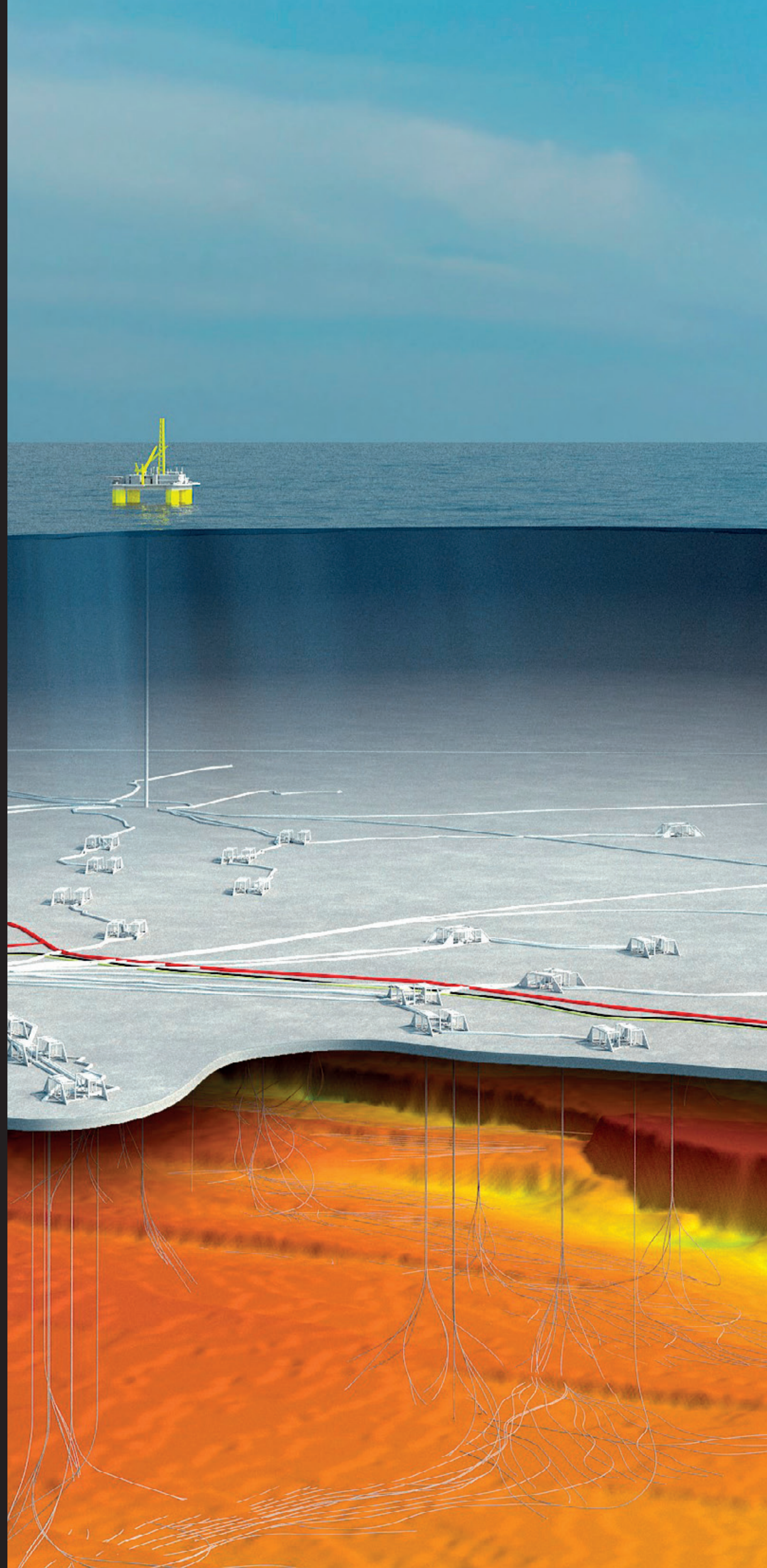
ANNUAL REPORT FOR THE SDFI AND PETORO 2018

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:
Johan Sverdrup DP jacket launch 2018
Photo: BO B. Randulff / Woldcam / Statoil
Right: Troll phase 3
Photo: Equinor

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Johan Sverdrup Phase 2 PUD
Photo: Christian Buch Hansen, Petoro

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CEO'S REPORT AND DIRECTORS' REPORT

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Grethe K. Moen. Photo: Anne Lise Norheim

A SOLID FOUNDATION HAS BEEN MADE – LET'S USE THE OPPORTUNITIES

2018 has been an active year for Petoro, during which many important decisions have been made. These decisions will be decisive in determining the future of the SDFI portfolio, and they relate both to the further development of mature fields and the development of new fields. Petoro works to increase the value of the SDFI portfolio, and projects adopted in 2018 support the company's goals and strategy.

The three most important strategic projects for Petoro have been redevelopment of Troll and Snorre, and development of Johan Sverdrup. These are all projects with great significance for the long-term perspective of the Norwegian shelf. Each of these projects contributes in its own way with major reserves and are competitive at far lower prices than we see today.

In this respect, the Johan Sverdrup field is an industrial milestone in a class of its own. The government approved phase 2 of the project in December, which is an important step in ensuring optimal exploitation of the resources in the field. The estimated lifetime of the field is almost 50 years, which underlines the importance of an industry embracing a long-term perspective. The plan calls for the first phase to start up at the end of 2019, at which time the field by itself will represent around 20 per cent of the production from the Norwegian shelf.

The industry has succeeded in building a solid foundation during the challenging years that are behind us. Now we must use the opportunity that has been created. There is a positive momentum throughout the sector, and the activity on the Norwegian shelf is considerably higher than in recent years. This is motivating and contributes to a sense of pride for everyone who works in Norway's most important industry!

We face global competition on a daily basis, while figures from the Norwegian Petroleum Directorate show that the Norwegian shelf still has almost half of its resources left to produce. If we are to succeed in realising these values, I believe that broad-based cooperation among all players, including implementation of new digital technology, will be crucial. We need more power in the change processes if we are to extract the gains, and we also need more momentum in the business units that will be using this technology. Part of the issue will be allowing for more sharing of data, so that we achieve a better basis for making decisions and thus reduce the risk inherent in our activity. Leadership, cooperation and innovation are keywords, so that we utilise the overall expertise of the industry in the best way possible.

The years to come will be important in strengthening the industry with a view to enhanced expertise within digitalisation and technology development where we can harvest substantial competitive advantages. The industry as a whole has a responsibility to contribute to lift up the significant opportunities found in a future-oriented industry. This applies both within traditional oil and gas, but also within the development that is taking place all across the energy field.

Recruiting young people is one of the biggest challenges we face when questions are raised regarding the legitimacy of the oil and gas industry in Norway. The number of applicants to oil-related education is declining, a statistic which I view with great concern. It will be challenging to replace retiring employees with long years of experience if we cannot encourage young people to commit to petroleum subjects.

The supplier industry employs the majority of the personnel in the oil and gas industry. A sustainable and profitable supplier industry is important for everyone on the Norwegian shelf. While 2018 has been a very good year for the oil companies, we see that many of the supplier companies are still facing challenges. Fortunately, indications are also on the way up here, and it is important that the supplier industry perceives the Norwegian shelf as attractive. If not, we run the risk of important suppliers pulling out of the shelf, or not achieving further development. The suppliers are entirely essential for innovation and technological development that will, in turn, secure the competitiveness of the Norwegian shelf. Therefore, it is important that the suppliers take active part on an equal footing with the operators in the ongoing change processes to extract the benefits of implementing new digital technology.

One of the issues that has been of prime importance for Petoro over many years has been the need for more wells. Drilling more wells is the most important instrument to ensure increased production and an improved recovery rate on the Norwegian shelf. The key to this work is further improvement in efficiency, exploration wells to identify more resources that can yield new development opportunities, in addition to wells at and near existing fields to maintain production from mature fields.

The production forecast for the shelf is rising going toward 2023, while production is projected to decline after this. The infrastructure on the Norwegian shelf is of high quality and can be used for a long time. This means that exploration near existing infrastructure is profitable. The gas infrastructure is particularly comprehensive, and very cost-effective. Among other things, this provides opportunities to explore for gas that can fill the pipelines as capacity becomes available. Norway is an important supplier of gas to Europe, and in this way contributes to cutting greenhouse gas emissions by displacing the use of coal. At the same time, gas plays an important role along with renewable energy production to ensure secure energy supplies.

Cooperation has always been a strength in the Norwegian culture. I believe that we have not yet extracted the full potential that lies in our culture when it comes to the gains that can be realised from effective cooperation. Everyone talks about it; however, it still seems to be difficult to achieve genuine interaction characterised by openness and trust in practice and at all levels: internally in companies – between authorities, operators, partners, suppliers and between the oil and gas industry and those who drive the development of renewable energy.

This will lay the foundation for increasing efficiency, reducing the cost level, and ensuring that the Norwegian shelf will remain sustainable.

"We must all hang together, or assuredly we shall all hang separately"
Benjamin Franklin

Grethe K. Moen

Grethe K Moen
President and CEO, Petoro AS

DIRECTORS' REPORT 2018

Petoro is the manager of the State's Direct Financial Interest (SDFI), which represents about one-third of Norway's total oil and gas reserves. The company's goal is to maximise the value of SDFI, on a commercial basis.

The SDFI arrangement was established in 1985. The arrangement entails that the state participates as a direct investor in the petroleum activity on the Norwegian shelf, so that the state receives revenues and incurs costs associated with the SDFI shares. Petoro acts as a licensee for the state's interests in production licences, fields, pipelines and onshore facilities. As manager of SDFI, Petoro contributed a cash flow of NOK 120 billion in 2018, a significant part of the state's total revenues from the petroleum activity.

DEVELOPMENT TRENDS IN GENERAL

The Norwegian oil and gas activities operate in a global arena with tough competition for capital and competence. Therefore, maintaining the competitiveness of the shelf will be crucial to the future of the Norwegian petroleum industry.

The Norwegian petroleum industry is now characterised by optimism. Several years of adjustment and efficiency measures, well-assisted by the fact that oil and gas prices stabilised in 2018 at a somewhat higher level than the previous year, give the industry a good starting point for new profitable investments and increased activity. Demand for oil and gas is still increasing, but prices are uncertain and considerable volatility is expected in the time ahead.

Gas makes an increasing contribution towards phasing out coal in several countries, thus substantially reducing greenhouse gas emissions. The Intergovernmental Panel on Climate Change's (IPCC's) status report from October describes with even greater clarity than before the consequences of global warming, and that today's climate measures are far from sufficient. Rapid and far more sweeping measures are called for, and in November, the EU Commission announced its vision for a climate-neutral Europe by 2050. While the greenhouse gas emissions from the Norwegian shelf are low in an international context, it is important that we implement climate measures to further reduce emissions, and thus strengthen competitiveness.

The break-even price for important projects has been substantially reduced in recent years. However, the expected price volatility in the years to come underlines the necessity of further improving the competitiveness and attractiveness of the Norwegian shelf to realise future values. The major effects of adjustment and streamlining we have seen in recent years are levelling off, and we need new measures and new ways of working to achieve further efficiency. At the same time, there is a risk that the cost level will once again rise in line with the increased activity level on the shelf. This can pose a challenge for the shelf's competitiveness.

In 2018, Equinor presented plans for renewal of the Norwegian shelf. These plans largely coincide with Petoro's strategy, particularly as regards focus on mature fields, including a significant increase in number of wells, extension of field lifetimes and leverage of existing infrastructure, along with a commitment to digitalisation.

Driven by the need to further improve competitiveness, it is important that we continue the work to reduce uncertainty in reserve estimates, improve efficiency, develop cost-efficient solutions and reduce emissions. Recent years' strong and rapid development of digital technologies on a global basis are among the most important strategic instruments in most oil and supplier companies. The main challenge when it comes to realising the potential in digitalisation is not primarily technology, but bringing about the changes that are needed in the way we work. Management, culture and work processes are therefore the most important factors.

It is positive that the most important operators and suppliers in the SDFI portfolio work well with digitalisation linked to the areas with the largest commercial significance within both reservoir, drilling and operations. Several successful pilot projects have already yielded good effect. Petoro notes that the operations models are in the process of changing on the operations side through the establishment of onshore operations centres. Activities and personnel within drilling are also being moved onshore. This development is mainly still in an early phase. The industry's efforts are reinforced through joint initiatives under the direction of Norwegian Oil and Gas and Konkraft, as well as authority initiatives such as Digital21 and OG21.

