. Petoro AS' consolidated accounts includes the activity in Petoro Iceland AS. Administration of Petoro Iceland AS and funds for state participation in petroleum activities on the Icelandic Continental Shelf are covered in separate items over the fiscal budget.

EQUAL TREATMENT OF SHAREHOLDERS

Shares in Petoro AS are owned by the state and the company has no personal shareholders. Petoro Iceland AS has entered into a line of credit agreement with Petoro AS.

The state employs a common ownership strategy to maximise the overall value of its ownership interests in Statoil ASA as well as the state's own oil and gas interests. On this 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 Petoro AS' articles of association, Chapter 11 of the Petroleum Act and the marketing and sale instruction for Statoil ASA, the government has given Petoro responsibility for monitoring that

[2] EITI = Extractive Industries Transparency Initiative

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 recipients 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 and resolutions are 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 electing directors. Directors are elected by the general meeting, which also determines the remuneration of all directors. Directors elected by and from among the employees serve two-year terms.

COMPOSITION AND INDEPENDENCE OF THE BOARD

Petoro's board comprises seven directors, five of whom 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 and have no commercial agreements or other financial relationships with the company apart from the directors' fees established by the general meeting and contracts of employment for the directors elected by the employees. All shareholder-elected directors are independent of the owner.

The board considers its composition in terms of expertise, capacity and diversity to be appropriate 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, which includes ensuring that appropriate management and control systems are in place, and for exercising supervision of day-to-day conduct of the company's activities. The work of the board is based on rules of procedure which describe its responsibilities and mode of working. The board met 11 times in 2016.

As an appendix to the instructions for its work, the board has adopted supplementary provisions for matters it shall consider. An annual schedule of meetings has been established for the work of the board, with 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 measuring 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 established practice has been for the director concerned to abstain from the board's consideration of the matter. 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, which encompasses an evaluation of its own work and mode of working, as well as its collaboration with company management. The self-assessment for 2016 is complete. The board reviewed the company's CSR, business ethics guidelines and board instructions in 2016.

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 emphasises the risks and opportunities that 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 risk management in line with principles for integrated management and developments in the company's risk picture.

Identification and management of risk and risk exposure make up part of Petoro's business processes. The company works with risk management to handle matters that could affect its ability to attain specified targets and to implement chosen strategies, as well as matters that may affect its ability to submit accurate accounts. Risk management is integrated in Petoro's performance management system.

Internal control in Petoro is founded in an internationally recognised framework for this function which ensures that the activities are conducted in accordance with the established governance model and that authority requirements are observed. The internal control function forms an integrated element in Petoro's management processes, and is responsible for ensuring that integrity and the comprehensive situation 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 operations
- Reliable reporting of accounts
- Compliance with applicable statutes and regulations

Guidelines have been adopted by Petoro to facilitate internal reporting of improprieties in its activities. Whistleblowers who want to preserve their anonymity or who do not wish to raise the matter with their superior for other reasons, 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 other members of the company's senior management. The board's guidelines for the remuneration of senior employees in Petoro comply with the framework specified in 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.

In 2016, the company hired a new VP in the executive management group. Details of the actual remuneration paid in 2016 are provided in a note to the annual accounts.

As of 2016, the company's pension scheme is contribution-based. There is a transition scheme for employees as of 31 December 2015 with less than 15 years left to the retirement age of 67.

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 the company's 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.

REVISOR

The Office of the Auditor General (OAG) is the external auditor for the SDFI portfolio pursuant to the OAG Act. The OAG verifies 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 OAG submits its report in a final auditor's letter.

In addition, the board has appointed PricewaterhouseCoopers (PwC) to conduct a financial audit of the SDFI accounts as part of Petoro's internal audit. PwC conducts a financial audit of the portfolio's accounts and submits an auditor's report pursuant to auditing standards and cash accounting principles, including RS800 "auditor's comments concerning special-purpose audits". The contract with the external auditor company covers both financial auditing and Petoro's internal auditor function. In this role, the company audits the internal control systems in accordance with the instructions and an annual plan approved by the board. The internal auditor handles the company's function for receiving notices.

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 CSR presentation is based 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 comprises the responsibilities companies are expected to fulfil for people, society and the environment affected by their activities. Petoro's funding for performing its management duties and operating the company is provided through appropriations from the state. Pursuant to its mandate, Petoro will not provide monetary support for public welfare purposes.

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

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

Petoro exercises its activities in accordance with good corporate governance. This 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 governance requirements for 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 the company can make a difference. Follow-up of the state's equity interests in all joint ventures is incorporated in Petoro's management system.

Petoro exercises its activities in a sustainable manner which minimises negative impact on nature and the environment. Serious incidents are followed up in Petoro's management system. Petoro participates every year in HSE management inspections on selected fields and installations.

Petoro recognises that climate challenges make it necessary to restrict anthropogenic climate impact, and the company adopted a climate policy in 2016. The company wants to contribute to ensuring that the oil and gas industry on the Norwegian Shelf leads the way in addressing climate challenges.

The company introduced a new KPI in 2016 for following up CO2 emissions from oil and gas production from a selection of fields with the greatest emissions. This will be continued in 2017.

Power from shore will be considered for new fields and major redevelopments, given that a technically feasible solution is available at an acceptable abatement cost. Petoro is a licensee in Martin Linge and phase 1 of Johan Sverdrup, which are both being developed with power from shore. This also forms part of the proposed solution for the next development phase of Johan Sverdrup. Total carbon emissions from these fields will thereby be minimised.

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 contributes to creating environmental awareness among all its employees through an incentive scheme to encourage increased use of public and environmentally friendly transport. Petoro emphasises efficient ICT solutions and good communication systems that can replace travel to meetings with videoconferencing.

Petoro does not tolerate any form of corruption or other improprieties, and employees are not permitted to accept 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 are addressed specifically. No breaches of these guidelines have been recorded.

Petoro's employees shall not accept or offer unlawful monetary gifts or other benefits to secure an advantage for themselves, for Petoro or for others. Employee directorships and secondary employment must be approved by the CEO 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 conduct. Each year, all employees sign the company's ethical guidelines, which cover matters such as the duty of confidentiality, possible conflicts of interest and issues related to receiving gifts and services. Senior employees (President and CEO and employees who report directly to the President and CEO) are prohibited from owning shares in licensee companies. Petoro has established requirements for information and ICT security in its activities.

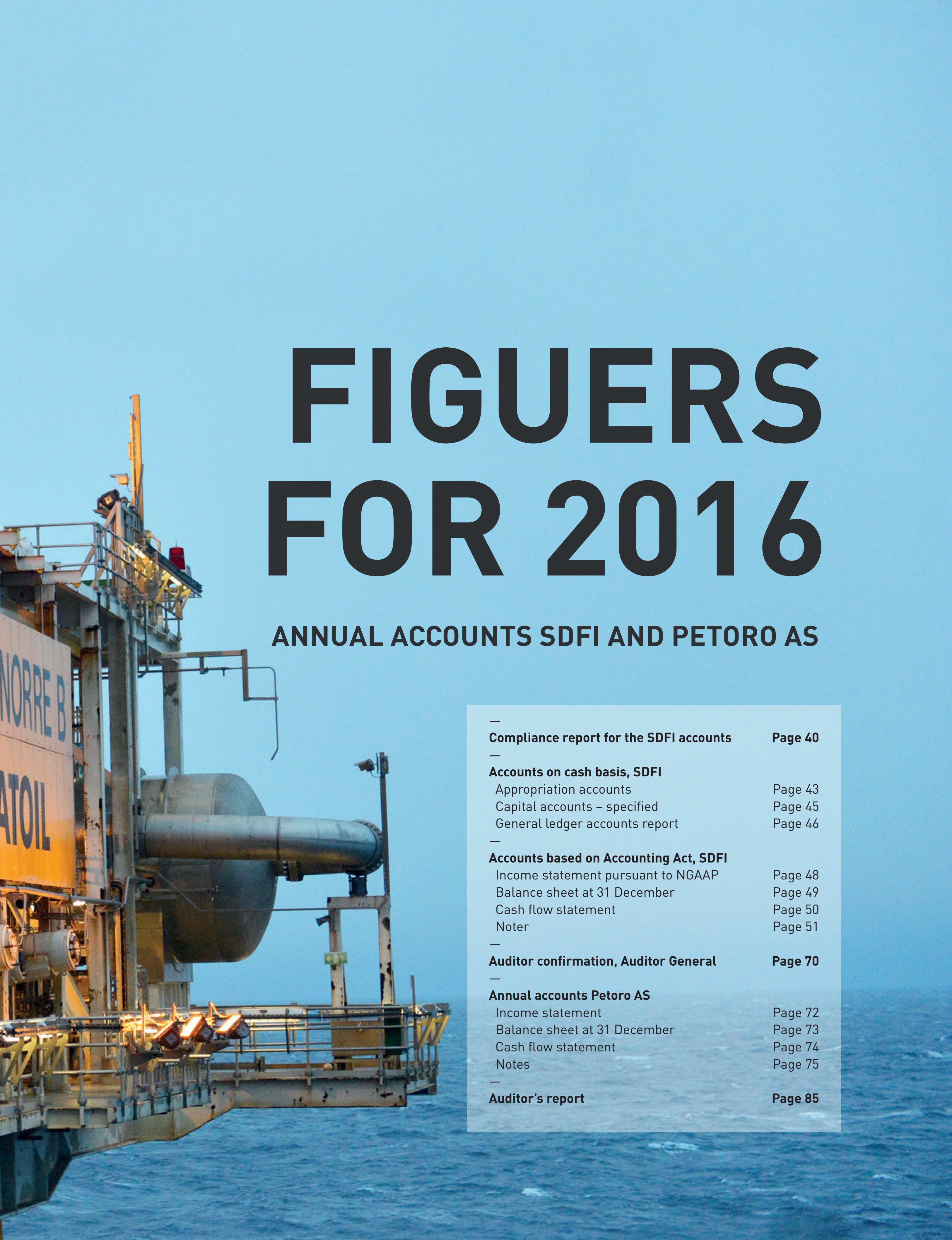
Petoro's employees discharge their duties with a high level of integrity and honesty, and show respect for other people, public authorities and business contacts, as well as health, safety and the environment.
Through its HSE declaration, the company has a shared objective regarding a sound psychological and physical work environment for all employees. The company's guidelines on business ethics include an ethical conduct requirement for all employees. PetroAktiv organises a number of social, cultural and athletic 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 emphasises equal opportunities for professional and personal development, pay and promotion. The company facilitates flexible working hours. When determining wages and in wage 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 diverse cultural and ethnic backgrounds. The company customises working conditions so that people with disabilities can also work for Petoro.