There has been considerable interest in exploration acreage on the Norwegian shelf, and a record-breaking number of production licenses were awarded in

2018 in both the ordinary licensing round and awards in predefined areas (APA). Exploration activity in 2018 has also been rising, with a total of 53 exploration wells, 17 more than in 2017. Estimates from the Norwegian Petroleum Directorate reveal that only close to half of the recoverable resources have been produced and sold so far. This shows that the Norwegian shelf is still attractive. This is confirmed by the fact that several new, medium-sized players have entered the Norwegian shelf in recent years as a result of mergers and acquisitions. Several of the major international oil companies have reduced their presence on the shelf through the sale of own and partner-operated licence shares, but the newcomers often see opportunities in these licences. These companies also contribute to a new dynamic by introducing different forms of cooperation and business models.

RESULT SUMMARY SDFI

Cash flow to the state was NOK 120 billion in 2018, which is the highest cash flow in 5 years. The increase in relation to 2017 was NOK 33 billion, mainly due to significantly higher oil and gas prices.

Total production was 1.085 million barrels of oil equivalent (o.e.) per day, just above 2 per cent lower than in 2017. Gas production was at a record-high level in 2018, marginally higher than in 2017. Together with high gas prices, this resulted in gas revenues from own produced gas of nearly NOK 90 billion.

Liquid production was 372 thousand bbl o.e. per day, 7 per cent lower than in 2017. The drop in liquid production is mainly caused by production shutdowns in connection with maintenance and natural production decline. In contrast to previous years, increase in number of wells on production efficiency has not compensated for the production decline. Nor were any new fields started up that contributed to production.

Investments in 2018 were NOK 23 billion, which is about NOK 3 billion lower than the previous year. The reduction is mainly due to drilling fewer wells, and a somewhat lower activity level within development.

The annual profit in 2018 was NOK 114 billion, NOK 15 billion higher than in 2017. The increased profit as a result of higher prices was partly offset by impairment of the Maria field in 2018, reversal of previous years' impairments in 2017, as well as change in loss provisions for outstanding positions in the gas market and recognition of liability for the negative outcome of the initial verdict from the District Court in the case of Troll Unit.

The positive trend of reduction in production costs has reversed, and costs increased in 2018. Cost must therefore be carefully monitored in the time ahead.

Recorded assets were NOK 247 billion at 31 December 2018. The assets consist of fixed assets related to field installations, pipelines and onshore facilities, as well as short-term debtors. Equity at year-end was NOK 163 billion.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

The objective for Norwegian petroleum activity is to be a leader within health, safety and environment. This places demands on cooperation and sharing lessons learned, and that the companies take responsibility for a sustainable safety culture. Strong and clear expectations must be set for HSE leadership and HSE culture. In 2018, Petoro has been particularly focused on risk assessments in a major accident perspective and robustness in technical, operational and organisational barriers. Petoro has also in 2018 carried out several management visits focussing on health, safety and environment on selected fields and onshore facilities.

The HSE results for 2018 show that the serious incident frequency is still too high. Serious incident frequency, defined as the number of actual and potential near-misses for serious incidents per million hours worked, which is at 0.7, is on par with 2017. None of the incidents in 2018 had major accident potential. Most incidents are linked to falling objects. The personal injury frequency, that is, the number of personal injuries per million hours worked, declined from 4.2 in 2017 to 3.8 in 2018. No serious discharges to sea were recorded in 2018.

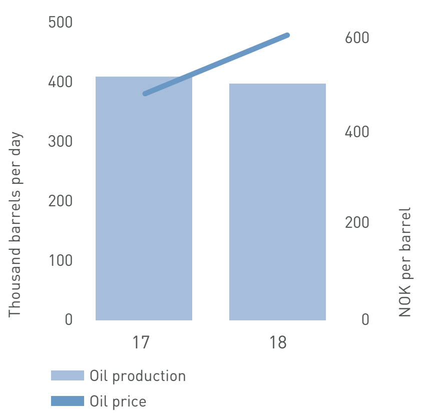
MAIN ACTIVITIES IN 2018

At the end of 2018, the portfolio consisted of 198 ownership interests in production licences, 12 more than at the beginning of the year. In January 2018, the Ministry of Petroleum and Energy implemented awards in predefined areas (APA 2017) where 17 production licences were awarded with SDFI participation. In the 24th licensing round in June 2018, 6 production licences were awarded with SDFI participation. During the course of 2018, 2 production licences were carved out from existing licences, 11 production licences were relinquished and 2 were sold. In January 2019, the Ministry of Petroleum and Energy implemented APA 2018, where an additional 14 production licences were awarded with SDFI participation.

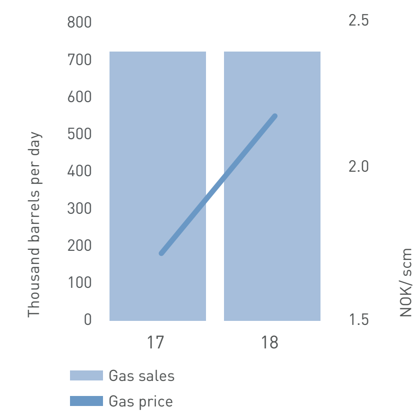
In 2018, plans for development and operation (PDOs) were submitted for Johan Sverdrup phase 2 and for Troll phase 3. During the course of the year, the authorities approved the PDOs for Johan Castberg, Snorre Expansion Project and Troll phase 3. The third phase in the Troll development realises 2.2 billion bbl o.e., has a break-even price under 10 dollars per barrel and a CO_2 intensity of 0.1 kg per bbl.

Production from the mature oil fields continues to dominate liquid production

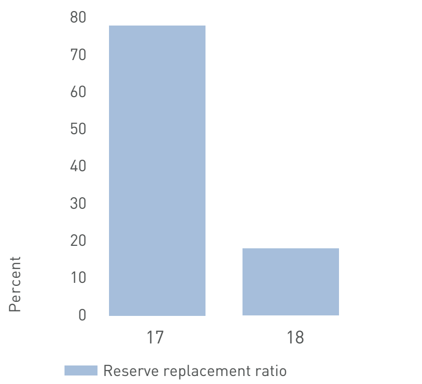
OIL PRODUCTION/PRICE



GAS SALES/-PRICE



RESERVE REPLACEMENT RATIO



in the SDFI portfolio. The Troll, Oseberg, Åsgard, Heidrun, Grane, Snorre and Gullfaks fields accounted for 68 per cent of the total liquid production in 2018. The gas share of total production measured in o.e. amounted to 66 per cent in 2018. More than 72 per cent of the gas production came from the Troll, Ormen Lange and Åsgard fields. No new fields came on stream in 2018, but two new further development projects on existing fields, Oseberg Vestflanken 2 and Visund Nord IOR, started production in 2018. The Polarled pipeline also started operations, initially to route gas from Aasta Hansteen to Nyhamna. Polarled lays the foundation for new activity in the Norwegian Sea.

The company's strategy was updated in the first half of 2018 and has three strategic areas: Competitiveness, Mature fields and Wells. These areas are supported by four strategic prioritisations: Well maturation and drilling efficiency, Optimised recovery strategy, Fields and further development, and Effective operations. A common factor for all these prioritisations is to exploit the opportunities created by the work on digitalisation. Through focussed follow-up supported by in-depth technical efforts, Petoro works to reinforce value creation opportunities with emphasis on long-term business development. The company's climate policy emphasises that Petoro shall contribute to making the oil and gas industry on the Norwegian shelf a leader in meeting the climate challenges.

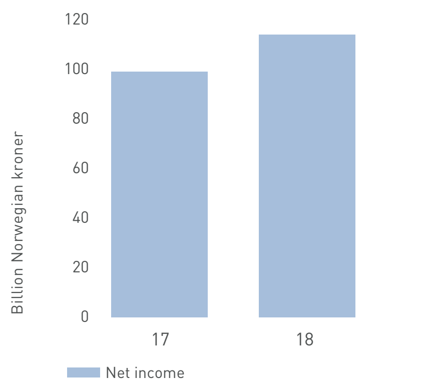
In line with this strategy, Petoro has devoted particular efforts to the Troll, Heidrun, Oseberg and Snøhvit fields in 2018. Well maturation and digitalisation have also been addressed as special topics for the entire field portfolio.

On Troll, where Petoro has an ownership interest of 56 per cent, the company has worked for several years to shed light on the consequences that increased gas production can have on the oil production. The development of digital technologies has dramatically accelerated the pace of data handling. Through close cooperation with the service provider, Petoro has applied "next generation" reservoir simulation tools on Troll, where the reservoir model and pipeline system on the seabed were joined in a comprehensive model to analyse the link between oil and gas production from the field. The results from these studies also contributed to support the preparation of the PDO for Troll phase 3, as well as the licence's annual application for gas export volume.

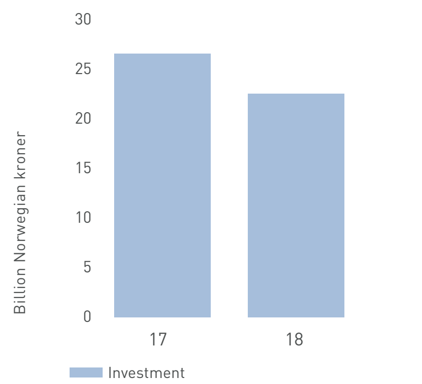
On Heidrun, where Petoro has an ownership interest of 57.7 per cent, the company has conducted its own simulation studies in 2018 aimed at optimising the drainage strategy and contributing to identify new drilling targets. This effort has supported the work on Heidrun redevelopment and the approved lifetime extension for the field. This could realise significant value through the Heidrun nord phase 2 project. Petoro's efforts over several years have been important for the development and results on the field, and illustrate the value of diversity among the licensees in a licence with a view towards arriving at good, comprehensive solutions.

On Oseberg, where Petoro has an ownership interest of 33.6 per cent, the company has conducted its own simulation studies in 2018 for the southern part of Oseberg to identify the potential for new improved oil recovery measures on the field. This work has contributed to identify new drilling targets that can be drilled from existing infrastructure on the field, and which therefore have both low investment costs and risk.

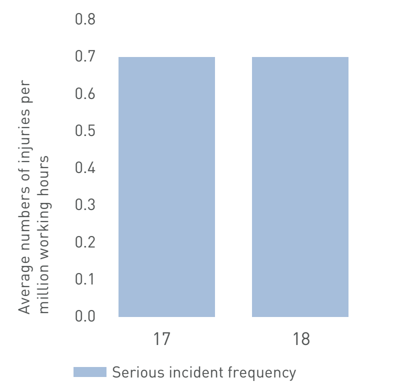
NET INCOME



INVESTMENT



SERIOUS INCIDENT FREQUENCY



On Snøhvit, where Petoro has an ownership interest of 30 per cent, the company has had significant preparatory work in 2018 aimed at the investment decision for the Askeladd project, which will be the first plateau extension of the field since its start-up in 2007. Among other things, Petoro has addressed the rig strategy, synergies with other fields in the area and subsurface work. The investment decision was made in 2018.

As regards new fields in the portfolio, Petoro's efforts in 2018 have included preparations for the investment decision and the PDO for Johan Sverdrup phase 2, where Petoro has an ownership interest of 17.36 per cent. The PDO was submitted to the authorities in August. Johan Sverdrup is a pioneer field within digitalisation. Here, Petoro has been involved in the licence's work to make a decision on full coverage of the field with seismic cables for reservoir monitoring, implementation of fibre optics in wells, along with installation of equipment for water and gas injection (WAG). These decisions are expected to contribute to significant improved recovery.

Establishment of a solution for power from land to Johan Sverdrup and the other fields on the Utsira High is also part of phase 2. The Johan Sverdrup project has also experienced positive cost development in 2018, and the project distinguishes itself with its good profitability.

Over the course of 2018, Grane and Åsgard started a joint centre for integrated operations. The centre monitors and supports offshore operations from land. This is an example of digitalisation which, through easier access to data, specialised software and changes in the operations model, enables better utilisation of the facilities' capacity, optimisation of energy consumption and improved safety. The plan is to expand to include more fields and new centres.

Petoro has followed up a large portfolio of new, major development projects in 2018: Johan Sverdrup phase 1, Johan Castberg, Snorre Expansion Project, Martin Linge and Dvalin.

The follow-up work has targeted several factors that have an impact on HSE, climate and implementation risk, and has also focussed on ensuring good preparations for operation.

Subsea wells account for about 60 per cent of the SDFI production. In contrast to the positive development in drilling pace for new wells from fixed installations in recent years, updated forecasts reveal a need to increase the number of new subsea wells on mature fields in the years to come. In an effort to increase the scope of subsea wells in the SDFI portfolio and supplement efforts by operators, Petoro has worked in 2018 to mature proposals for new well targets on selected fields with significant subsea infrastructure, such as Oseberg and Gullfaks. This work also contributes to efficient utilisation of rig capacity.

Over the course of 2018 there has been increased activity in Petoro's portfolio linked to electrification measures that can contribute to substantial reductions in greenhouse gas emissions from the SDFI portfolio, also for the mature fields. On several fields, such as Troll, Snorre and Gullfaks, project development is underway with a view towards decisions within the next few years. If these projects are realised, they could contribute a reduction in CO_2 emissions of nearly 2 million tonnes per year on the Norwegian shelf, corresponding to 0.8 million tonnes per year for SDFI. The first investment decision is expected in 2019 and is in regard to the floating wind turbine facility in the Tampen area, that will partially electrify Snorre and Gullfaks.

Petoro participated in 17 exploration wells in 2018, of which ten were wildcat wells that resulted in 6 new discoveries. Four of these are gas discoveries, and the most promising of these is Balderbrå in the Norwegian Sea. One new oil discovery was also made, Skruis in the Barents Sea. This is situated close to existing infrastructure and will be evaluated with a view toward tie-in to Johan Castberg. Appraisal of the Cape Vulture discovery in the Norwegian Sea was successful. Presuming a positive development decision, this will mean a doubling of remaining oil reserves that can be produced through the Norne field. Appraisal of the Grosbeak discovery in the North Sea also yielded a positive result, and further plans for developing the field are being assessed.

At the end of 2018, the portfolio's expected remaining oil, condensate, NGL and gas reserves were 5 545 million bbl o.e., a decline of 334 million bbl o.e. compared with the end of 2017. The growth in reserves of 62 million bbl o.e. was considerably lower than production in 2018, which was 396 million bbl o.e. The reserve replacement rate was 16%. Reserve growth in 2018 primarily came from the decision on Johan Sverdrup phase 2.

RESEARCH AND DEVELOPMENT

Petoro contributes to research and development (R&D) through SDFI covering its share of the operator's costs for general research and development pursuant to the Joint Operating Agreement and Accounting Agreement. The funds are managed by the respective operators. This amounted to a total of NOK 497 million for SDFI in 2018. Projects aimed at field-specific qualification of new solutions or first-time application of technology in licences where costs are charged to the joint venture companies come in addition. Petoro does not initiate its own technology development and research projects.

MARKETING AND SALE OF THE PRODUCTS

All oil and NGL from the SDFI portfolio is sold to Equinor. SDFI's natural gas is sold by Equinor together with Equinor's own natural gas as a joint portfolio for the state's own expense and risk. Petoro's task is to monitor to ensure that Equinor conducts the marketing and sale of the government's petroleum together with its own petroleum in accordance with the marketing and sale instruction given to Equinor. The objective of the marketing and sale instruction is to achieve the highest possible value for Equinor's and the state's petroleum, and to ensure a fair distribution of the overall value creation. In this work, Petoro concentrates its efforts around Equinor's marketing strategy, issues of great significance in value terms, as well as matters of principle and questions relating to incentives.

In 2018, Petoro has prioritised following up matters of principle within marketing and sale of both oil and gas. In this context, Petoro has had particular focus on Equinor's management and follow-up system.

The company's focus is on ensuring that the products are sold in the markets that yield the highest price. In this context, optimal further development, regularity, capacity utilisation and flexibility in production facilities and infrastructure are of great significance.

Selected verifications have been performed to ensure that SDFI receives its rightful share of expenses and revenues related to this marketing and sale. Petoro is engaged in dialogue with the Ministry of Petroleum and Energy as regards certain clarifications in the marketing and sale instruction.

WORKING ENVIRONMENT AND EXPERTISE

The company's personnel policy shall ensure diversity and equality, expertise development and facilitation of a good working environment that prevents discrimination on the basis of age, gender, cultural and geographical background.

Petoro's employees have extensive experience from the petroleum industry and a high level of technical expertise. Each individual employee is essential for the company's deliveries and success, and the board emphasises offering competitive terms and a stimulating working environment that attracts people with the right expertise. Opportunities for professional and personal development contribute to retaining, developing and attracting skilled staff.

At the end of 2018, Petoro had 64 employees, one less than at the end of 2017. There was one new hire in 2018. The company had 34 per cent women at the end of 2018. The company's management includes 25 per cent women, while 43 per cent of the company's board is female. Petoro emphasises gender equality as regards opportunities for professional and personal development, as well as wage development. The company facilitates working conditions so that employees with disabilities can also work in Petoro.

Absence due to illness was 2.6 per cent in 2018, compared with 2.1 per cent in 2017. The company considers this to be low. In 2018, Petoro had an inclusive workplace agreement, and emphasises close follow-up and dialogue to promote health and prevent work absence. There were no occupational accidents among Petoro's employees.

The company conducts regular working environment surveys as a step in the work to safeguard a good working environment. In 2018, the company's work has focused on vitalisation of the value basis, as well as further development of the organisation. Collaboration with the company's working environment committee (AMU) and works council (SAMU) forms an important foundation for a good working environment in the company. The work in these committees also functioned well in 2018.

CORPORATE GOVERNANCE

The board prioritises good corporate governance and management to ensure that the state's portfolio is managed in a way that maximises financial value creation in a long-term perspective. The corporate governance requirements are stipulated in the "Rules for financial management in the State" and standards for good corporate governance and management. The board follow's the state's principles for good corporate governance as expressed in Report no. 27 (2013-2014) to the Storting on "A diversified and value-creating ownership" and those sections of the "Norwegian recommendations for corporate governance" that are considered to be relevant for the company's activity and the framework set by the company's form of organisation and ownership.

The management system is tailored to Petoro's distinctive character, and the management of the enterprise is based on balanced scorecards, where goals are established to support the company's strategy. Reference is made to a separate chapter in the annual report.

The values base and ethics are founded on the company's values and guidelines on business ethics.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Petoro safeguards its CSR in accordance with the company's guidelines for exercising corporate social responsibility tailored to the company's role. Petoro's funds for performing its management duties and operation of the company are provided through appropriations from the government. Petoro is not permitted to provide financial support for social purposes.

Measures that ensure exercise of CSR in Petoro include guidelines for business ethics, an HSE declaration, climate policy and a personnel policy that ensures diversity and equality. Activity outside Norway is very limited. The board provides a more detailed account of how CSR is exercised in a separate chapter of the annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

In 2018, the board has assessed the risk scenario with a point of departure in adopted strategy and specific goals set for the coming year. Risk-reduction measures have been identified for the most significant risks that Petoro has an opportunity to influence, within the company's frameworks. Three internal audit projects were conducted in 2018. The board has received a report that summarises and describes verification activities, findings and proposed and implemented measures for the internal audit projects.

The internal audit projects in 2018 were performed by PwC, which has also handled the internal financial audit of SDFI for the 2018 accounting year.

WORK OF THE BOARD

The board has overall responsibility for management of the company, including ensuring that appropriate management and control systems are in place, and to conduct supervision of daily management and the company's activities. Nine board meetings were held in 2018. An annual meeting and work plan has been established for the board, with emphasis on dealing with topical business issues, follow-up of strategy, budgets and quarterly results. The board uses a balanced scorecard as a key instrument in following up results.

The board addresses major investment decisions in the portfolio. It also follows up the activity in the licences, monitors marketing and sales and financial management, including assessing the overall risk scenario.

The board has opted to organise work associated with compensation schemes in a sub-committee composed of two of the board's directors elected by shareholders, one of which is the deputy chair. No other sub-committees have been established. The board has drawn up a declaration regarding remuneration of the chief executive and senior personnel.

Conflicts of interest are a regular item on the agenda for the board's meetings and processes, and potential conflicts of interest entail that the director withdraws from the board's consideration of the relevant issue.

The board conducts an annual evaluation of its own work, which includes an assessment of its own work and the way it works, as well as how it cooperates with the company's management. This self-evaluation has been completed for 2018.

The work of the board is based on the "Instructions for the board", which describe the board's responsibility and proceedings. As an appendix to these instructions, the board has stipulated comprehensive provisions detailing which issues shall be addressed by the board. The board also reviews the company's business ethics guidelines, CSR guidelines and the rules of procedure for the board. As a matter of course, directors shall provide information about shareholdings or the like in other companies that could lead to, or that could be perceived as being, a conflict of interest with their office. Directors shall furthermore provide information concerning other relationships with licensees in the petroleum activities on the Norwegian shelf, or with companies that are suppliers to licensees.

Each director and the board as a collective body seek to strengthen their expertise in various ways. This takes place through participation in courses and conferences, and in general by staying up-to-date as regards the petroleum activities.

The board of Petoro AS consists of Gunn

Wærsted as chair, deputy chair Brian Bjordal, and Per A. Schøyen, Trude J. H. Fjeldstad and Hugo Sandal as directors elected by the shareholders. Directors Anne-Cathrine Nilsen and Ragnar Sandvik are elected by the employees.

PETORO AS

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 AS. The company's operations are governed by Chapter 11 of the Petroleum Act. The company's general meeting is the Ministry of Petroleum and Energy.

The company's share capital was NOK 10 million at 31 December 2018, divided between 10 000 shares that are owned by the Norwegian state, represented by the Ministry of Petroleum and Energy. Petoro's business office is in Stavanger.

NET INCOME AND APPROPRIATIONS

Petoro AS maintains separate accounts for all transactions relating to participating interests in the joint ventures. Revenue and expenses for the SDFI portfolio are kept separate from operation of Petoro AS. Cash flow from the portfolio is transferred to the central government's own accounts with Norges Bank. The portfolio's accounts are presented in accordance with the state's cash basis and in accordance with the Norwegian Accounting Act and generally accepted accounting principles.

Petoro AS is the parent company for Petoro Iceland AS, which was established in December 2012. Through a branch, the subsidiary is registered on Iceland as licensee, and has taken part in production licences where the Norwegian state has chosen to participate. The company's share capital was NOK 2 million at 31 December 2018, divided among 2 000 shares. The company has no employees, and has signed a management agreement with Petoro AS. Due to the relinquishment of the last licence on the Icelandic continental shelf, Petoro Iceland AS is not involved in any other production licences. Some supplementary work relating to the last relinquished licence has been conducted in 2018. The activity in Petoro Iceland AS has been limited in the past year; therefore no consolidated accounts have been prepared for 2018.

Funds for operating Petoro AS and Petoro Iceland AS are provided by the government, which is directly liable for the commitments assumed by the companies. Appropriations for ordinary operations for Petoro AS amounted to NOK 350.3 million for 2018.

Total costs for the year were in line with the budgets approved by the board, the company's appropriations and letter of assignment. The net income for Petoro AS was NOK 5.7 million. The board proposes that the profit in Petoro AS be transferred to other equity. The profit for the year increased other equity to NOK 13 million as of 31 December 2018.

Pursuant to Sections 3-3 and 3-2a of the Accounting Act, the board confirms that the annual accounts for the portfolio and the company provide a true and fair picture of the company's assets and liabilities, financial position and result, and that the annual accounts have been prepared on the going concern assumption. The company has satisfactory equity and low financial risk.

OUTLOOK

The Norwegian petroleum industry is characterised by a new optimism, and activity in the years ahead will be high. Major projects such as Johan Sverdrup, Johan Castberg, Martin Linge and Snorre Expansion Project will be completed over the next two to three years. A higher activity level brings the risk of a new period with pressure on costs. A continued focus on costs will therefore be essential in maintaining the competitiveness of the shelf.

The mature fields account for about 85 per cent of the values in the SDFI portfolio. These fields, with their associated infrastructure, are currently distinguished by high technical integrity and operating efficiency. We must continue to operate the mature fields efficiently to ensure a long and profitable tail phase. It must become profitable to produce even smaller discoveries, and to drill wells that are to produce smaller and shrinking volumes. Important measures for realising the value potential are optimisation of the drainage strategies, identification of new well targets, streamlining drilling operations and more efficient operations, along with reducing greenhouse gas emissions. Analyses show that the potential associated with digitalisation of mature fields is considerable.

In the absence of new, major oil and gas discoveries, production from the Norwegian shelf will decline rapidly in the last half of the 2020s. Maintaining the attractiveness of the Norwegian shelf will demand active exploration for new resources, as well as the maturing of attractive projects that are also competitive in a global context. Access to attractive exploration acreage in the areas open to petroleum activity is important for the oil and gas industry. There is a potential entailed in utilising available infrastructure capacity. More exploration in nearby areas is key to uncovering additional profitable gas and oil resources that can rapidly be phased in to existing infrastructure. New discoveries can be developed quickly by exploiting the competitive advantage that the existing infrastructure represents.