The company has routines for reporting improprieties.
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.

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 from the company's guidelines on business ethics is incorporated into all Petoro's standard contracts as a normative standard. The management committee in each joint venture is responsible for considering and making decisions regarding issues related to the procurement and contract strategy.

Snorre B – Photo: Harald Pettersen, Statoil



FIGUERS FOR 2016

ANNUAL ACCOUNTS SDFI AND PETORO AS

COMPLIANCE REPORT FOR THE SDFI ACCOUNTS

OBJECTIVE
Since its establishment in 2001, Petoro has served as the licensee for the state's participating interests in production licences, fields, pipelines and land-based facilities. Petoro is charged with managing the SDFI portfolio on the basis of sound business principles. As of the end of 2016, the portfolio consisted of 180 production licences, 6 more than at the beginning of the year. In January 2017, Petoro received participating interests in 13 production licences under the Awards in Predefined Areas (APA) 2016.

CONFIRMATION
The annual accounts are presented in accordance with the Provisions on Financial Management in Central Government, circular R-115 from the Ministry of Finance, and requirements in the instructions on financial management of the SDFI in Petoro, with the exceptions granted for the SDFI. The board hereby confirms that the annual accounts, which comprise the appropriation and capital accounts prepared on a cash basis, provide a true and fair picture in accordance with the cash basis. The general ledger accounts report presents accounting figures for the SDFI as reported to the government accounts in accordance with the standard chart of accounts for state-owned undertakings.

The board confirms that the company accounts have been prepared in accordance with the Accounting Act and Norwegian generally-accepted accounting principles (NGAAP), and provide a true and fair picture of the SDFI's assets, obligations and financial results at 31 December 2016.

ASSESSMENT OF SIGNIFICANT FACTORS

APPROPRIATION AND CAPITAL ACCOUNTS
According to the supplementary letter of assignment dated 23 December 2016, the SDFI's appropriation for investments[3] is NOK 28 billion and for operating income[4] NOK 63.5 billion. The appropriation for interest on the state's capital[5] is NOK 3.9 billion. Operating income in accordance with the cash basis is affected first and foremost by the price of oil and gas and the volume of the SDFI's production sold. Statoil is responsible for marketing and sale of the SDFI's products under standing instructions for marketing and sale.

THE GENERAL LEDGER ACCOUNTS REPORT in accordance with the cash basis presents net reported revenue including financial income of NOK 127.9 billion in 2016, compared with NOK 158.8 billion the previous year. This consists mainly of revenue from the sale of oil and gas. The revenue is particularly influenced by lower oil and gas prices in 2016, as well as lower gas volumes. Expenses reported in the appropriation accounts comprise payments of NOK 27.8 billion as investments and NOK 32.0 billion as operating expenses. This is in addition to payments of financial expenses. Depreciation of fields and facilities amounted to NOK 23.3 billion in 2016, compared with NOK 23.7 billion the previous year. Payments to operations were primarily related to the operation of fields and facilities, processing and transport costs, as well as exploration and field expenses. Payments in 2015 amounted to NOK 28.9 billion related to investments and NOK 34.7 billion related to operations.

THE SDFI ACCOUNTS BASED ON THE ACCOUNTING ACT include a number of significant estimates which are subject to uncertainties and rely on judgements. These e.g. include capitalised exploration costs, estimates of reserves as the basis for depreciation, decommissioning expenses based on estimates for costs to be incurred far into the future, and assessment of impairment charges on tangible fixed assets.

The financial result for 2016 was a net income of NOK 57.4 billion, NOK 31.6 billion lower than in 2015. Net cash flow transferred to the government amounted to NOK 65.9 billion, compared with NOK 93.8 billion the previous year. Significantly lower oil and gas prices in 2016, compared with 2015, impacted both the cash flow and the financial result for the year. The price of oil averaged USD 361 per bbl in 2016, compared with USD 420 the previous

[3] Ch./item 2440.30
[4] Ch./item 5440.24
[5] Ch./item 5440.80

year. The average price of gas was NOK 1.62 per scm in 2016, compared with NOK 2.14 per scm in 2015. Total production amounted to 1 040 000 barrels of oil equivalent (boe) per day, down 3 per cent from production in 2015, primarily due to lower gas production. The high gas production in 2015 was due to shifting gas volumes from 2014 to 2015. Regularity remained good in 2016.

Total operating expenses including exploration costs as well as depreciation and amortisation amounted to NOK 61.5 billion, down about 9 per cent from the previous year. The cost of operating fields, pipelines and onshore facilities came to NOK 14.6 billion, down by about 13 per cent from the previous year. Operating expenses were influenced by depreciation and amortisation costs in 2016 on a few fields. Petoro was a participant in 12 of the 36 exploration wells completed on the Norwegian Shelf in 2016. A total of five new, but small discoveries were made.

Investments in 2016 amounted to NOK 28.3 billion, which was virtually on par with 2015. Production drilling accounts for approximately one-half of the investments. Exploration costs recognised on the balance sheet in 2016 also totalled NOK 1.1 billion.

At the end of 2016, the portfolio's anticipated remaining reserves of oil, condensate, NGL and gas amounted to 5 968 million barrels of oil equivalent (boe). This is down 308 million boe from the end of 2015. The reduction in SDFI portfolio reserves is mainly attributed to production, in addition to the fact that there have been no major development decisions in 2016.

The book value of assets at 31 December 2016 was NOK 241 billion. The assets mainly consist of operating facilities related to field installations, pipelines and onshore facilities, as well as current accounts receivable. The assets have been depreciated by about NOK 6 billion in 2016, primarily as a result of lower price expectations and field-specific incidents. Year-end equity was NOK 153 billion. Future decommissioning obligations are estimated at NOK 67.5 billion.

ADDITIONAL INFORMATION

The Office of the Auditor General (OAG) is the external auditor, and approves the annual accounts for the SDFI. The OAG's report is expected to be ready during the second quarter of 2017. On completing its annual audit, the OAG issues a final audit letter (report) which summarises the conclusion of its audit work.

PricewaterhouseCoopers (PwC) has been engaged by the board to perform a financial audit of the SDFI accounts as part of the company's internal audit function. PwC submits a written report to the board concerning the annual accounts prepared on a cash basis and based on the accounting principles founded on auditing standard RS800 "Special considerations in the auditing of accounts prepared pursuant to a special-purpose framework". PwC's audit work forms the basis for the OAG's review of the annual accounts.

Stavanger, 3 March 2017

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Per Arvid Schøyen
Director

Per-Olaf Hustad
Director

Trude J H Fjeldstad
Director

Ove Skretting
Director elected by employees

Heidi Iren Nes
Director elected by employees

Grethe K Moen
President and CEO

ACCOUNTS ON CASH BASIS, SDFI
Note on accounting principles for the accounts on a cash basis

The annual accounts for the SDFI have been prepared and presented in accordance with detailed guidelines stipulated in the Provisions on Financial Management in Central Government ("the Provisions"). The accounts accord with the requirements in Section 3.4.1 of the Provisions and more detailed provisions in circular R-115 of November 2016 from the Ministry of Finance, with the exceptions that apply for the SDFI.

The presentation of reporting to the appropriation accounts and general ledger accounts is prepared on the basis of Section 3.4.2 of the Provisions, the basic principles for the annual accounts:

a) The accounts shall follow the calendar year
b) The accounts shall include all reported expenses and revenue for the financial year
c) Expenses and revenues shall be recorded in the accounts on a gross basis
d) The accounts shall be prepared in accordance with the cash basis of accounting

The reporting presentations of the appropriation accounts and general ledger accounts are prepared on the basis of the same principles, but are grouped in different charts of accounts. These principles correspond with requirements in Section 3.5 of the Provisions on how enterprises shall report to the government accounts. The item "net reported to appropriation accounts" is identical in both presentations.

Pursuant to the requirements in Section 3.7.1 of the Provisions, the enterprise is affiliated with the government's group account scheme for state-owned companies in Norges Bank.

REPORTING OF THE APPROPRIATION ACCOUNTS

The presentation of reporting to the appropriation accounts comprises an upper section and a lower section, which shows the enterprise's listed balances in the capital accounts. The appropriation reporting presents accounting figures reported by the enterprise to the government accounts. These are posted in accordance with the chapters and items in the appropriation accounts the enterprise has at its disposal. The column "Total allocation" shows what the enterprise has at its disposal in the letter of assignment for each government account (chapter/item). The presentation also shows all financial assets and liabilities entered against the enterprise in the government's capital accounts.

The SDFI receives estimated appropriations. No authorisations have been received or issued to charge from/to chapters/items in other undertakings.