The SDFI portfolio is robust, even with low product prices. However, future revenues from the activity will be very dependent on the price level. As regards oil, it is expected that the price in the years ahead will be around the current level, but with periods of major volatility. Development in the market will primarily be determined by how much oil is offered, particularly from OPEC and shale oil from the US. Demand is still expected to rise in the years to come, but the rate will be impacted by changes in economic growth. Increased protectionism could curb future economic growth and thereby also affect the development in oil markets.

Gas is expected to gain more importance, particularly at the expense of coal. Cost-effective fields and reliable infrastructure make Norwegian gas extremely competitive. Enhanced exploration for gas could contribute to maintaining high gas deliveries from the Norwegian shelf, also over the longer term, and could thus replace falling production in the EU.

Climate policy will continue to challenge fossil fuels, particularly coal. However, in the longer term, gas will also encounter tougher competition from renewable energy and electrification. The role of gas in Europe's future energy supply is a topic of considerable interest. Extensive development of renewable energy will have to take place in order to achieve the EU's long-term climate goals. It may also be necessary to develop new technology to reduce greenhouse gas emissions, for example through CO_2 capture and storage, or through decarbonising natural gas to hydrogen with CO_2 storage. These are measures that are being discussed, but the ultimate outcome is difficult to predict. In the meantime, Norwegian gas will play an important climate policy role by replacing coal. The board is aware that Norway's Climate Risk Commission presented its report at the end of 2018, making several recommendations as regards climate risk.

Recruiting to the petroleum industry could become challenging in the future, as a new and different generation will be taking the stage. The trend we have seen over several years is that young people are opting out of education aimed at petroleum subjects. Reinforcing the legitimacy of our industry, along with digitalisation, are considered to be important instruments that will contribute to secure recruitment to the industry.

Stavanger, 6 March 2019

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Trude J. H. Fjeldstad
Director

Per Arvid Schøyen
Director

Hugo Sandal
Director

Ragnar Sandvik
Director
Employee representative

Anne-Cathrine Nilsen
Director
Employee representative

Grethe K. Moen
President and CEO

Johan Sverdrup arriving Stord
Photo: Ørjan Richardsen / Jan Arne Wold / Equinor

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INTRODUCTION TO THE ENTERPRISE AND KEY FIGURES 2018

Introduction to the enterprise	Page 18
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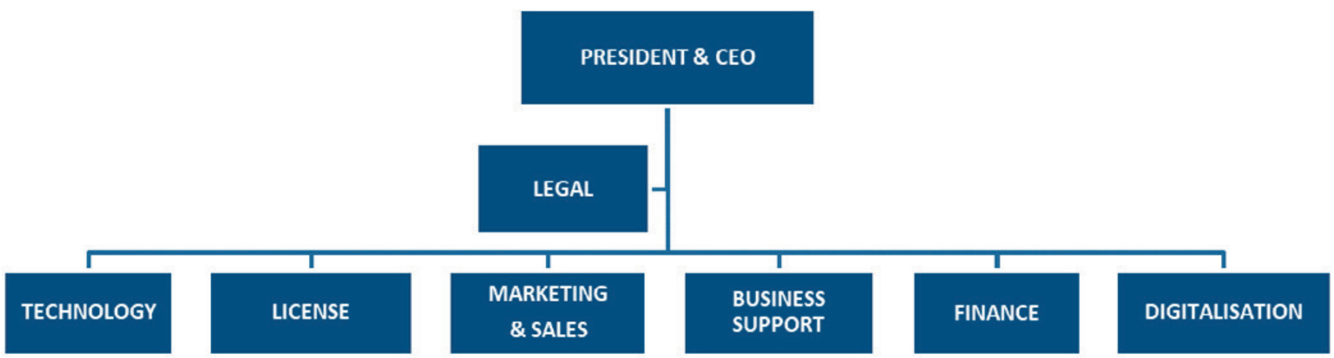
PETORO AS

Petoro manages the State's Direct Financial Interest (SDFI). The company's principal objective is to generate the highest possible financial value from the SDFI portfolio. At the end of the year, the company had 64 employees.

The Ministry of Petroleum and Energy, in the person of the minister, represents the government as sole owner and serves as the company's general meeting and highest authority. The Board has overall responsibility for administration of the company. Petoro's organisation is shown in the figure below. The company's management and Board are presented in more detail in Chapter 4, Management and control in the enterprise.



KEY FIGURES FOR PETORO AS

	2018	2017	2016
Total appropriation/ administration grant (NOK million)*	**280.3**	274.1	273.6
Full-time equivalents (average number of full-time equivalents employed)	**64.2**	64.4	62.7
Payroll share of administration grant (per cent)**	**38**	39	35
Payroll costs per full-time equivalent (NOK million)**	**1.64**	1.66	1.55
Share of administration grant for studies and cutting-edge expertise (per cent)	**16**	15	18

* *excluding VAT*
** *payroll as specified in Note 3*

THE STATE'S DIRECT FINANCIAL INTEREST (SDFI)

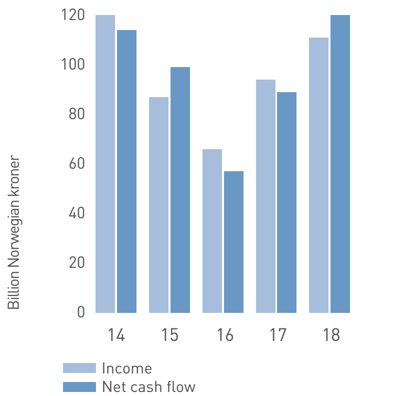
The SDFI scheme was established in 1985. Under this arrangement, the state participates as a direct investor in petroleum activities on the Norwegian continental shelf (NCS), so that the state receives revenues and meets expenses associated with SDFI's ownership interests. Petoro acts as licensee for the state's participating interests in production licences, fields, pipelines and onshore facilities, and manages this portfolio based on sound business principles. At the end of 2018, the portfolio consisted of 198 production licences, 38 fields, of which 4 in the development phase, and 15 pipelines and terminals, as well as follow-up of 14 production licences with net profit interest agreements.

The SDFI portfolio represents about one-third of Norway's overall oil and gas reserves and yielded a cash flow of NOK 120 billion in 2018.

KEY FIGURES FOR SDFI

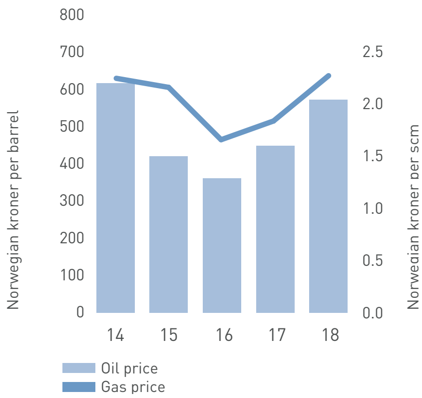
NGAAP	**2018**	2017	2016
Net cash flow (NOK million)	**119 666**	87 157	65 897
Operating revenue (NOK million) (NGAAP)	**177 431**	150 720	121 224
Production costs (NOK million) (NGAAP)	**17 440**	14 262	14 616
Net profit (NOK million) (NGAAP)	**114 210**	98 919	57 426
Investments (NOK million) in capital accounts	**22 555**	26 564	27 815
Production - oil and NGL (thousand bbl/day)	**370**	398	409
Production - dry gas (million Sm3/day)	**113**	113	100
Production - total (thousand boe/day)	**1 084**	1 110	1 040
Remaining reserves (million boe)	**5 544**	5 879	5 968
Reserve replacement rate (annual %)	**16**	78	22
Reserves added (million boe)	**62**	316	82
Oil price (USD/bbl)	**71**	54	43
Oil price (NOK/bbl)	**573**	449	361
Gas price (NOK/Sm3)	**2.17**	1.72	1.62

INCOME AND CASH FLOW



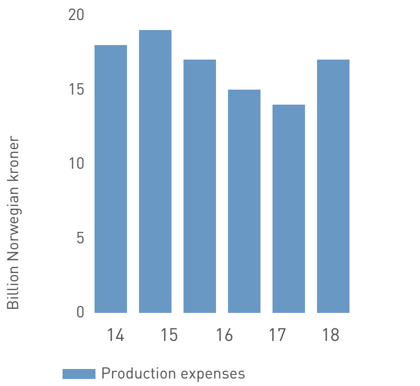
The financial result[1] in 2018 was NOK 114 billion, compared with 99 billion in 2017. Net cash flow to the state amounted to NOK 120 billion, compared with NOK 87 billion in 2017. The positive development in cash flow and financial result was primarily caused by higher oil and gas prices.

OIL AND GAS PRICES



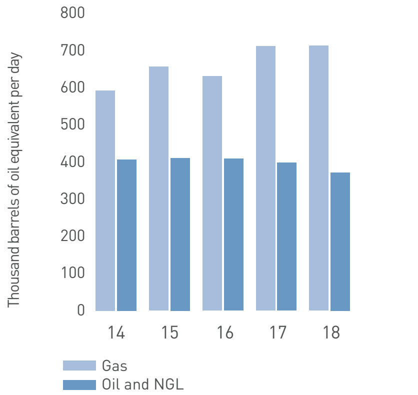
The average price of oil and gas increased considerably in 2018. The realised oil price was NOK 573 per bbl (USD 71), compared with NOK 449 (USD 54) in 2017. The realised gas price was NOK 2.17 per Sm³, compared with NOK 1.72 per Sm³ in 2017.

PRODUCTION EXPENSES



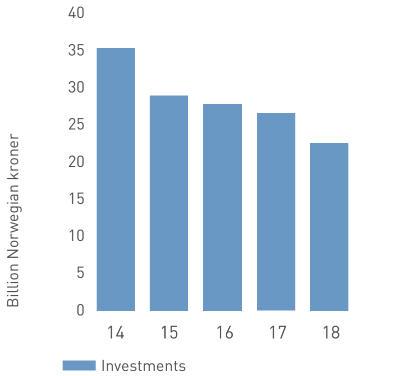
Production expenses include all operating and maintenance expenses for fields and pipeline facilities. Costs increased in 2018 following a period of falling production expenses. Adjusted for the accrual related to the Troll Unit, costs increased by 7 per cent. The increase is mainly due to higher prices for power and CO_2 quotas, as well generally higher costs for fields in operation.

PRODUCTION



Gas production reached record levels in 2018 with 712 thousand boe per day (113 million Sm³ per day). Liquids production amounted to 372 thousand boe per day, 7 per cent lower than in 2017. The decline in liquids production is primarily caused by natural production decline and an increased number of planned shutdowns in 2018. Total production amounted to 1.085 million barrels of oil equivalents (boe) per day, about 2 per cent lower than in 2017.

INVESTMENTS



Investments in 2018 totalled NOK 22.6 billion, about 4 billion lower than in 2017. The reduction in investments is mainly caused by drilling fewer wells, as well as a somewhat lower activity level within development. Production drilling in 2018 accounted for more than half of overall investments.

[1] All figures are presented in accordance with the Norwegian Accounting Act and generally accepted accounting principles (NGAAP).

Askepott Oseberg Vestflanken 2 - February 2018
Photo: Erlend Hatteberg / CHC Helikopter Service

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ACTIVITIES AND RESULTS IN 2018

ACTIVITIES AND RESULTS IN 2018

Reference is made to the letter of assignment to Petoro AS for 2018, 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 contribute to increased value creation, considering the state's overall financial interests. Petoro shall contribute to efficient and profitable development and operations, as well as the safety of people and the environment.

OPERATIONAL TARGETS

"Petoro will establish operational targets with the aim of maintaining a high level of production in 2018"

Management parameters: Volume figures. Explanation and development over time.

Total production amounted to 1.085 million bbls of oil equivalents (boe) per day, just over 2 per cent lower than in 2017.

Gas production in 2018 was 113 million Sm^3 per day. This was a record-high level , marginally higher than in 2017. Liquids production amounted to 372 thousand boe per day, 7 per cent lower than in 2017. The cause of the drop in liquids production is primarily natural production decline and an increased number of planned shutdowns. A higher number of wells and increased production efficiency have not compensated for this in 2018, as has been the case in previous years. There has also been a lack of new field start-ups contributing to increased production.

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 complete new wells and implement planned drilling programmes. These are important tools to increase production from the SDFI portfolio.

"Petoro will prepare operational targets as regards streamlining fields in operation".

Management parameters: Composition of and development in operating expenses and investments.

Efficiency measures on fields in operation have still been an important part of Petoro's work in 2018. Efforts have been particularly focused on drilling, as well as operations and maintenance.

The need for efficiency improvements and cost reductions within the drilling and well service area has been an important issue for Petoro over several years. Petoro has followed the development in drilling pace on ten fixed installations in five selected fields in the portfolio over a number of years. The average drilling time and drilling cost was cut in half from 2014 to 2015. The result can mainly be attributed to increased drilling efficiency, simplified well design and increased availability of drilling facilities. The development in drilling time and drilling cost has levelled out since 2015, and was on par with the previous years in 2018.

Petoro is also following the development in production expenses. After a number of years of falling production expenses, the costs increased again in 2018. Adjusted for provision for the judgement in the lawsuit concerning Troll, costs increased by 7 per cent. The increase is mainly due to higher prices for power and CO_2 quotas, as well generally higher costs for fields in operation.

The Johan Sverdrup project has also experienced positive cost development in 2018, and the project is distinguished by its high profitability.

Costs incurred for investment in 2018 totalled NOK 23 billion, which is about NOK 3 billion lower than the year before. The reduction in investments is mainly caused by drilling fewer wells, as well as a somewhat lower activity level within field development.

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

Management parameters: Serious incidents and CO_2 emissions. Explanation and development over time.

The objective of Norwegian petroleum activities is to be leading within health, safety and the environment. This sets requirements for cooperation and sharing lessons learned, as well as the companies taking responsibility for a sustainable safety culture. Strong and clear expectations must be set for HSE leadership and HSE culture.

In 2018, Petoro has been particularly concerned with risk assessments in a major accident perspective and robustness in technical, operational and organisational barriers. Petoro also conducted a number of management visits in 2018, focusing on health, safety and the environment on selected fields and onshore facilities.

HSE results for 2018 show that the serious incident frequency is still too high. The serious incident frequency, defined as the number of actual and potential serious near-miss incidents per million hours worked, was 0.7, on par with 2017. None of the incidents in 2018 had major accident potential. Most incidents, a total of eight, are associated with falling objects. The personal injury frequency, defined as the number of personal injuries per million hours worked, declined from 4.2 in 2017 to 3.8 in 2018. No serious discharges to sea were recorded in 2018.

Over the course of 2018 there has been increased activity in Petoro's portfolio linked to electrification measures that can contribute to substantial reductions in greenhouse gas emissions from the SDFI portfolio, also for the mature fields. Project development is under way on multiple fields such as Troll, Snorre and Gullfaks with a view toward decisions in a few years. If the projects are realised, this will contribute to a reduction in CO_2 emissions of close to 2 million tonnes per year on the Norwegian shelf, equivalent to 0.8 million tonnes per year for SDFI. The first investment decision is expected in 2019 and is linked to a floating wind farm in the Tampen area, which will partially electrify Snorre and Gullfaks.

Petoro prepares the "Annual External Environment Report" each year, which is published subsequent to the annual report. The most recent report from 2017 states that CO_2 emissions per produced unit from the SDFI portfolio declined from 8.2 kg/o.e. to 8.0 kg/o.e. from 2016 to 2017. This is 9 per cent lower than the average for the Norwegian shelf. The drop from 2016 to 2017 was primarily caused by a relative increase in gas production in relation to liquids in the SDFI portfolio. CO_2 emissions from the SDFI portfolio in 2017 totalled 3.2 million tonnes and represented about 25% of overall CO_2 emissions on the Norwegian shelf.

PRIORITY TARGETS AND ACTIVITIES IN 2018

In 2018, Petoro will particularly prioritise larger ongoing commercial processes in the industry where Petoro, through its participation, can secure and increase values in the SDFI portfolio.

Petoro will contribute to realising projects for further field development and improved recovery from mature fields such as Troll, Oseberg, Heidrun, Snorre and Ormen Lange.
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

In 2018, in line with Petoro's updated strategy for mature fields, the company focused particular efforts on the Troll, Heidrun, Oseberg and Snøhvit fields. Well maturation and digitalisation have also been addressed as special topics for the entire field portfolio.

On Troll, the company has worked for a number of years to highlight the potential consequences increased gas extraction may have for oil production. The development of digital technologies has considerably increased the speed of data handling. Through close collaboration with the service supplier, Petoro has applied a "next generation" reservoir simulation tool on Troll, where the reservoir model and pipeline system on the seabed were modelled in a comprehensive model to analyse the connection between oil and gas extraction from the field. Results from these studies also helped support the preparation of a PDO for Troll phase 3, as well as the level used as a basis in the licence's annual gas export application.

On Heidrun, Petoro has conducted dedicated simulation studies in 2018 aimed at optimising the drainage strategy and contributing in the identification of new drilling targets. These efforts have supported the work on Heidrun redevelopment and the decided field lifetime extension, which can realise substantial values through the project Heidrun North phase 2. Petoro's efforts over several years have been important for development of the field and results, which illustrates the value of diversity among licensees as regards arriving at good, comprehensive solutions.

On Oseberg, the company conducted dedicated simulation studies in 2018 for the southern part of Oseberg to identify potential new measures for improved oil recovery. This work has contributed toward identifying new drilling targets that can be drilled from existing infrastructure with low investment costs and risk.

On Snøhvit, the company carried out a substantial amount of preparatory work in 2018 as regards the investment decision for Askeladd. The project will be the first plateau extension for the Snøhvit field since the start-up in 2007. Petoro has e.g. addressed the rig strategy, subsurface work and synergies with other fields in the area. The investment decision was made in 2018.

Petoro will contribute to the identification of new well targets in mature fields, as well as efficient utilisation of rig and drilling capacity.
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

There will be a significant long-term need for drilling new wells to realise the value potential in mature fields. Subsea wells account for about 60 per cent of SDFI production. As opposed to the positive development in drilling pace for new wells from fixed facilities in recent years, the updated forecasts show that there is a need to increase the number of new subsea wells on mature fields in the years to come. In order to increase the portfolio of subsea wells in the SDFI portfolio and supplement the operator's efforts, Petoro has worked in 2018 to mature proposals for new drilling targets on select fields with significant subsea infrastructure, such as Oseberg and Gullfaks. This work also contributes toward efficient utilisation of rig capacity.

Petoro will contribute to robust and comprehensive development of projects such as Sverdrup and Castberg.
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

In 2018, Petoro has worked on preparations for the investment decision and PDO for Johan Sverdrup phase 2, in which Petoro's share is 17.36 per cent. Johan Sverdrup is a pioneer in digitalisation. Petoro has been engaged in the licence's effort to decide on full coverage of the field with seismic cables for reservoir monitoring, implementing fibre optics in wells, as well as installing equipment for water and gas injection (WAG). These decisions are expected to contribute to considerable improved recovery.

As part of phase 2, an area solution for power from shore will also be established for Johan Sverdrup and other fields on the Utsira High. The Johan Sverdrup project has also experienced positive cost development in 2018, and the project distinguishes itself with its good profitability. The PDO for Johan Sverdrup phase 2 was submitted to the authorities in August 2018.

The PDO for Johan Castberg was submitted in December 2017 and approved by the authorities in June 2018. Petoro's efforts in 2018 have been aimed at assessing how permanent reservoir monitoring can increase anticipated extraction from the field. Petoro has also established a strategy for how the company, as a partner, will follow up and handle risk in project implementation.

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

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

"Petoro will monitor the marketing and sale of the state's petroleum, with attention being paid to the market situation as well as to issues of great significance in terms of value or as 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 results have been achieved through the activities and what impact have they had as regards value.

"Petoro will contribute to good follow-up systems to monitor the marketing and sale of the state's petroleum pursuant to the marketing and sale instruction".
Management parameters: Follow up to ensure that Equinor presents necessary documentation of its compliance with the responsibility under the marketing and sale instruction. Good internal routines for exercising the supervisory role.

Pursuant to the assignment letter Petoro has as part of their risk based monitoring prioritized the market situation, issues of great significance in value terms and matters of principle as well as Equinors monitoring and management system. The market is continuously changing, and Petoro has focused on obtaining full market value. Petoro has specifically addressed issues both within oil and gas of great significance in value terms and matters of principle. When it comes to Equinors monitoring and management system Petoro has focused how Equinor documents and follows up SDFI's rightful share of sales-related costs and revenues.

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

FINANCIAL MANAGEMENT

"Petoro will;
- **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."**

In 2018, Petoro has 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 has furthermore prepared and followed up budgets and forecasts, been responsible for accountancy through an external accountant and performed periodic variance analyses and reporting on the SDFI's financial standing and development in accordance with deadlines specified in the Assignment Letter.

The company also received a clean bill of health from the Office of the Auditor General for 2017.

EFFICIENT OPERATIONS

"Part III Activities for the year and results requires analysis and assessments of results, achieved effects and efficient use of resources. Petoro AS is also expected to report on the attainment of sector policy goals, cf. Item 2, including an account of efficient operations in Petoro AS, as well as

in the joint ventures. The company's Board is expected to prepare sound operational targets and indicators that express the efficiency in the company's operations and which can be compared over time. One of the important goals for the state's ownership is for the enterprises to be operated as efficiently as possible. The Board is expected to report on these objectives in the annual report and this will be addressed in ownership dialogue with the company."

Petoro aims to carry out its activities as efficiently as possible. The Board utilises balanced management by objectives in its follow-up. In recent years, Petoro has carried out a number of efficiency and cost-reducing measures, e.g. through the negotiation of contracts for services the company uses and simplification of administrative processes and routines. The company has also organised its licence follow-up in an efficient manner, such that new participating interests the company receives for administration are also included in the portfolio within the same staffing framework. Last year, the company experienced a net growth in participating interests in 12 production licences. In 2018, the company carried out improvement projects with an emphasis on efficient deliveries and corporate governance.

The company has been actively engaged in understanding the opportunities posed by digitalisation in Petoro and the potential for value creation in joint ventures. Petoro established a digitalisation project in 2018 that will contribute toward streamlining the company's operations. Digitalisation will also provide increased quality in analyses and foundations for decisions, which in turn will help Petoro present the measures it believes are necessary to management committees.

In order to seize the opportunities for efficiency and increased production, Petoro has been an active driving force for introducing digitalisation in plans in the joint ventures. The company has also helped put digitalisation and the need to share data on the industry agenda.

Through the role as partner, Petoro has contributed to realising projects for further development and improved recovery from mature fields, including Troll phase 3, Askeladd and lifetime extension on Snorre. On Troll, Petoro has highlighted the potential consequences increased gas extraction could have on oil production, which has been an important basis for the decision to increase gas extraction from Troll. Petoro has also been a driving force for efficiency and cost reductions within the drilling and wells area. Implementation of these projects has e.g. been possible through more efficient use of resources in Petoro.

Melkøya - Photo: Ole Jørgen Bratland

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MANAGEMENT AND CONTROL

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Board of directors of Petoro AS	Page 30
Executive management of Petoro AS	Page 32
Corporate governance	Page 34
Corporate social responsibility	Page 38
Assessment of prospects	Page 40

BOARD OF DIRECTORS OF PETORO

Standing from left: Trude J. H. Fjeldstad, Ragnar Sandvik, Anne-Cathrine Nilsen, Per A. Schøyen and Brian Bjordal.
Sitting: Hugo Sandal and Gunn Wærsted. (Photo: Elisabeth Tønnessen)

GUNN WÆRSTED
Chair

Year of election: 2014
Other directorships: Chair Telenor; director Nationwide, director Fidelity International
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 judge and assistant police attorney as well as scientific assistant, University of Oslo.

TRUDE J. H. FJELDSTAD
Director

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

RAGNAR SANDVIK
Director (elected by the employees)

Year of election: 2018
Occupation: Senior adviser; licence follow-up, Petoro AS.
Education: MSc in Business Economics with specialisation in finance from NHH
Career: Broad experience as senior adviser for Strategy, Commercial and Economics in Petoro, as well as consultant in Accenture for change management, process improvement and system implementation.

BRIAN BJORDAL
Deputy chair

Year of election: 2016
Occupation: Self-employed
Other directorships: Deputy chair Helse Fonna health trust, director FKH Stadion A/S
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.

HUGO SANDAL
Director

Year of election: 2017
Occupation: Self-employed.
Education: Civil engineer from NTH (now NTNU) and Degree of Engineer from Stanford University.
Career: Various positions in Saga Petroleum during the period 1976-1987. Consultant in Railo International from 1987-1989. Chief executive in Sabico AS 1989-1991, primary activities aquaculture and biotechnology. Worked for Deminex, later DEA from 1991, chief executive since 1996 until reaching retirement age in 2016. Director Saga Petroleum 1983-1985. Chair OLF, (now NOROG), 1999-2003. Member of NHO's executive committee 2000-2004.