REPORTING TO THE GENERAL LEDGER ACCOUNTS

The general ledger accounts report is formatted with an upper part which shows what has been reported to the government accounts in accordance with the standard chart of accounts for state-owned enterprises and a lower part which presents assets and liabilities included in the open account with the state. The general ledger accounts report presents accounting figures reported to the government accounts in accordance with the standard chart of accounts for state-owned enterprises. The report is not formatted in accordance with the method recommended by the Norwegian Government Agency for Financial Management (DFØ), but incorporates adjustments which reflect special conditions for public-sector enterprises.

ACCOUNTS ON CASH BASIS, SDFI
Appropriation accounts

Presentation of appropriation accounts reporting 31 Dec. 2016 - figures in round NOK

Expenses chapter	Chapter name	Item	Item text	Total allocation	2016 accounts	Overspend (-) and underspend
2440	Expenses	30	Investments	28 000 000 000	27 815 084 217	184 915 783
5440	Expenses	24.02	Operating expenses	31 000 000 000	31 160 202 285	(160 202 285)
5440	Expenses	24.03	Exploration and field development expenses	2 500 000 000	2 478 008 890	21 991 110
5440	Expenses	24.04	Depreciation	23 500 000 000	23 276 647 734	223 352 266
5440	Expenses	24.05	Interest	3 900 000 000	3 805 803 940	94 196 060
Sum utgiftsført				**88 900 000 000**	**88 535 747 066**	**-**

Revenue chapter	Chapter name	Item	Item text	Total allocation	2016 accounts	Excess revenue and lower revenue (-)
5440	Revenue	24.01	Operating revenue	124 400 000 000	127 908 603 522	3 508 603 522
5440	Expenses	30	Depreciation	23 500 000 000	23 276 647 734	(223 352 266)
5440	Expenses	80	Interest on fixed capital	3 900 000 000	3 819 818 714	(80 181 286)
5440	Expenses	85	Interest on open accounts	0	(14 014 774)	(14 014 774)
Total recognised				**151 800 000 000**	**154 991 055 196**	**-**
5440		**24**	**Operating profit**	**63 500 000 000**	**67 187 940 673**	**3 687 940 673**
Net reported to appropriation accounts					**(66 455 308 130)**	

Capital accounts			
0677.03.04693	Settlement account Norges Bank - paid in	119 545 783 889	
0677.03.08710	Settlement account Norges Bank - paid in	17 506 196 547	
0677.04.05015	Settlement account Norges Bank – disbursed	(71 154 814 696)	
	Change in open accounts 2016	558 142 390	
Total recognised		0	

Holdings reported to the capital accounts (31 Dec)

Account	Text	2016	2015	Change
	Open accounts with the Treasury	(3 227 328 534)	(2 669 186 144)	558 142 390

Comment on change in open account from 2015 to 2016
The change is mainly due to higher advance payments and reduced working capital in the licenses.

ACCOUNTS ON CASH BASIS, SDFI
Appropriation accounts

NOTE A Explanation of total allocation

Chapter and item	Transferred from last year	Year's allocations	Total allocation
2440.30		28 000 000 000	28 000 000 000
5440.24.02		31 000 000 000	31 000 000 000
5440.24.03		2 500 000 000	2 500 000 000
5440.24.04		23 500 000 000	23 500 000 000
5440.24.05		3 900 000 000	3 900 000 000
5440.24.01		124 400 000 000	124 400 000 000
5440.30		23 500 000 000	23 500 000 000
5440.80		3 900 000 000	3 900 000 000
5440.85		0	0
5440.24		63 500 000 000	63 500 000 000

NOTE B Explanation for authorisations used and calculation of possible amount to be transferred to next year

Not relevant for the SDFI, which receives estimated appropriations.

ACCOUNTS ON CASH BASIS, SDFI
Capital accounts – specified

SDFI CAPITAL ACCOUNTS 2016 – figures in NOK				
	Items			
	Open account government			3 227 328 534.15
	Fixed assets before impairment		198 012 778 994.54	
	Impairments		(6 294 450 345.71)	
	Fixed asset account		191 718 328 648.83	191 718 328 648.83
Total				**194 945 657 182.98**
	Open account government at 1 Jan. 2016		(2 669 186 144.10)	
	Total expenses	27 815 084 217.34		
	Total revenue	(94 270 392 346.91)		
	Cash flow	(66 455 308 129.57)	(66 455 308 129.57)	
	Net transfer to the government		65 897 165 739.52	
Open account government at 31 Dec. 2016			**(3 227 328 534.15)**	**(3 227 328 534.15)**
	Fixed assets 1 Jan. 2016		(193 474 342 511.43)	
	Investments for the year		(27 815 084 217.34)	
	Depreciation for the year		23 276 647 734.23	
	Impairments		6 294 450 345.71	
	Fixed assets 31 Dec. 2016		(191 718 328 648.83)	(191 718 328 648.83)
Total				**(194 945 657 182.98)**

Stavanger, 3 March 2017

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Per Arvid Schøyen
Director

Per-Olaf Hustad
Director

Trude J H Fjeldstad
Director

Ove Skretting
Director elected by employees

Heidi Iren Nes
Director elected by employees

Grethe K Moen
President and CEO

ACCOUNTS ON CASH BASIS, SDFI
General ledger accounts report

Specification of the general ledger accounts report 31 Dec. 2016		
	2016	**2015**
Operating revenues reported to the appropriation accounts		
Sales and lease payments received	116 916 966 237.23	148 801 222 540.28
Other amounts paid in	11 518 725 781.11	9 013 754 670.74
Total paid in from operations	**128 435 692 018.34**	**157 814 977 211.02**
Operating expenses reported to the appropriation accounts		
Depreciation	23 276 647 734.23	23 726 240 273.99
Other disbursements for operations	31 997 464 222.10	34 664 327 354.79
Total disbursed to operations	55 274 111 956.33	58 390 567 628.78
Net reported operating expenses	**(73 161 580 062.01)**	**(99 424 409 582.24)**
Investment and financial income reported to the appropriation accounts		
Financial income paid in	(527 088 496.64)	1 019 959 029.06
Total investment and financial income	**(527 088 496.64)**	**1 019 959 029.06**
Investment and financial expenses reported to the appropriation accounts		
Disbursed for investments	27 725 735 797.99	28 384 404 067.08
Disbursed for share purchases	90 825 759.65	540 889 236.56
Disbursed for financial expenses	5 445 073 552.52	6 619 854 992.14
Total investment and financial expenses	**33 261 635 110.16**	**35 545 148 295.78**
Net reported investment and financial expenses	**33 788 723 606.80**	**34 525 189 266.72**
Revenues and expenses reported in joint chapters		
Depreciation (see Ch. 5440 revenue)	(23 276 647 734.23)	(23 726 240 273.99)
Interest on the government's capital and open accounts with the Treasury (see Ch. 5440 revenue)	(3 805 803 940.13)	(4 091 743 742.47)
Net reported expenses under joint chapters	**(27 082 451 674.36)**	**(27 817 984 016.46)**
Net expenses reported to the appropriation accounts	**(66 455 308 129.57)**	**(92 717 204 331.98)**

ACCOUNTS ON CASH BASIS, SDFI
General ledger accounts report

Overview of open accounts with the Treasury

Assets and liabilities*	**2016**	**2015**
O/U call	2 296 729 921.06	(1 673 092 256.27)
APR nonop	(331 626 638.02)	911 833 471.31
AR Nonop	(417 271 621.26)	(157 892 878.88)
Inventory nonop	(250 731 281.73)	(573 579 172.77)
Prep exp nonop	17 232 617.98	(79 431 088.36)
Working cap - nonop	(758 899 585.52)	669 681 601.04
VAT	2 708 977.61	(19 444 510.80)
Agio	(0.07)	(0.03)
Total open accounts with the Treasury	**558 142 390.05**	**(921 924 834.76)**

*)
O/U call - prepayments calculated net of JV cash call and billing
AP nonop - accounts payable from JV billing
AR nonop - accounts receivable from JV billing
Inventory nonop - inventory from JV billing
Prep exp nonop - prepayments from JV billing
Working cap - nonop - primarily accruals from JV billing
VAT - balance of VAT payments
Agio - rounding-off related to currency translation (agio/disagio)

Comment on change in open account from 2015 to 2016:
The change primarily reflects changes in provisions and prepayments in the licences.