ANNE-CATHRINE NILSEN
Director (elected by the employees)

Year of election: 2018
Occupation: Team lead commercial affairs, Petoro AS
Education: MSc in Business from the Business School at the University College of Bodø (now Nord University), 2-year specialisation/cand.merc. from NHH and cand. mag. from the University of Tromsø.
Career: Senior commercial adviser and senior marketing and sales adviser in Petoro AS, Chief Negotiator - Gas Sales and Specialist Commercial Coordinator in TOTAL E&P NORGE AS, senior market analyst in Statoil, researcher for Fiskeriforskning AS and trainee at Credit Suisse.

EXECUTIVE MANAGEMENT OF PETORO

Behind from left: Kjell Morisbak Lund, Jonny Mæland, Ole Njærheim and Roy Ruså. In front from left: Bjørn Kvanvik, Grethe Kristin Moen, Olav Boye Siversten and Marion Svihus. (Photo: Elisabeth Tønnessen)

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 earlier held posts as legal affairs officer at ExxonMobil, head of the legal affairs department for Mobil Norway, and in posts at the Ministry of Petroleum and Energy, the Ministry of Labour and Local Government and the Norwegian Petroleum Directorate. Also has international experience from Mobil's US business.

JONNY MÆLAND
Chief financial officer
Education: MBA from the University of Agder and specialisation in business analytics from the Norwegian School of Economics (NHH) in Bergen.
Career: Extensive experience from various positions, both domestically and internationally, in ConocoPhillips since 1998, with the exception of two years as Finance Manager in Norwegian Energy Company ASA. Comes from the position of Director Financial Reporting and Analysis in ConocoPhillips Norge.

ROY RUSÅ
Chief digital officer
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.

MARION SVIHUS
Acting vice president business support
Education: MSc in business economics, Norwegian School of Economics, Bergen.
Career: Extensive experience from Statoil (now Equinor), where she held a number of senior management positions in the fields of economics, analysis, finance and strategy. Also eight years of experience from the banking and financial sector. Served as chief financial officer in Petoro from 2007 to 2017.

BJØRN KVANVIK
Temporary vice president technology
Education: Cand.scient. reservoir physics from the University of Bergen.
Career: Has broad experience from working with fields and discoveries on the Norwegian shelf. Has held a research position and been team lead within improved recovery methods in Rogalandsforskning (now Iris), extensive experience from the Norwegian Petroleum Directorate within resource management, licence follow-up, resource analyses and most recently as team lead and research coordinator. Has served as team lead in Petoro's technology department.

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.

The Petoro board adheres to the requirements for governance in the public sector 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. 2018 to the Storting (2013-2014) ("Diverse and productive ownership") and those sections of the "Norwegian Code of Practice for Corporate Governance" (updated in 2018) 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 government's 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. The Board prepares clear goals, strategies and a risk profile for the company, and enterprise management in Petoro is based on balanced management by objectives with established goals that support the company's strategy.

Petoro has a values base which is integrated in its business activities. The purpose of these values is to provide the company and its employees with a shared basis for attitudes and actions in Petoro. The company's 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.

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 Equinor's marketing and sale of petroleum produced from the state's direct participating interests, pursuant to the marketing and sale instruction issued to Equinor.
- 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 are based on the company's vision and overall goals. The objective is to create the greatest possible value and achieve the highest possible income to the government from the state's direct participating interests in Norwegian petroleum activities (SDFI). The company's vision is to be a driving force on the Norwegian shelf. The consideration for safety and climate makes up an important framework for the strategy.

Each primary task is broken down into defined strategic areas and strategic prioritisations. Strategic areas signify which areas are most important to influence in order to realise the overall goals. Strategic prioritisations elaborate on which key measures must be developed to realise the strategy.

The tools to realise the company's strategy are based on the company's systems, structure, resources and competence. These tools will be shared and applied across the strategies for the company's three primary tasks:

- future-oriented and flexible organisation
- values and risk-based resource management
- project-oriented in-depth efforts

Petoro's core values are included in the strategy.

The Strategy for Safeguarding Participating Interests takes a point of departure in the fact that the portfolio's competitiveness is decisive for both the creation and securing of values. The portfolio's mature fields have the greatest value potential and wells are identified as the most important area for increasing revenue moving forward.

Strategic prioritisations are chosen based on the greatest value potential and Petoro's opportunity to exert influence. The following prioritisations have been selected across the portfolio: Well maturation and drilling efficiency, Optimising the recovery strategy, Field development and further development, as well as Efficient operations. A decision has also been made to particularly emphasise the opportunities inherent in digitalisation within these four areas.

Petoro recognises that climate challenges make it necessary to restrict man-made climate impact. The company wants to contribute to ensuring that the oil and gas industry on the Norwegian Shelf leads the way in addressing climate challenges. Climate is an integrated part of Petoro's governance.

Petoro is the licensee for the state's portfolio on the NCS, with the same rights and obligations as other licensees. 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 works to 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.

Pursuant to the agreements for petroleum activities, the commercial information Petoro receives is subject to confidentiality. 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".

In accordance with the new privacy rules (GDPR), Petoro established a privacy policy in its management system in 2018 and communicated this throughout the organisation.

A dedicated 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 (President and CEO and employees who report directly to the President and 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 state's own accounts with Norges Bank.

SHARE CAPITAL 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. The last production licence was relinquished in January 2018. At the end of 2018, Petoro Iceland AS had no participating interests on the Icelandic continental shelf.

EQUAL TREATMENT OF SHAREHOLDERS

Shares in Petoro AS are owned by the state and the company has no personal shareholders. Petoro Iceland AS has 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 Equinor ASA as well as the state's own oil and gas interests. On this basis, Equinor ASA undertakes the marketing and sale of the state's petroleum pursuant to a marketing and sale instruction approved by the general meeting of Equinor ASA. Through Petoro AS' articles of association, Chapter 11 of the Petroleum Act and the marketing and sale instruction for Equinor ASA, the government has given Petoro responsibility for monitoring that Equinor ASA performs its duties in accordance with this instruction.

A duty of commercial confidentiality applies to information Petoro receives through its monitoring of Equinor ASA'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 Equinor 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 state's procedures for selecting 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. These include participation in courses and conferences and generally following developments within the business area.

WORK OF THE BOARD

The Board has overall responsibility for the management of Petoro, including ensuring that appropriate management and control systems are in place, and for exercising supervision of the day-to-day conduct of the company's business. The work of the board is based on instructions which describe its responsibilities and mode of working. The board met 9 times in 2018.

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 the emphasis on considering topical commercial issues and following up strategies, budgets and interim results. The Board utilises a balanced scorecard system as a key instrument for measuring results.

The Board considers major investment decisions within the portfolio, follow-up and consideration of activities in the licences, and monitoring of 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 2018 is complete. The board reviewed the company's CSR, business ethics guidelines and board instructions.

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 on 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. As of 2018, whistleblowing is also included in the company's business ethics guidelines. 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. The company's values and business ethics guidelines clarify principles that shall govern the company's commercial operations and employee conduct.

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 President and CEO 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. A new member was added to the senior management team in January 2018. Details of the actual remuneration paid in 2018 are provided in a note to the annual accounts.

The company's pension scheme is contribution-based. There is a transition scheme for employees as of 1. January 2016 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.

AUDITORS

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 PwC to conduct a financial audit of the SDFI accounts as part of Petoro's internal audit process. PwC conducts a financial audit of the portfolio's accounts and submits an independent statement pursuant to ISA800. This statement details whether the annual accounts pursuant to the accounting principles and on a cash basis were rendered pursuant to the rules of the Accounting Act and rules for state accountancy on a cash basis. The contract with the external auditor company covers both financial auditing of the SDFI and Petoro AS' 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.

KPMG AS has been selected by the general meeting as the external auditor for Petoro AS, including the Petoro Iceland AS subsidiary.

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, climate and the environment affected by their activities. The work on corporate social responsibility is an integral part of the board's efforts. Petoro's funding for performing its management duties and for running the company is provided through appropriations from the government. Pursuant to its mandate, Petoro 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 it can make a difference. Follow-up of the state's equity interests in all joint ventures is incorporated in Petoro's management system.

By exercising its supervisory duty, Petoro will contribute to continuous improvement of HSE results for fields and facilities where Petoro is a licensee. The Petroleum Safety Authority Norway's annual topic for safety work and analysis of the risk level on the Norwegian shelf will be used as a basis for Petoro's prioritisations. In 2018, Petoro continued its emphasis on learning from investigations of serious incidents across licenses, and carrying out major accident workshops as an important part of the licenses' safety work. The company has devoted particular attention to major accident risk within drilling and wells. Petoro participates every year in HSE management inspections on selected fields and installations.

Petoro exercises its activities in a sustainable manner which minimises negative impact on nature and the environment. Petoro recognises that climate challenges make it necessary to restrict anthropogenic climate impact. The company wants to contribute to ensuring that the oil and gas industry on the Norwegian Shelf leads the way in addressing climate challenges. Climate is an integrated part of Petoro's governance. Petoro will work to ensure that a broad spectrum of effective climate solutions and new technology are considered in selected licenses.

Petoro is a licensee in the Martin Linge and Johan Sverdrup fields, which are both being developed with power from shore. In 2018, the company has continued its CO_2 goals, which reflect a decision for major electrification measures for selected fields in operation. Multiple new electrification projects have been matured over the course of 2018, which if adopted and implemented, will yield significant emission reductions in the portfolio over time. One example is the decision in the partnerships on Snorre and Gullfaks in 2018 to study the possibility of powering the fields using floating offshore wind turbines.

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 President and 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. All employees sign the company's ethical guidelines each year. These guidelines set requirements for the individual to exercise conduct that does not raise questions, based on the requirement to maintain high ethical standards. It follows from the guidelines that the individual is expected to contribute to an inclusive work environment. The individual has a shared responsibility to ensure a good environment in terms of health and safety. The guidelines also address matters such as the duty of confidentiality, potential conflicts of interest and questions linked to accepting 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
Petoro aims to maintain a sound psychosocial and physical working environment for all employees. The company shall have a corporate structure that promotes good results within health, safety and the environment. Petoro shall actively encourage continuous HSE improvement and believes that all incidents can be prevented. The employee association 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 a flexible customising of 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. Working conditions at Petoro are customised to allow employment of people with disabilities.

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. The right to report improprieties in the enterprise also comprises consultants who carry out assignments on behalf of Petoro.

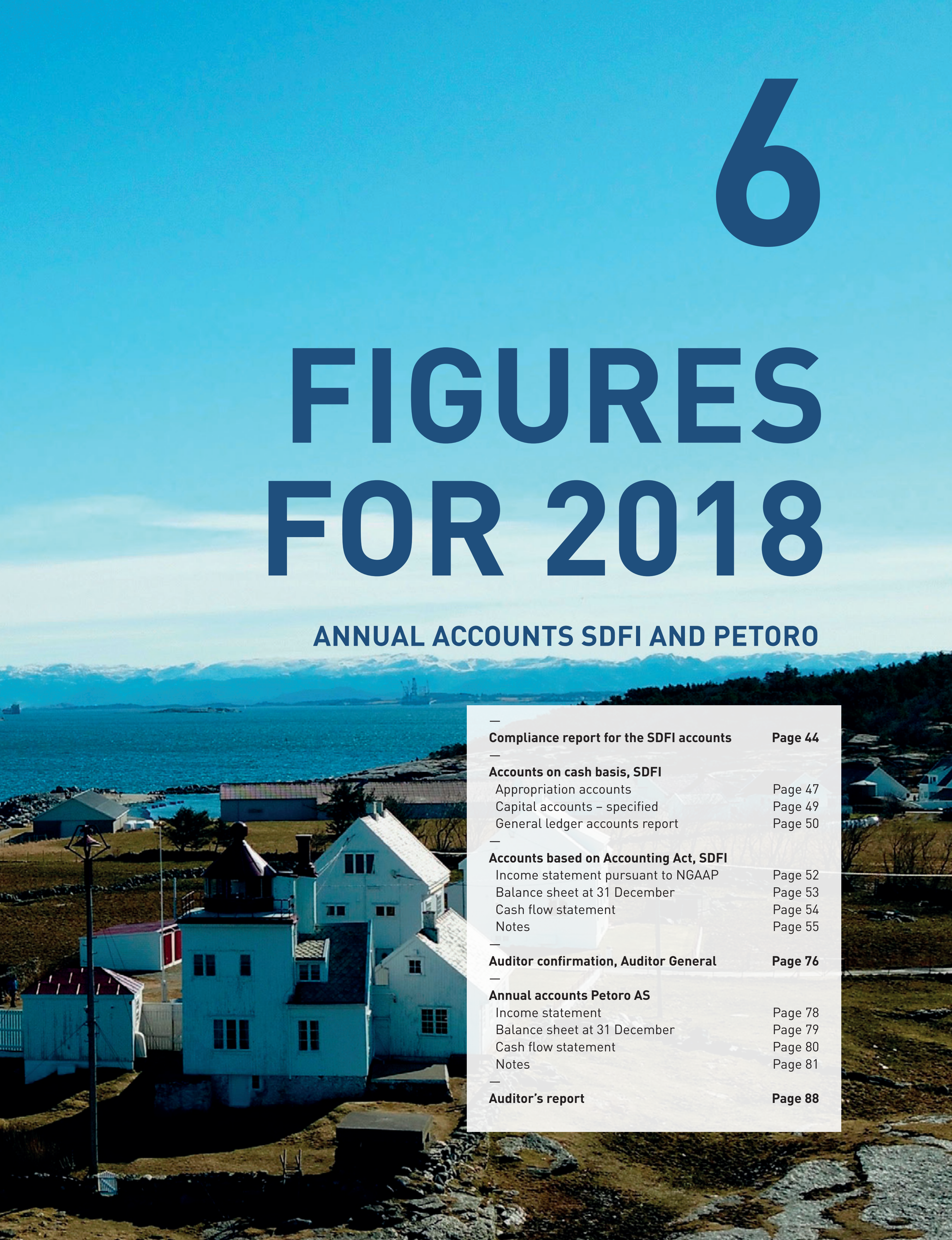
Petoro expects its partners and contractors/suppliers to maintain the same ethical standards set for its own business operations.
Petoro's standard contractual terms incorporate requirements that contractors/suppliers must execute the assignment with a high level of professionalism and in accordance 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 deciding issues related to the procurement and contract strategy.