ACCOUNTS BASED ON ACCOUNTING ACT
Income statement pursuant to NGAAP

All figures in NOK million	Note	2016	2015
OPERATING REVENUE			
Operating revenue	3, 4, 9, 11	**121 224**	157 753
Total operating revenue		**121 224**	**157 753**
OPERATING EXPENSES			
Exploration expenses		**1 371**	1 469
Production expenses	5	**14 616**	16 709
Transport and processing expenses	5	**8 955**	9 742
Depreciation, amortisation and impairment	2	**30 652**	34 506
Other operating expenses	5, 9, 10	**5 867**	5 337
Total operating expenses		**61 460**	**67 762**
Operating profit		**59 765**	**89 990**
FINANCIAL ITEMS			
Finance income		**5 057**	11 792
Financial expenses	12	**7 396**	12 783
Net financial items	8	**(2 339)**	**(991)**
PROFIT FOR THE YEAR	19	**57 426**	**88 999**

ACCOUNTS BASED ON ACCOUNTING ACT
SDFI balance sheet at 31 December

All figures in NOK million	Note	2016	2015
Intangible assets	2	**72**	76
Tangible fixed assets	1, 2, 18, 21	**220 996**	225 516
Financial assets	2, 11	**362**	280
Fixed assets		**221 430**	**225 872**
Inventory	6	**2 737**	4 287
Accounts receivable	9, 10	**16 839**	17 870
Bank deposits		**149**	84
Current assets		**19 726**	**22 241**
TOTAL ASSETS		**241 156**	**248 112**
Equity at 1 January		**161 524**	166 165
Paid from/(to) the government during the year		**(65 897)**	(93 639)
Net income		**57 426**	88 999
Equity	19	**153 053**	**161 524**
Long-term decommissioning liabilities	12, 18	**67 546**	70 129
Other long-term liabilities	13	**7 268**	7 390
Long-term liabilities		**74 814**	**77 519**
Accounts payable		**2 411**	1 967
Other current liabilities	9, 14, 15	**10 878**	7 101
Current liabilities		**13 289**	**9 069**
TOTAL EQUITY AND LIABILITIES		**241 156**	**248 112**

Stavanger, 3 March 2017

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Director elected by employees

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Director elected by employees

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President and CEO

ACCOUNTS BASED ON ACCOUNTING ACT
SDFI cash flow statement

All figures in NOK million	**Notes**	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from operations	**3, 4**	**127 828**	158 782
Cash disbursements from operations	**5**	**(33 634)**	(36 993)
Change in working capital in the licences		**1 807**	(802)
Change over/under call in the licenses		**(2 297)**	1 673
Net interest payments		**75**	(97)
Cash flows from operating activities		**93 778**	**122 563**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments	**2,11**	**(27 815)**	(28 955)
Cash flow from investment activities		**(27 815)**	**(28 955)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net transfer to the government		**(65 897)**	(93 639)
Cash flow from financing activities		**(65 897)**	**(93 639)**
Increase in bank deposits of apportioned liability partnerships (DA)		**66**	(31)

NOTES TO THE ACCOUNTS BASED ON ACCOUNTING

GENERAL

As of 31 December 2016, Petoro acted as licensee on behalf of the SDFI for interests in 180 production licences and 14 joint ventures for pipelines and terminals, including the company's management of commercial interests in Mongstad Terminal DA and Vestprosess DA, and the shares in Norsea Gas AS and Norpipe Oil AS. The SDFI is also entitled to potential profits in four production licences with net profit agreements. Petoro has the same rights and obligations as other licensees, and manages the SDFI on the NCS on the basis of sound business principles.

Administration of the portfolio is subject to the Regulations on Financial Management in Central Government. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act. The company maintains separate accounts for all transactions relating to its participating interests, so that revenue and costs from production licences and joint ventures are kept separate from operation of the company. Cash flow from the portfolio is transferred to the central government's own accounts with Norges Bank. Petoro prepares separate annual accounts for the SDFI, with an overview of the participating interests managed by the company and associated resource accounting.

ACCOUNTING PRINCIPLES FOR THE COMPANY ACCOUNTS

The principal difference between the profit based on the Accounting Act and on a cash basis is that the latter includes cash payment for investments and operating expenses. Adjustments are also made for accruals of income and expenses on a cash basis, with a corresponding adjustment of receivables and creditors in the balance sheet. Realised currency loss/gain related to operating expenses and income is classified on the cash basis as operating expenses and income. The accounts based on the Accounting Act present realised currency loss/gain as financial expenses/income, and these items are accordingly not included in the operating profit. Differences between the accounts prepared in accordance with the Accounting Act (NGAAP) and on a cash basis are indicated in the notes below.

The SDFI's interests in private limited companies and apportioned liability partnerships relating to the production of petroleum are included under the respective items in the income statement and recorded in the balance sheet according to the proportionate consolidation method for the SDFI's share of income, expenses, assets and liabilities. The same applies to licence interests in oil and gas activities, including pipeline transport, which are not organised as companies.

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

Dividend from the shares in Norsea Gas AS and Norpipe Oil AS is recorded as a financial item. In addition, revenue from production licences with net profit agreements (concerns licences awarded in the second licensing round) is recorded as other income.

The functional currency is the Norwegian krone.

Revenue recognition principles

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

Revenue from ownership in transport and process facilities is recorded when the service is rendered.

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

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

Purchases of third-party gas for resale and gas for inventory are recorded gross as operating expenses. The corresponding revenue is included in sales income.

Purchases and sales between fields and/or transport systems

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

Foreign currencies

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

Classification of assets and liabilities
Assets intended for permanent ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables due within one year are classified as current assets. Equivalent criteria are applied for classification of current and long-term liabilities.

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

Exploration and development costs
Petoro employs the successful efforts method to record exploration costs for SDFI oil and gas operations. This means that costs related to geological and geophysical surveying are expensed. However, expenses linked to the drilling of exploration wells are recognised in the balance sheet in anticipation of evaluation. Such costs are expensed if the evaluation determines that the discovery is not commercially viable. Considerable time can elapse between the drilling of a well and a final development decision. Capitalised exploration well expenses are accordingly assessed quarterly to determine whether sufficient progress is being made in the projects so that the criteria for capitalisation continue to be met. Dry wells or those where progress is insufficient are expensed.

Expenses linked to development, including wells, platforms and equipment, are capitalised. Costs for operational preparations are expensed on a continuous basis.

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

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

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

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

Petoro determines the reserve base for depreciation purposes on the basis of estimated remaining reserves per field, which are adjusted by a factor calculated as the ratio between the Norwegian Petroleum Directorate's total of low reserves in production and the sum of basis reserves in production. This is done for both oil and gas reserves. This reserve adjustment totalled 76.5 per cent of expected remaining oil reserves in 2016, while the corresponding figure for gas reserves was 86.3 per cent. The reserve estimates are revised annually, and any changes affect only future depreciation expenses.

Ordinary depreciation for onshore facilities and transport systems as well as riser platforms used by multiple fields, is calculated on a straight-line basis over the remaining licence period at 31 December.

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

Intangible assets
Intangible fixed assets are carried at their fair value at the time of acquisition. They are depreciated over the expected contract period or their expected economic lifetime, and any impairment charges are deducted.

Impairment
When the accounts are prepared, tangible fixed assets and intangible assets are reviewed for indications of a decline in value. Oil and gas fields or installations are normally treated as separate entities for the purposes of assessing impairment. Should the recoverable value be lower than the book value, and this decline is not expected to be temporary, the asset is written down to its recoverable value, which is the higher of the asset's fair value less sales costs and its utility value. The utility value is calculated using discounted cash flows, which are discounted using a discount rate based on the weighted average cost of capital (WACC) calculated for the company.

The impairment charge will be reversed if the conditions for writing down the asset no longer apply.

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

Abandonment and decommissioning expenses
Under the terms of a licence, the authorities can require the licensees to remove offshore installations when their production life comes to an end. The estimated fair value of obligations for decommissioning and removal is recorded in the accounts in the period when the liability arises, normally when wells are drilled and installations are built and ready for use. The obligation is capitalised as part of the acquisition cost of wells and installations, and depreciated therewith. Changes to estimated cessation and decommissioning costs are recorded and capitalised in the same manner and depreciated over the remaining economic life of the assets. The discount rate applied

when calculating the fair value of a decommissioning liability is based on the interest rate for Norwegian government bonds with maturity matching that of the decommissioning obligation.

Change in the obligations relating to time value, the effect of the decommissioning date having come one year closer, is recorded as a financial expense.

Inventories
Inventories of spare parts and operating materials are valued at the lower of acquisition cost according to the FIFO principle, or net realisable value. Spare parts of insignificant value for use in connection with operating oil or gas fields are expensed at the time of acquisition. Spare parts of significant value are recorded as inventory at the time of acquisition and expensed when they are used in operations. Petoro takes a point of departure in the operators' assessments made as regards which materials should be capitalised and which expensed.

Accounts receivable -debtors
Accounts receivable are recognised at face value in the balance sheet less a provision for expected loss. Loss allocations are made on the basis of individual evaluations of each receivable.

Bank deposits
Bank deposits include cash, bank deposits and other monetary instruments with a maturity of less than three months from the date of purchase. Cash flows from oil and gas sales are transferred to the government on a daily basis. Booked bank deposits thus include the SDFI's share of bank deposits in companies with apportioned liability in which the SDFI has an interest, and in which the proportionate consolidation method is used.

Current liabilities
Current liabilities are recognised at face value.

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

Financial instruments
The SDFI is covered by the state's overall risk management. Financial instruments are used as part of Statoil's optimisation of gas sales.

Financial instruments are valued according to the lowest value principle, unless stated criteria have been met. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are recorded as income if all the following criteria are met: the instrument is classified as a current asset, is part of a trading portfolio as regards resale, is traded on an exchange, authorised marketplace or similar regulated market abroad, and has diverse ownership and liquidity. Portfolio valuations are used as a basis where this, based on the financial instruments, is considered to be the most sensible approach, and where the portfolio is balanced in volume and time. Eliminations are carried out where legal rights exist to offset unrealised losses and gains, or where deposits/margins that correspond with the market value of the derivatives have been paid and capitalised. Gains are otherwise recognised upon realisation.

Financial instruments that are not current assets follow the valuation rules for fixed assets.

Contingent liabilities
Probable and quantifiable losses are expensed. Contingent assets are not included unless the asset is reasonably certain to be settled.

NOTE 1 ASSET TRANSFERS AND CHANGES

In 2016, the Ministry of Petroleum and Energy awarded 22 production licenses with SDFI participation. In connection with Awards in Predefined Areas 2015 (APA 2015) on 19 January 2016, 13 production licenses were awarded with SDFI participation. Three of these are additional acreage for existing production licenses. Five production licenses with SDFI participation were awarded in the 23rd licensing round on 18 May 2016. Over the course of 2016, four production licenses were carved out from existing licences with SDFI participation, and 17 production licenses were relinquished. In January 2017, the Ministry of Petroleum and Energy completed its Awards in Predefined Areas (APA 2016), where an additional 13 production licenses were awarded with SDFI participation.

As of 1 January 2016, Petoro also became a licensee in the Dvalin license (PL435) by taking over a 20% participating interest from OMV. The SDFI share in PL435 increased as of 1 January 2017 by 15% through take-over of a 5% participating interest from Edison, as well as entry into a 10% participating interest as a result of Maersk withdrawing from the license.

NOTE 2 SPECIFICATION OF FIXED ASSETS

All figures in NOK million	Book value at 31 Dec 15	Historical cost at 1 Jan 16	Accumulated depreciation 1 Jan 16	Addition 2016	Impair-ment 2016	Disposal 2016	Transfers 2016	Depreciation 2016	Book value at 31 Dec 15
Fields under development	11 092	11 092	0	8 065	(2 654)	0	122	0	16 625
Fields in operation	174 439	512 558	(338 119)	16 574	(1 891)	(853)	366	(21 812)	166 791
Pipelines and terminals	35 222	71 538	(36 316)	1 378	(1 855)	0	0	(2 437)	32 307
Capitalised exploration expenses	4 763	4 763	0	1 541	0	(542)	(488)	0	5 273
Total tangible fixed assets	**225 516**	**599 951**	**(374 435)**	**27 558**	**(6 400)**	**(1 396)**	**0**	**(24 249)**	**220 996**
Intangible assets	76	287	(211)	0	0	0	0	(4)	72
Financial fixed assets	280	280	0	82	0	0	0	0	362
Total fixed assets (NGAAP)	**225 872**	**600 519**	**(374 647)**	**27 639**	**(6 400)**	**(1 396)**	**0**	**(24 253)**	**221 430**
Translation to cash basis	(32 298)	(70 723)	38 325	1 068	(7 187)	7 795	0	1 009	(29 712)
Total fixed assets on cash basis	**193 474**	**529 796**	**(336 321)**	**28 708**	**(13 587)**	**6 400**	**0**	**(23 244)**	**191 718**

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

Significant impairment was undertaken in 2016 for individual assets on the basis of lower long-term price assumptions and factors specific to facilities and fields. The utility value is calculated using discounted future cash flows, which are discounted using a discount rate based on the weighted average cost of capital (WACC). Impairment tests are based on Petoro's best estimate of cash flows (market prices, production, costs and exchange rate assumptions). When the utility value is assessed to be lower than the book value, the assets are written down to their utility value.

Intangible fixed assets include investments in further development of Etzel Gas Storage and a lesser small amount in Åsgard Transport.

Financial fixed assets of NOK 362 million include the following:

- Capacity rights for regasification of LNG at the Cove Point terminal in the US, with an associated agreement on the sale of LNG from Snøhvit to Statoil Natural Gas LLC (SNG) in the US. This activity is assessed as an investment in an associate and is recorded in accordance with the equity method. See also note 11. The SDFI participates in SNG under the marketing and sale instruction with regard to activities related to the marketing and sale of the government's LNG from Snøhvit. Cash flows from SNG are settled continuously on a monthly basis in connection with the purchase and sale of LNG.
- A total book value of NOK 3.98 million is recorded for shareholdings in Norsea Gas AS and Norpipe Oil AS.

NOTE 3 SPECIFICATION OF OPERATING REVENUE BY AREA

All figures in NOK million	**2016**	**2015**
License	**122 869**	150 690
Market	**3 062**	15 285
Net profit agreements	**8**	567
Elimination internal sales	**(4 715)**	(4 600)
Total operating revenue (NGAAP)	**121 224**	**161 942**
Conversion to cash basis	**6 684**	(3 107)
Total cash basis	**127 909**	**158 835**

Market primarily comprises revenue from the resale of gas, tariff revenues, unrealised losses and revenue from trading inventory. Trading inventory mainly relates to physical volumes. Gross reporting as of 2016 entails that purchases in trading inventory are not netted against operating revenues. Figures for 2015 have been corrected correspondingly in order to compare years.

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	**2016**	**2015**
Crude oil, NGL and condensate	**49 322**	59 436
Gas	**60 927**	90 286
Transport and processing revenue	**10 597**	11 113
Other revenue	**369**	540
Net profit agreements	**8**	567
Total operating revenue (NGAAP)	**121 224**	**161 942**
Conversion to cash basis	**6 684**	(2 402)
Total cash basis	**127 909**	**158 835**

All crude oil, NGL and condensate from the SDFI are sold to Statoil, and all gas is sold by Statoil (under the sale instructions issued to Statoil) at the SDFI's expense and risk. Virtually all gas is sold to customers in Europe under bilateral contracts, or over the trading desk. About 30 per cent of the annual volumes is purchased by the four largest customers. Gross reporting as of 2016 entails that purchases in trading inventory are not netted against operating revenues. Figures for 2015 have been corrected correspondingly in order to compare years.

NOTE 5 SPECIFICATION OF PRODUCTION AND OTHER OPERATING EXPENSES BY AREA

All figures in NOK million	2016	2015
PRODUCTION EXPENSES		
License	**14 060**	15 264
Other infrastructure	**555**	1 445
Total production expenses	**14 616**	**16 709**
TRANSPORT AND PROCESSING EXPENSES		
License	**13 470**	13 500
Market	**200**	842
Elimination internal purchases	**(4 715)**	(4 600)
Total transport and processing expenses	**8 955**	**9 742**
OTHER OPERATING EXPENSES		
Market	**5 866**	9 526
Total other operating expenses	**5 866**	**9 526**
Total operating expenses	**29 437**	**35 976**
Conversion to cash basis	1 723	(754)
Total cash basis	**31 160**	**35 222**

Market primarily comprises the cost of purchasing gas for resale and purchases for inventory to optimise gas sales. Gross reporting as of 2016 entails that purchases in trading inventory are not netted against operating revenues, but are rather recorded gross as other operating expenses under Market. Figures for 2015 have been corrected correspondingly in order to compare years.

NOTE 6 INVENTORIES

All figures in NOK million	2016	2015
Petroleum products	**1 072**	2 370
Spare parts	**1 665**	1 916
Total inventories	**2 737**	**4 287**

Petroleum products comprise LNG and natural gas. The SDFI does not hold inventories of crude oil, as the difference between produced and sold volumes is included in over/underlift.

Not relevant to the accounts on a cash basis.

NOTE 7 INTEREST INCLUDED IN THE SDFI APPROPRIATION ACCOUNTS

Interest on the state's fixed capital is incorporated in the accounts on a cash basis. Interest amounts are calculated in accordance with the requirements in the 2016 letter of assignment to Petoro from the Ministry of Petroleum and Energy.

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

The accounts on a cash basis include an open account with the government which represents the difference between charging to chapter/item in the appropriation accounts and changes in liquidity.

Interest on the open account with the government is calculated in accordance with the 2016 letter of assignment to Petoro from the Ministry of Petroleum and Energy. The interest rate applied is linked to the interest rate on short-term government securities and corresponds to the interest rate applied to short-term loans to the Treasury, calculated on the basis of the average monthly balance in the open account with the government.

Not relevant to the accounts based on the Accounting Act (NGAAP).

NOTE 8 NET FINANCIAL ITEMS

All figures in NOK million	**2016**	**2015**
Interest income	**81**	53
Other financial revenue	**72**	42
Currency gain - realised	**4 904**	6 778
Currency loss - realised	**(4 091)**	(5 288)
Currency loss/gain - unrealised	**(1 797)**	(547)
Interest expenses	**(122)**	(397)
Interest on decommissioning liability	**(1 386)**	(1 632)
Net financial items	**(2 339)**	**(991)**

Not relevant to the accounts on a cash basis. Comparative figures for 2015 have been converted to reflect unrealised currency loss/gain separately.

NOTE 9 CLOSE ASSOCIATES

The state, represented by the Ministry of Petroleum and Energy, owns 67 per cent of Statoil and 100 per cent of Gassco. These companies are classified as close associates of the SDFI. Petoro has significant equity interests in pipelines and onshore facilities operated by Gassco.
Statoil is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL from the SDFI to Statoil totalled NOK 49.3 billion (corresponding to 147 million boe) for 2016, compared with NOK 59.4 billion (152 million boe) for 2015.
Statoil markets and sells the government's natural gas at the government's expense and risk, but in Statoil's name and along with its own production. The government receives the market value for these sales. The government sold dry gas directly to Statoil at a value of NOK 369 million in 2016, compared with NOK 550 million in 2015. Statoil is reimbursed by the government for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for resale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 12.6 billion in 2016, compared with NOK 15.1 billion in 2015. Open accounts with Statoil totalled NOK 5.2 billion in favour of the SDFI, converted at the exchange rate on the balance sheet date, compared with NOK 4.2 billion in 2015.

Pursuant to the marketing and sale instruction, the SDFI also participates with a financial interest in Statoil Natural Gas LLC (SNG) in the US. Cash flows from SNG are settled continuously on a monthly basis in connection with the purchase and sale of LNG. The investment is recorded in accordance with the equity method, and is covered in more detail in Note 11.

Open accounts and transactions relating to activities in the production licences are not included in the above-mentioned amounts. Hence, no information has been included with regard to open accounts and transactions relating to licence activities with Statoil and Gassco. The SDFI participates as a partner in production licences on the NCS. These are accounted for in accordance with the proportionate consolidation method.

NOTE 10 ACCOUNTS RECEIVABLE

Accounts receivable and other receivables are recorded at nominal value in NGAAP following deduction for foreseeable losses.