5. OUTLOOK

Outlook is described in the Directors' report, Chapter 1.2.

Hywind Tampen floating wind farm
Illustration: Equinor

Martin Linge modules arriving Stavanger 29 March 2018 – Photo: Espen Rønnevik _ Woldcam - Statoil



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FIGURES FOR 2018

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COMPLIANCE REPORT FOR THE SDFI ACCOUNTS

PURPOSE
Since its establishment in 2001, Petoro has served as the licensee for the state's participating interests in production licences, fields, pipelines and onshore facilities. Petoro is charged with managing the SDFI portfolio on the basis of sound business principles. As of the end of 2018, the portfolio consisted of 198 production licences, 12 more than at the beginning of the year. In January 2019, Petoro received participating interests for management in 14 production licences under the Awards in Predefined Areas (APA) 2018.

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 AS, 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 enterprises.

The Board also 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 2018.

ASSESSMENT OF SIGNIFICANT FACTORS

APPROPRIATION AND CAPITAL ACCOUNTS
In accordance with the supplemental assignment letter dated 20 December 2018, the SDFI's appropriation for investments[2] totalled NOK 24 billion. The appropriation for operating income[3] totalled NOK 124.7 billion. The appropriation for interest on the state's capital[4] totalled NOK 3.1 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. Equinor 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 175.5 billion in 2018, compared with NOK 145 billion in 2017. This consists mainly of revenue from the sale of oil and gas. The revenues are primarily influenced by higher oil and gas prices in 2018. Expenses reported in the appropriation accounts comprise payments of NOK 22.6 billion as investments and NOK 32.8 billion as operating expenses. Payments in 2017 amounted to NOK 26.6 billion related to investments and NOK 28.7 billion related to operations. Payments to operations were primarily related to the operation of fields and facilities, processing and transport costs, as well as exploration and field development expenses. This is in addition to payments of financial expenses. Depreciation of fields and facilities amounted to NOK 23.6 billion in 2018, compared with NOK 24.6 billion in 2017.

THE SDFI ACCOUNTS
include a number of significant estimates which are subject to uncertainties and rely on discretionary assessments. 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.

Income after financial items in 2018 totalled NOK 114 billion, NOK 15 billion higher than the previous year. Net cash flow transferred to the state amounted to NOK 120 billion in 2018, compared with NOK 87 billion in 2017. Significantly higher oil and gas prices in 2018, compared with 2017, impacted both the cash flow and the financial result for the year. The realised price of oil averaged NOK 573 per bbl in 2018, compared with NOK 449 per bbl in 2017. The average price of gas was NOK 2.17 per Sm3 in 2018, compared with NOK 1.72 per Sm^3 in 2017.

The total sales volume was 1.099 million bbls of oil equivalent (o.e.) per day, 25 lower than the previous year. Sales of liquids declined by 35 as a result of natural production decline and planned shutdowns in the second quarter of 2018, while sales of gas increased by 10 kboed (~0.6 billion Sm^3) compared with the previous year as a result of higher sales of third-party gas. Sales of self-produced gas amounted

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

to two-thirds of the total sold volume for the year and reached a record level compared with previous years.

Production costs amounted to NOK 17 billion, an increase of NOK 3 billion from the previous year. The increase is due to the accounting provision for recognition of liability for the negative outcome of the initial verdict from the District Court in the case of Troll Unit and a general cost increase for fields in operation, higher CO_2 credit prices, as well as higher electricity costs for onshore facilities and terminals. Adjusted for the accounting provision in Troll Unit, this entailed a 7% increase in production costs from 2017.

The increase in transport and processing costs of NOK 0.6 billion is due to higher gas sales, as well as the separation of Nyhamna into a joint venture separate from Ormen Lange. Following the separation, shipper costs from Nyhamna are reported as tariff costs, while revenues from the ownership are reported under tariff income.

Costs for purchasing third-party gas increased by NOK 1 billion in 2018 as a result of higher volume and prices. Purchased gas is sold alongside equity gas and includes gas income.

The book value of Maria was impaired by NOK 1.6 billion in 2018. The significant reduction in the reserve base and lower well potential has given rise to the need for a new drainage strategy and additional investments on Maria. Previous impairments of Draugen and Martin Linge were reversed in 2017. This yields a negative effect on net income of NOK 6.5 billion when comparing this year's profit with 2017.

The change in mark to market assesment of open gas positions resulted in an accrued loss provission of NOK 1 billion as of 31 December 2018. As a result of reversing previous loss allocations, this yields a negative deviation of NOK 2 billion compared with 2017.

Costs incurred for investments in 2018 totalled NOK 22.6 billion, about NOK 2.7 billion lower than the year before. The lower investments were primarily caused by drilling fewer production wells, as well as somewhat lower activity in field development.

The portfolio's estimated remaining reserves totalled 5 544 million boe at the end of 2018, down by 335 million boe from the year before. The reserve growth of 62 million boe in 2018 was considerably lower than the annual production of 396 million boe. Reserve growth in 2018 primarily originated from the decision on Johan Sverdrup phase 2.

The book value of assets at 31 December 2018 was NOK 247 billion. The assets mainly consist of fixed assets related to field installations, wells, pipelines and onshore facilities, as well as current recievables. At year-end, future ARO totalled NOK 65.2 billion, down NOK 2.5 billion NOK from the previous year. Equity at 31 December amounted to NOK 163 billion.

ADDITIONAL INFORMATION

The Office of the Auditor General (OAG) is the external auditor, and approves the annual accounts for the SDFI. On completing its annual audit, the OAG issues a final audit letter (report) which summarises the conclusion of its audit work. The result of the audit will be reported by 1 May 2019.

The Board has appointed PwC to conduct a financial audit of the SDFI accounts as part of Petoro's internal audit process. 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 Norwegian auditing standard RS800 "Special considerations in the auditing about 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, 6 March 2019

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Per Arvid Schøyen
Director

Hugo Sandal
Director

Trude J. H. Fjeldstad
Director

Ragnar Sandvik
Director
elected by the employees

Anne-Cathrine Nilsen
Director
elected by the 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 accounting year matches the calendar year
b) the accounts present all reported expenses and revenues for the accounting year
c) expenses and revenues are shown gross in the accounts
d) the accounts are prepared in accordance with the cash basis.

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.

APPROPRIATION REPORTING
The presentation of reporting to the appropriation accounts comprises an upper section with the appropriation reporting 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 enterprises.

GENERAL LEDGER ACCOUNTS REPORT
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. 2018 - Figures in NOK

Expenses chapter	Type	Category	Description	Total allocation	2018 accounts	Overspend (-) and underspend
2440	Expenses	30	Investments	24 000 000 000	22 554 905 832	1 445 094 168
5440	Expenses	24.02	Operating expenses	30 100 000 000	32 036 437 942	-1 936 437 942
5440	Expenses	24.03	Exploration and field development expenses	2 100 000 000	2 184 000 037	-84 000 037
5440	Expenses	24.04	Depreciation	24 000 000 000	23 636 285 287	363 714 713
5440	Expenses	24.05	Interest	3 100 000 000	3 096 414 481	3 585 519
Total expensed				**83 300 000 000**	**83 508 043 580**	**-208 043 580**

Revenue chapter	Type	Category	Description	Total allocation	2018 accounts	Overspend (-) and underspend
5440	Revenue	24.01	Operating revenue	184 000 000 000	175 462 734 075	-8 537 265 925
5440	Expenses	30	Depreciation	24 000 000 000	23 636 285 287	-363 714 713
5440	Expenses	80	Interest on fixed capital	3 100 000 000	3 113 578 453	13 578 453
5440	Expenses	85	Interest on open accounts	0	-17 163 972	-17 163 972
Total recognised				**211 100 000 000**	**202 195 433 843**	**-8 904 566 157**
5440		**24**	**Operating profit**	**124 700 000 000**	**114 509 596 327**	**-10 190 403 673**
Net reported to appropriation accounts					**-118 687 390 263**	

Capital accounts			
0677.03.04693	Settlement account Norges Bank - paid in	167 859 833 249	
0677.03.08710	Settlement account Norges Bank - paid in	16 491 486 841	
0677.04.05015	Settlement account Bank of Norway - paid out	-64 685 576 323	
	Change in open accounts	-978 353 504	
Total reported		0	

Holdings reported to the capital accounts (31 Dec)

Account	Text	2018	2017	Change
	Open accounts with the Treasury	-3 364 091 145	-4 342 444 649	978 353 504

ACCOUNTS ON CASH BASIS, SDFI
Appropriation accounts

NOTE A Explanation of total allocation

Type and category	Transferred from last year	Allocation for the year	Total allocation
2440.30		24 000 000 000	24 000 000 000
5440.24.02		30 100 000 000	30 100 000 000
5440.24.03		2 100 000 000	2 100 000 000
5440.24.04		24 000 000 000	24 000 000 000
5440.24.05		3 100 000 000	3 100 000 000
5440.24.01		184 000 000 000	184 000 000 000
5440.30		24 000 000 000	24 000 000 000
5440.80		3 100 000 000	3 100 000 000
5440.85		0	0
5440.24		124 700 000 000	124 700 000 000

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 2018 – Figures in NOK				
	Items			
	Open account government			3 364 091 145
	Fixed capital investment before impairment		193 739 946 831	
	Impairment		-1 200 985 432	
	Fixed capital investment account		192 538 961 399	192 538 961 399
Total				**195 903 052 544**
	Open account government at 1 Jan. 2018		-4 342 444 649	
	Total expenses	22 554 905 832		
	Total revenue	-141 242 296 095		
	Cash flow	-118 687 390 263	-118 687 390 263	
	Net transfer to the state		119 665 743 767	
Open account state at 31 Dec. 2018			**-3 364 091 145**	**-3 364 091 145**
	Fixed assets 1 Jan. 2018		-194 821 326 286	
	Investments for the year		-22 554 905 832	
	Depreciation for the year		23 636 285 287	
	Impairment		1 200 985 432	
	Fixed assets 31 Dec. 2018		-192 538 961 399	-192 538 961 399
Total				**-195 903 052 544**

Stavanger, 6 March 2019

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ACCOUNTS ON CASH BASIS, SDFI
General ledger accounts report

Specification of the general ledger accounts report 31 Dec. 2018		
	2018	**2017**
Operating revenues reported to the appropriation accounts		
Sales and lease payments received	165 261 085 854	132 997 435 409
Other amounts paid in	10 431 743 093	12 881 184 463
Total paid in from operations	**175 692 828 947**	**145 878 619 872**
Operating expenses reported to the appropriation accounts		
Depreciation	23 636 285 287	24 648 044 133
Other disbursements for operations	32 765 810 337	28 658 993 411
Total disbursed to operations	56 402 095 625	53 307 037 544
Net reported operating expenses	**-119 290 733 322**	**-92 571 582 328**
Investment and financial income reported to the appropriation accounts		
Financial income paid in	-230 094 872	-835 578 762
Total investment and financial income	**-230 094 872**	**-835 578 762**
Investment and financial expenses reported to the appropriation accounts		
Paid out for investment	22 612 511 194	26 658 459 248
Paid out for share purchases	-62 040 944	-90 945 423
Paid out for financial expenses	4 555 477 706	5 112 470 175
Total investment and financial expenses	**27 105 947 955**	**31 679 983 999**
Net reported investment and financial expenses	**27 336 042 828**	**32 515 562 761**
Revenues and expenses reported under common chapters		
Depreciation (see Ch. 5440 revenue)	-23 636 285 287	-24 648 044 133
Interest on the government's capital and open accounts with the Treasury (see Ch. 5440 revenue)	-3 096 414 481	-3 567 970 153
Net reported expenses under joint chapters	**-26 732 699 768**	**-28 216 014 285**
Net expenses reported to the appropriation accounts	**-118 687 390 263**	**-88 272 033 852**

ACCOUNTS ON CASH BASIS, SDFI
General ledger accounts report

Overview of open accounts with the Treasury

Assets and liabilities*	**2018**	**2017**
O/U call	-520 145 318	-353 144 900
AP nonop	-127 073 112	56 487 435
AR nonop	-61 302 117	-1 133 674 872
Inventory nonop	-92 977 768	-159 124 367
Prep exp nonop	-146 686 467	936 171 349
Working cap - nonop	-39 167 375	1 752 400 542
VAT	8 998 653	16 000 927
Total open accounts with the Treasury	**-978 353 504**	**1 115 116 115**

*)
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 in monthly settlements from JV billing
VAT - balance of VAT payments

Comment on change in open accounts 2018:
The change is primarily caused by a reduction in advance payments to operators, as well as a reduced amount owed in the operators' settlement and lower pre-paid expenses to operators.