NOTE 11 INVESTMENTS IN ASSOCIATED COMPANIES

As of 1 January 2009, the SDFI's participation in Statoil Natural Gas LLC (SNG) in the US has been treated as an investment in an associate, which is recognised in accordance with the equity method. At the time it was established in 2003, the investment was recorded at the original acquisition cost of NOK 798 million.

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

Statoil consolidates its holding in SNG with other US operations, and uses SNG as a marketing company for gas sales in the American market. The SDFI participates in SNG under the marketing and sale instruction with regard to activities related to the marketing and sale of the government's LNG from Snøhvit. Cash flows from SNG are settled continuously on a monthly basis in connection with the purchase and sale of LNG.

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

All figures in NOK million	**2016**	**2015**
Opening balance financial fixed assets (adjusted share)	**280**	101
Additions	**82**	180
Closing balance financial fixed assets	**362**	**280**

NOTE 12 SHUT-DOWN/DECOMMISSIONING

The liability comprises future abandonment and decommissioning of oil and gas installations. Norwegian authority requirements and the Oslo-Paris (OSPAR) Convention for the Protection of the Marine Environment of the North-East Atlantic provide the basis for determining the extent of the decommissioning liability.

The liability is calculated on the basis of estimates from the respective operators. A number of factors underlying the decommissioning estimate are associated with significant uncertainty, including assumptions for decommissioning and estimating methods, technology and the decommissioning date. The latter is expected largely to occur one or two years after cessation of production. See Note 23.

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

The estimate for decommissioning costs has been reduced by NOK 2.7 billion as a result of changes into future estimated costs from operators and alterations to cessation and decommissioning dates. This change includes reduced estimates for plugging and abandoning wells and for shutting down installations.

All figures in NOK million	**2016**	**2015**
Liability at 1 Jan.	**70 129**	77 520
New liabilities/disposals	**0**	0
Actual decommissioning	**(584)**	(1 355)
Changes to estimates	**(2 717)**	(9 312)
Changes to discount rates	**(666)**	1 591
Changes to participating interests	**(2)**	52
Interest expense	**1 386**	1 632
Liability at 31 Dec	**67 546**	**70 129**

NOK 584 million for cessation and decommissioning accrued in 2016, and is included in the accounts on a cash basis.

NOTE 13 OTHER LONG-TERM LIABILITIES

Other long-term liabilities pursuant to the NGAAP comprise:
- debt related to financial leasing of three LNG carriers delivered in 2006
- debt related to the final settlement of commercial arrangements concerning the move to company-based gas sales
- income not yet earned in anticipated repayment of profit shares in licenses with net profit agreements

Three financial leasing contracts were entered into in 2006 on the delivery of three ships to transport LNG from Snøhvit. These contracts run for 20 years, with two options for five-year extensions. The future discounted minimum payment for financial leasing totals NOK 1 357 million. Of this, NOK 199 million falls due for payment in 2017, NOK 799 million in the subsequent four years and the residual NOK 377 million after 2022.

Repayment of previously paid-up profit shares in licences with net profit agreements is included in long-term liabilities and amounts to NOK 4 972 million.
Other long-term liabilities total NOK 921 million, of which NOK 303 million falls due within five years from the balance sheet date.

Not relevant to the accounts on a cash basis.

NOTE 14 OTHER CURRENT LIABILITIES

Other current liabilities pursuant to the NGAAP falling due in 2017 consist mainly of:
- provisions for accrued unpaid costs at December, adjusted for cash calls in December
- other provisions for accrued unpaid costs not included in the accounts received from operators

Not relevant to the accounts on a cash basis.

NOTE 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Only limited use is made of financial instruments (derivatives) to manage risk in the SDFI portfolio. This is primarily because the SDFI is owned by the state and is accordingly included in the government's overall risk management. The SDFI does not have significant interest-bearing debt, and sells primarily oil, gas and NGL at current prices. Instruments used to manage price risk for sales at fixed prices or for deferred gas production relate to forwards and futures. At 31 December 2016, the market value of the financial instruments was NOK 277 million in assets and NOK 4 899 million in liabilities. The comparable figures at the end of 2015 were NOK 3 759 million and NOK 331 million respectively. These figures include the market value of listed futures and unlisted instruments. The market value of built-in derivatives related to end-user customers in continental Europe. This amounted to NOK 199 million in assets and NOK 83 million in liabilities in 2016. The corresponding figures for 2015 were NOK 918 million in assets. Net unrealized loss on outstanding positions as of 31 December 2016 are carried to expense.

Price risk
The SDFI is exposed to fluctuations in oil and gas prices in the global market. Statoil purchases all oil, NGL and condensate from the SDFI at market-based prices. SDFI revenue from gas sales to end users is the price actually obtained. Based on the arrangement relating to the marketing and sale instruction along with the SDFI's participation in the government's overall risk management, only limited use is made of financial instruments (derivatives). They are primarily employed to manage price risk for sales at fixed prices or for deferred gas production to counteract fluctuations in profit and loss owing to variations in commodity prices.

Currency risk
The majority of the SDFI's revenue from the sale of oil and gas is invoiced in USD, EUR or GBP. Part of its operating expenses and investments are also billed in equivalent currencies. When converting to NOK, currency fluctuations will affect the SDFI's income statement and balance sheet. The SDFI does not utilise currency hedging in relation to future sales of the SDFI's petroleum, and its exposure in the balance sheet at 31 December 2016 was largely related to one month's outstanding revenue.

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

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

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

NOTE 16 LEASES/CONTRACTUAL LIABILITIES

All figures in NOK million	Leases	Transport capacity and other liabilities
2017	6 168	2 155
2018	4 819	1 822
2019	4 207	1 662
2020	3 505	1 544
2021	2 798	1 281
Beyond	3 381	5 813

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

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

Other liabilities
In connection with the award of licences to explore for and produce petroleum, licensees may be required to undertake to drill a certain number of wells. Licensees are also committed to undertake exploration activities through approved budgets and work programmes. Petoro was committed at year-end to participate in 12 wells with an expected cost to the SDFI in 2017 of NOK 530 million.

The SDFI has also accepted contractual liabilities relating to investments in new and existing fields. Overall, this amounts to NOK 11.5 billion for 2017 and NOK 14.2 billion for subsequent periods, totalling NOK 25.7 billion. Through approved budgets and work programmes, the SDFI was also committed to operating and investment expenses for 2017. The mentioned liabilities for 2017 are included in this total.

In connection with the sale of the SDFI's oil and gas, Statoil has issued guarantees to suppliers and owners of transport infrastructure, as well as in connection with operations in the US, the UK and continental Europe. Guarantees issued in connection with trading operations are provided as security for lack of financial settlement. In total, the guarantees amount to NOK 200 million for the SDFI's share.

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

Not relevant to the accounts on a cash basis.

NOTE 17 OTHER LIABILITIES

The SDFI could be affected by possible legal actions and disputes as a participant in production licences, pipelines and onshore facilities, and in the joint sale of the SDFI's gas together with Statoil. The final scope of the SDFI's liabilities or assets associated with such disputes and claims cannot be reliably estimated at this time. The SDFI's financial standing is not expected to be significantly impacted by the outcome of such disputes. Provisions have been made in the accounts for issues where a negative outcome for the SDFI portfolio is thought to be more likely than not.

Not relevant to the accounts on a cash basis.

NOTE 18 SIGNIFICANT ESTIMATES

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

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

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

Substantial investments in tangible fixed assets have been made in the SDFI portfolio. Each time the accounts are made up, these are reviewed for indications of a decline in value. The assessment of whether an asset must be written down is primarily based on judgements and assumptions about future market prices.

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

Not relevant to the accounts on a cash basis.

NOTE 19 EQUITY

All figures in NOK million	**2016**	**2015**
Equity at 1 Jan	**161 524**	166 165
Net income	**57 426**	88 999
Cash transfers to the government	**(65 897)**	(93 639)
Equity at 31 Dec	**153 053**	**161 524**

Not relevant to the accounts on a cash basis.

NOTE 20 AUDITORS

The SDFI is subject to the Appropriations Regulations, as well as the Regulations and Provisions on Financial Management in Central Government. In accordance with the Act relating to the Office of the Auditor General (OAG) of 7 May 2004, the OAG is the external auditor for the SDFI. The Auditor General issues a final audit letter (report) concerning the SDFI accounts and budget, which is expected to be published during the second quarter of 2017.

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

NOTE 21 EXPECTED REMAINING OIL AND GAS RESERVES – UNAUDITED

	2016		2015		2014		2013	
Oil* in mill bbl Gas in bn scm	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**
Expected reserves at 1 Jan	1599	743	1318	767	1395	799	1458	821
Corrections for earlier years**	(3)	(1)	(10)					
Change in estimates	18	(1)	17	7	68	1	41	6
Extensions and discoveries	1	0	367	2	4	1	12	3
Improved recovery	20	1	57	4	0	0	35	5
Purchase of reserves	2	6						
Sale of reserves								
Production	(150)	(37)	(150)	(38)	(148)	(34)	(151)	(36)
Expected reserves at 31 Dec	**1489**	**712**	**1599**	**743**	**1318**	**767**	**1395**	**799**

* Oil includes NGL and condensate.
** The correction is due to individual fields reporting negative reserves. Production is measured exactly, whereas remaining reserves are estimates.

At the end of 2016, the portfolio's anticipated remaining reserves of oil, condensate, NGL and gas amounted to 5968 million barrels of oil equivalent (boe). This is down 308 million boe from the end of 2015. An overall 82 million boe were added to reserves in 2016. The growth is mainly associated with the purchase of the Dvalin field as well as improved recovery in existing fields in the SDFI portfolio in 2016. At the same time, adjustments were made on some fields.

A total of 381 million boe were produced in 2016, giving a reserve replacement rate of 22 per cent for the year. The corresponding rate in 2015 was 133 per cent.

NOTE 22 RESEARCH AND DEVELOPMENT

Petoro contributes to research and development (R&D) through the SDFI meeting its share of these costs in the production licences. NOK 546 million was expensed by the SDFI for R&D in 2016 as regards charges from the operators during the year.

NOTE 23 SDFI OVERVIEW OF INTERESTS

Production licence	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)
018	5.00000	5.00000
018 B	5.00000	5.00000
018 C	5.00000	5.00000
018 DS	5.00000	5.00000
028 C	30.00000	30.00000
034	40.00000	40.00000
036 BS	20.00000	20.00000
037	30.00000	30.00000
037 B	30.00000	30.00000
037 E	30.00000	30.00000
038	30.00000	30.00000
038 C	30.00000	30.00000
038 D	30.00000	30.00000
038 E	-	30.00000
040	30.00000	30.00000
043	30.00000	30.00000
043 BS	30.00000	30.00000
050	30.00000	30.00000
050 B	30.00000	30.00000
050 C	30.00000	30.00000
050 D	30.00000	30.00000
050 DS	30.00000	30.00000
050 ES	30.00000	30.00000
050 FS	30.00000	30.00000
050 GS	30.00000	30.00000
050 HS	30.00000	30.00000
050 IS	30.00000	-
052	37.00000	37.00000
053	33.60000	33.60000
054	40.80000	40.80000
055 C	33.60000	33.60000
057	30.00000	30.00000
062	19.95000	19.95000
064	30.00000	30.00000
074	19.95000	19.95000
074 B	19.95000	19.95000
077	30.00000	30.00000
078	30.00000	30.00000
079	33.60000	33.60000
085	62.91866	62.91866
085 B	62.91866	62.91866
085 C	56.00000	56.00000
089	30.00000	30.00000
093	47.88000	47.88000
093 B	47.88000	47.88000
093 C	47.88000	47.88000
093 D	47.88000	47.88000

Production licence	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)
093 E	47.88000	47.88000
094	14.95000	14.95000
094 B	35.69000	35.69000
095	59.00000	59.00000
097	30.00000	30.00000
099	30.00000	30.00000
100	30.00000	30.00000
102	30.00000	30.00000
102 C	30.00000	30.00000
102 D	30.00000	30.00000
102 E	30.00000	30.00000
102 F	30.00000	30.00000
102 G	30.00000	30.00000
104	33.60000	33.60000
104 B	33.60000	33.60000
107 B	7.50000	7.50000
107 D	7.50000	7.50000
110	30.00000	30.00000
110 B	30.00000	30.00000
120	16.93548	16.93548
120 B	16.93548	16.93548
124	27.09000	27.09000
128	24.54546	24.54546
128 B	54.00000	54.00000
128 D	24.54546	-
134	13.55000	13.55000
152	30.00000	30.00000
153	30.00000	30.00000
153 B	30.00000	30.00000
158	47.88000	47.88000
169	30.00000	30.00000
169 B1	37.50000	37.50000
169 B2	30.00000	30.00000
169 C	50.00000	50.00000
171 B	33.60000	33.60000
176	47.88000	47.88000
190	40.00000	40.00000
190 B	-	40.00000
193	30.00000	30.00000
193 B	30.00000	30.00000
193 C	30.00000	30.00000
193 D	30.00000	30.00000
193 E	30.00000	30.00000
195	35.00000	35.00000
195 B	35.00000	35.00000
199	27.00000	27.00000
208	30.00000	30.00000
209	35.00000	35.00000

Production licence	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)
237	35.69000	35.69000
248	40.00000	40.00000
248 B	40.00000	40.00000
248 C	40.00000	40.00000
248 D	40.00000	40.00000
248 E	40.00000	40.00000
248 F	40.00000	40.00000
248 GS	40.00000	-
248 HS	40.00000	-
250	45.00000	45.00000
255	30.00000	30.00000
255 B	30.00000	-
263 C	19.95000	19.95000
265	30.00000	30.00000
275	5.00000	5.00000
277	30.00000	30.00000
309 C	33.60000	33.60000
318	20.00000	20.00000
318 B	20.00000	20.00000
318 C	20.00000	20.00000
327	20.00000	20.00000
327 B	20.00000	20.00000
393	20.00000	20.00000
435	35.00000	-
438	-	20.00000
448	30.00000	30.00000
473	19.95000	19.95000
475 BS	30.00000	30.00000
475 CS	30.00000	30.00000
479	14.95000	14.95000
489	20.00000	20.00000
502	33.33333	33.33333
504	52.40700	52.40700
516	24.54545	24.54545
532	20.00000	20.00000
537	20.00000	20.00000
602	20.00000	20.00000
608	20.00000	20.00000
611	20.00000	20.00000
612	20.00000	20.00000
615	20.00000	20.00000
615 B	20.00000	20.00000
618	20.00000	20.00000
625	20.00000	20.00000
638	20.00000	20.00000
642	-	20.00000
656	-	20.00000
659	30.00000	30.00000

Production licence	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)
660	-	20.00000
663	-	20.00000
681	-	20.00000
682	20.00000	20.00000
684	-	30.00000
685	20.00000	20.00000
687	-	20.00000
694	20.00000	20.00000
695	20.00000	20.00000
696	-	20.00000
698	-	36.47500
699	-	36.47500
712	-	20.00000
714	20.00000	20.00000
716	20.00000	20.00000
718	20.00000	20.00000
720	20.00000	20.00000
723	-	20.00000
726	-	20.00000
728	20.00000	20.00000
728 B	20.00000	20.00000
739 S	30.00000	30.00000
741	-	30.00000
745 S	30.00000	30.00000
749	20.00000	20.00000
751	20.00000	20.00000
762	20.00000	20.00000
768	20.00000	20.00000
768 B	20.00000	-
775	20.00000	20.00000
776	20.00000	20.00000
777	20.00000	20.00000
777 B	20.00000	-
789	20.00000	20.00000
793	20.00000	20.00000
795	20.00000	20.00000
797	20.00000	20.00000
805	20.00000	20.00000
806	20.00000	20.00000
815	20.00000	-
829	20.00000	-
830	20.00000	-
831	20.00000	-
832	20.00000	-
837	20.00000	-
841	20.00000	-
844	20.00000	-
848	20.00000	-

Production licence	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)
849	20.00000	-
854	20.00000	-
855	20.00000	-
857	20.00000	-
858	20.00000	-
859	20.00000	-

Net profit licences*		
027		
027 B		
027 C		
028		
028 B		
028 C		
028 S		
029		
029 B		
029 C		
033		
033 B		

Unitised fields	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)	Remaining production period	License period
Fram H-Nord Unit	11.20000	11.20000	2019	2024
Gimle Unit	24.18630	24.18630	2034	2023
Grane Unit	28.90500	28.94250	2043	2030
Gullfaks Unit	30.00000	30.00000	2034	2036
Haltenbanken Vest Unit (Kristin)	19.57700	19.57700	2034	2027
Heidrun Unit	57.79339	57.79339	2044	2024
Johan Sverdrup Unit	17.36000	17.36000	2058	2037
Martin Linge Unit	30.00000	30.00000	2030	2027
Norne Inside	54.00000	54.00000	2035	2026
Ormen Lange Unit	36.48500	36.48500	2042	2040
Oseberg Area Unit	33.60000	33.60000	2039	2031
Snorre Unit**	30.00000	30.00000	2039	2016
Snøhvit Unit	30.00000	30.00000	2054	2035
Statfjord Øst Unit	30.00000	30.00000	2025	2024
Sygna Unit	30.00000	30.00000	2025	2024
Troll Unit	56.00000	56.00000	2062	2030
Valemon Unit	30.00000	30.00000	2028	2031
Vega Unit	28.32000	28.32000	2027	2024
Visund Inside	30.00000	30.00000	2036	2034
Åsgard Unit	35.69000	35.69000	2032	2027

Field	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)	Remaining-production period	License period
Atla	30.00000	30.00000	2018	2025
Draugen	47.88000	47.88000	2027	2024
Ekofisk	5.00000	5.00000	2049	2028
Eldfisk	5.00000	5.00000	2049	2028
Embla	5.00000	5.00000	2049	2028
Flyndre (Norwegian side)	5.00000	5.00000	2028	2028
Gjøa	30.00000	30.00000	2026	2028
Heimdal	20.00000	20.00000	2028	2021
Kvitebjørn	30.00000	30.00000	2035	2031
Maria	30.00000	30.00000	2046	2036
Rev	30.00000	30.00000	2017	2021
Skirne	30.00000	30.00000	2019	2025
Skuld	24.54546	24.54546	2035	2026
Statfjord Nord	30.00000	30.00000	2025	2026
Svalin	30.00000	30.00000	2043	2030
Tordis	30.00000	30.00000	2029	2024
Tune	40.00000	40.00000	2019	2020
Urd	24.54546	24.54546	2035	2026
Veslefrikk	37.00000	37.00000	2020	2020
Vigdis	30.00000	30.00000	2029	2024

Fields no longer producing	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)	License period
Huldra Unit	31.95534	31.95534	2015
Jette Unit	30.00000	30.00000	2021
Jotun (027 B)	-	-	-
Tor Unit	3.6874	3.6874	2028
Varg	30.0000	30.0000	2021
Yttergryta	19.9500	19.9500	2027

PIPELINES AND ONSHORE FACILITIES

Oil pipeline	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)	Konsesjonsperiode
Oseberg Transport System (OTS)	48.38379	48.38379	2031
Troll Oil Pipeline I + II	55.76808	55.76808	2023
Grane Oil Pipeline	42.06310	42.06310	2030
Kvitebjørn Oil Pipeline	30.00000	30.00000	2020
Norpipe Oil AS (interest)	5.00000	5.00000	2028

Oil - Onshore facilities			
Mongstad Terminal DA	35.0000	35.0000	-

Gas infrastructure			
Gassled***	45.79300	45.79300	2028
Haltenpipe	57.81250	57.81249	2020
Mongstad Gas Pipeline (EMV)	56.00000	56.00000	2030
Polarled (NSGI)	11.94600	11.94600	2041
Dunkerque Terminal DA	29.76519	29.76519	2028
Zeepipe Terminal J.V.	22.43837	22.43837	2028
Vestprosess DA	41.00000	41.00000	-
Norsea Gas AS (interest)	40.00600	40.00600	2028
Ormen Lange Eiendom DA	36.48500	36.48500	2035

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

Petoro share Gassled	45.79300 %
Norsea Gas share of Gassled:	2.26100 %
Petoro share Norsea Gas	40.00600 %
Petoro share Gassled ex. Norsea Gas	45.79300 %
Petoro share Gassled incl. Norsea Gas	46.69754 %

* Production licences where the SDFI is not a licensee. but is entitled to a share of possible profit.
** The licence has submitted an application for license extension
*** The interest in Gassled including Norsea Gas is 46.69754 per cent.

Riksrevisjonen

Vår referanse 2016/00764-10

STATENS DIREKTE ØKONOMISKE
ENGASJEMENT SDØE
Org. nr.: 980977269

Riksrevisjonens beretning

Til Statens direkte økonomiske engasjement

Uttalelse om revisjonen av årsregnskapet

Konklusjon

Riksrevisjonen har revidert Statens direkte økonomiske engasjements årsregnskap for 2016. Årsregnskapet består av ledelseskommentarer og oppstilling av bevilgningsrapportering inklusive noter, artskontorapportering og virksomhetsregnskap inklusive noter for regnskapsåret avsluttet per 31. desember 2016. Vi har ikke revidert note 21 vedrørende forventede gjenværende olje - og gassreserver.

Etter Riksrevisjonens mening gir Statens direkte økonomiske engasjements årsregnskap et rettvisende bilde av virksomhetens disponible bevilgninger, inntekter og utgifter i 2016 og av mellomværende med statskassen per 31. desember 2016, i samsvar med regelverk for statlig økonomistyring.

Grunnlag for konklusjonen

Vi har gjennomført revisjonen i samsvar med *lov om Riksrevisjonen, instruks om Riksrevisjonens virksomhet* og internasjonale standarder for offentlig revisjon (ISSAI 1000–2999). Våre oppgaver og plikter i henhold til disse standardene er beskrevet under «Revisors oppgaver og plikter ved revisjonen av årsregnskapet». Vi er uavhengige av virksomheten slik det kreves i lov og instruks om Riksrevisjonen og de etiske kravene i ISSAI 30 (INTOSAIs etikkregler) fra International Organization of Supreme Audit Institutions, og vi har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene og INTOSAIs etikkregler. Etter Riksrevisjonens oppfatning er det innhentet tilstrekkelig og hensiktsmessig revisjonsbevis som grunnlag for vår konklusjon.

Øvrig informasjon i årsrapporten

Styret er ansvarlig for årsrapporten, som består av årsregnskapet (del VI), og øvrig informasjon (del I–V). Riksrevisjonens uttalelse om revisjonen av årsregnskapet og uttalelsene om etterlevelse av administrative regelverk dekker ikke øvrig informasjon i årsrapporten (del (I-V), og vi attesterer ikke denne informasjonen.

I forbindelse med revisjonen av årsregnskapet er det revisors oppgave å lese øvrig informasjon i årsrapporten. Formålet er å vurdere hvorvidt det foreligger vesentlig uoverensstemmelse mellom øvrig informasjon og årsregnskapet, kunnskapen opparbeidet under revisjonen, eller hvorvidt den øvrige informasjonen tilsynelatende inneholder vesentlig feilinformasjon. Dersom det konkluderes med at den øvrige informasjonen inneholder vesentlig feilinformasjon, er Riksrevisjonen pålagt å rapportere dette i revisjonsberetningen.

Vi har ingenting å rapportere i så henseende.

Styret og overordnet departements ansvar for årsregnskapet

Ledelsen og styret er ansvarlig for å utarbeide et årsregnskap som gir et rettvisende bilde i samsvar med regelverk for økonomistyring i staten. Ledelsen og styret er også ansvarlig for å etablere den interne kontrollen som de finner nødvendig for å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Overordnet departement og styret har det overordnede ansvar for at virksomheten rapporterer relevant og pålitelig resultat- og regnskapsinformasjon og har forsvarlig internkontroll.

Riksrevisjonens oppgaver og plikter
Målet med revisjonen er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som gir uttrykk for Riksrevisjonens konklusjon. Betryggende sikkerhet er et høyt sikkerhetsnivå, men det er ingen garanti for at en revisjon utført i samsvar med *lov om Riksrevisjonen, instruks om Riksrevisjonens virksomhet* og internasjonale standarder for offentlig revisjon (ISSAI 1000–2999) alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir ansett som vesentlig dersom den, enkeltvis eller samlet, med rimelighet kan forventes å påvirke beslutningene som treffes av brukere på grunnlag av årsregnskapet.

Som del av en revisjon i samsvar med *lov om Riksrevisjonen, instruks om Riksrevisjonens virksomhet* og ISSAI 1000–2999, utøver revisor profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen. Revisor gjør også følgende:

- Identifiserer og anslår risikoene for vesentlig feilinformasjon i årsregnskapet, enten det skyldes misligheter eller utilsiktede feil. Revisjonshandlinger utformes og gjennomføres for å håndtere slike risikoer, og tilstrekkelig og hensiktsmessig revisjonsbevis innhentes som grunnlag for revisors konklusjon. Risikoen for at vesentlig feilinformasjon som følge av misligheter ikke blir avdekket er høyere enn for feilinformasjon som skyldes utilsiktede feil. Dette skyldes at misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, feilpresentasjoner, eller overstyring av intern kontroll.
- Opparbeider en forståelse av den interne kontrollen som er relevant for revisjonen. Hensikten er å utforme revisjonshandlinger som er hensiktsmessige ut fra omstendighetene, men ikke å gi uttrykk for en mening om effektiviteten av virksomhetens interne kontroll.
- Evaluerer hensiktsmessigheten av regnskapsprinsippene som er brukt, og rimeligheten av tilhørende opplysninger som er utarbeidet av ledelsen.
- Evaluerer den totale presentasjonen, strukturen og innholdet i årsregnskapet, herunder tilleggsopplysningene, og hvorvidt årsregnskapet representerer de underliggende transaksjonene og hendelsene på en måte som gir et rettvisende bilde.

Revisor kommuniserer med ledelsen, og informerer overordnet departement, blant annet om det planlagte omfanget av revisjonen og til hvilken tid revisjonsarbeidet skal utføres. Revisor vil også kommunisere om forhold av betydning som er avdekket i løpet av revisjonen, herunder eventuelle svakheter av betydning i den interne kontrollen.

Blant de forholdene som blir kommunisert med ledelsen og styret, og som overordnet departement blir informert om, tar revisor standpunkt til hvilke av forholdene som er av størst betydning ved revisjonen av årsregnskapet, og avgjør om disse regnes som sentrale forhold ved revisjonen. Disse beskrives i så tilfelle under eget avsnitt i revisjonsberetningen, med mindre lov eller forskrift hindrer offentliggjøring. Forholdene omtales ikke i beretningen hvis Riksrevisjonen beslutter at de negative konsekvensene av en slik offentliggjøring med rimelighet må forventes å være større enn offentlighetens interesse av at saken blir omtalt. Dette vil bare være aktuelt i ytterst sjeldne tilfeller.

Dersom Riksrevisjonen, gjennom revisjon av årsregnskapet, får indikasjoner på vesentlige brudd på administrative regelverk for økonomistyring, gjennomføres utvalgte revisjonshandlinger for å kunne gi uttalelse om hvorvidt det er vesentlige brudd på disse.

Uttalelse om øvrige forhold

Konklusjon knyttet til administrative regelverk for økonomistyring
Vi gir en uttalelse med moderat sikkerhet på om vi er kjent med forhold som tilsier at virksomhetens disponering av bevilgningene i vesentlig grad er i strid med administrative regelverk for økonomistyring. Uttalelsen bygger på ISSAI 4000-serien for etterlevelsesrevisjon. Moderat sikkerhet for uttalelsen oppnås gjennom revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi finner nødvendig.

Basert på revisjon av årsregnskapet og kontrollhandlinger vi har funnet nødvendig i henhold til ISSAI 4000-serien, er vi ikke kjent med forhold som tilsier at virksomhetens disponering av bevilgningene er i strid med administrative regelverk for økonomistyring.

Oslo; 23.03.2017

Etter fullmakt

Tora Struve Jarlsby
ekspedisjonssjef

Lars Christian Møller
avdelingsdirektør

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 salaries[1]**	**Loyalty scheme[2]**	**Cash allowance[3]**	**Other administratively set renumeration[4]**	**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
Acqusition cost 1 Jan. 2016	4 434	8 520	29 825	42 780
Additions fixed assets	-	32	2 067	2 099
Disposal fixed assets/obsolescence	-	-	-	-
Acqusition 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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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.

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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

PETORO'S FINANCIAL CALENDAR 2017

15 March	Annual result 2016/fourth quarter report 2016
10 May	First quarter report 2017
3 August	Second quarter report/first-half report 2017
1 November	Third quarter report 2017

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