ACCOUNTS BASED ON ACCOUNTING ACT
Income statement pursuant to NGAAP

All figures in NOK million	Notes	2018	2017
OPERATING REVENUE			
Operating revenue	3, 4, 9, 11	177 431	150 720
Total operating revenue		177 431	150 720
OPERATING EXPENSES			
Exploration expenses		1 780	1 554
Production expenses	5, 17, 22	17 440	14 262
Transport and processing expenses	5	9 720	9 078
Depreciation and impairment	2	27 135	21 209
Costs gas purchases, storage and admin.	5, 9, 10	5 815	4 770
Total operating expenses		61 890	50 874
Operating income		115 541	99 846
FINANCIAL ITEMS			
Financial income		1 705	1 989
Financial expenses	12	3 036	2 916
Net financial items	8	-1 331	-928
NET INCOME FOR THE YEAR	19	114 210	98 919

ACCOUNTS BASED ON ACCOUNTING ACT
SDFI balance sheet at 31 December

All figures in NOK million	Notes	2018	2017
Intangible fixed assets	2	65	68
Tangible fixed assets	1, 2, 18, 21	216 529	224 161
Financial assets	2, 11	218	238
Fixed assets		**216 811**	**224 467**
Storage	6	3 608	2 534
Trade debtors	9, 10	26 654	27 175
Bank deposits		61	176
Current assets		**30 323**	**29 884**
TOTAL ASSETS		**247 134**	**254 352**
Equity at 1 Jan.		168 063	156 302
Paid from/(to) the state during the year		-119 666	-87 157
Net profit		114 210	98 919
Equity adjustments		0	0
Equity	19	**162 607**	**168 063**
Long-term decommissioning liabilities	12, 18	65 190	67 647
Other long-term liabilities	13	3 348	3 629
Long-term liabilities		**68 538**	**71 276**
Trade creditors		2 315	1 987
Other current liabilities	9, 14, 15	13 674	13 026
Current liabilities		**15 989**	**15 013**
TOTAL EQUITY AND LIABILITIES		**247 134**	**254 352**

Stavanger, 6 March 2019

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ACCOUNTS BASED ON ACCOUNTING ACT
SDFI Cash flow statement

All figures in NOK million	**Notes**	**2018**	**2017**
CASH FLOW FROM OPERATIONAL ACTIVITIES			
Cash receipts from operations	**3, 4**	**175 463**	145 043
Cash disbursements from operations	**5**	**-32 036**	-30 222
Disbursements from exploration and field development		**-2 184**	
Change in working capital in the licences		**352**	-1 426
Change over/under call in the licenses		**520**	353
Refundable VAT		**-9**	
Cash flow from operational activities		**142 106**	**113 747**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments	**2,11**	**-22 555**	-26 564
Cash flow from investment activities		**-22 555**	**-26 564**
CASH FLOW FROM FINANCING ACTIVITIES			
Net transfer to the state		**-119 666**	-87 157
Cash flow from financing activities		**-119 666**	**-87 157**
Change in bank deposits of apportioned liability partnerships (DA)		**-115**	66

NOTES TO THE COMPANY ACCOUNTS

GENERAL

As of 31 December 2018, Petoro AS acted as licensee on behalf of the SDFI for interests in 198 production licences and 15 joint ventures for pipelines and terminals, including where Petoro safeguards the commercial interests in Mongstad Terminal DA, Vestprosess DA, and manages the shares in Norpipe Oil AS. The SDFI is also entitled to potential profits in production licences with net profit agreements. The company has the same rights and obligations as other licensees, and manages the SDFI on the NCS on the basis of sound business principles.

Petoro's 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. Petoro 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. The company 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 to debtors 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 Equinor Natural Gas LLC (ENG) 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 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 purchase of gas for inventory for optimisation 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 prevailing 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 ownership or use over a longer period are classified as fixed assets. Other assets are classified as current assets. Debtors due within one year are classified as current assets. Similar 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 pending 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 wells 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 70.4 per cent of expected remaining oil reserves in 2018, while the corresponding figure for gas reserves was 86.5 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 fixed 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. Producing 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 SDFI's weighted average cost of capital (WACC).

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 is based

on the discount rate for enterprise bonds (OMF) as listed in NRS6.

A change in the liability relating to its 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
Accounts receivable are recognised at face value in the balance sheet less a provision for expected loss. This provision is based on an individual assessment of each debtor.

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. Cash flows from oil and gas sales are transferred to the state 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 and fees
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 Equinor'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. Portfolio valuations are used as a basis where this, based on the nature of the financial instruments, is considered to be the most sensible approach, and 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. According to NGAAP a liability is recognized in the SDFI accounts if the initial verdict from a court has a negative outcome, regardless of the company's view of a favourable outcome when the initial verdict has been appealed.

NOTE 1 ASSET TRANSFERS AND CHANGES

In January 2018, the Ministry of Petroleum and Energy completed its Awards in Predefined Areas (APA 2017), where 17 production licenses were awarded with SDFI participation. In the 24th licensing round in June 2018, two production licenses were carved out from existing licences with SDFI participation, and 11 production licenses were relinquished and 2 were sold. In January 2019, the Ministry of Petroleum and Energy completed its Awards in Predefined Areas (APA 2018), where an additional 14 production licenses were awarded with SDFI participation.

NOTE 2 SPECIFICATION OF FIXED ASSETS

All figures in NOK million	Book value at 31 Dec 17	Historical cost at 1 Jan 18	Accumulated depreciation 1 Jan 17	Addition 2018	Impair-ment 2018	Disposal 2018	Transfers 2018	Depreciation 2017	Book value at 31 Dec 18
Fields under development	25 398	25 398	0	7 815	0	0	0	0	33 212
Fields in operation	164 518	550 580	-386 061	11 024	-1 562	-141	298	-23 067	151 071
Pipelines and terminals	30 086	71 440	-41 355	307	0	0	0	-2 502	27 890
Capitalised exploration expenses	4 159	4 159	0	1 483	0	-989	-298	0	4 355
Total tangible fixed assets	**224 161**	**651 577**	**-427 416**	**20 628**	**-1 562**	**-1 130**	**0**	**-25 569**	**216 529**
Intangible assets	68	287	-219	1	0	0	0	-4	65
Financial fixed assets	238	238	0	-20	0	0	0	0	218
Total fixed assets (NGAAP)	**224 467**	**652 103**	**-427 635**	**20 609**	**-1 562**	**-1 130**	**0**	**-25 573**	**216 811**
Translation to cash basis	-29 646	-68 691	39 045	1 946	360	1 130	0	1 937	-24 273
Total fixed assets on cash basis	**194 821**	**583 412**	**-388 591**	**22 555**	**-1 201**	**0**	**0**	**-23 636**	**192 539**

Tangible fixed assets for the Snøhvit field 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.

Depreciation assessments calculate utility value 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). The discount rate for calculating utility value is 7-8 per cent real value. Inflating is estimated at 2 per cent per year. When the utility value is assessed to be lower than the book value, the assets are written down to their utility value.

The general price assumptions used to calculate depreciation:

Nominal prices/year	2019	2020	2025	2030
Oil NOK/bbl	607	566	523	577
Gas price NOK/Sm^3	2.6	2.4	2.1	2.4

Maria has been depreciated as a consequence of a significant reduction in the reserve base and lower well potential that has resulted in a need for a new drainage strategy and additional investments in Maria.

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

Financial fixed assets of NOK 218 million include, in addition to the shareholding in Norpipe Oil AS recorded at NOK 1, 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 Equinor Natural Gas LLC (ENG) in the US. This activity is assessed as an investment in an associate and recorded in accordance with the equity method (See also Note 11). The SDFI participates in ENG 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 ENG are settled continuously on a monthly basis in connection with the purchase and sale of LNG.

NOTE 3 SPECIFICATION OF OPERATING REVENUE BY AREA

All figures in NOK million	2018	2017
Licence	**159 162**	131 937
Market	**23 001**	23 120
Net profit agreements	**406**	428
Elimination internal sales	**-5 138**	-4 765
Total operating revenue	**177 431**	**150 720**
Conversion to cash basis	**-1 968**	-5 677
Total cash basis	**175 463**	**145 043**

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.

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	2018	2017
Crude oil, NGL and condensate	**70 340**	61 171
Gas	**94 786**	77 398
Transport and processing revenue	**11 178**	10 674
Other revenue	**721**	1 050
Net profit agreements	**406**	428
Total operating revenue (NGAAP)	**177 431**	**150 720**
Conversion to cash basis	**-1 968**	-5 677
Total cash basis	**175 463**	**145 043**

All crude oil, NGL and condensate from the SDFI are sold to Equinor, and all gas is sold by Equinor through the sale instructions issued to Equinor 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 annual gas volumes is purchased by the five largest customers.

NOTE 5 SPECIFICATION OF PRODUCTION AND OTHER OPERATING EXPENSES BY AREA

All figures in NOK million	2018	2017
PRODUCTION EXPENSES		
Licence	**13 819**	11 204
Market	**3 621**	3 058
Total production expenses	**17 440**	**14 262**
TRANSPORT AND PROCESSING EXPENSES		
Licence	**14 907**	13 634
Market	**-49**	209
Elimination internal purchases	**-5 138**	-4 765
Total transport and processing expenses	**9 720**	**9 078**
OTHER OPERATING EXPENSES		
Market	**5 815**	4 770
Total other operating expenses	**5 815**	**4 770**
Total operating expenses	**32 975**	**28 110**
Conversion to cash basis	-939	664
Total cash basis	**32 036**	**28 775**

Production costs for Licence include NOK 2.2 billion related to the accounting provision for the initial verdict in the case of Troll Unit. Over/underlift is included in the figures for Market. Gassled and other gas infrastructure is organisationally placed under Market for reporting of production expenses and transport and processing expenses. Other operating expenses Market primarily comprises the cost of purchasing gas for resale and purchases for inventory to optimise gas sales.

NOTE 6 INVENTORIES

All figures in NOK million	2018	2017
Petroleum products	**2 194**	1 028
Spare parts	**1 413**	1 506
Total inventories	**3 608**	**2 534**

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'S 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 2018 letter of assignment to Petoro AS 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 2018 letter of assignment to Petoro AS 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	2018	2017
Interest income	**5**	2
Other financial revenue	**2**	1
Currency gain	**1 698**	1 986
Currency loss	**-1 577**	-1 595
Currency loss/gain unrealised	**166**	33
Interest expenses	**-56**	45
Other financial expenses	**-171**	
Interest on decommissioning liability	**-1 397**	-1 400
Net financial items	**-1 331**	**-928**

Not relevant to the accounts on a cash basis

NOTE 9 CLOSE ASSOCIATES

The state, represented by the Ministry of Petroleum and Energy, owns 67 per cent of Equinor and 100 per cent of Gassco. These companies are classified as close associates of the SDFI. Petoro, as licensee for the SDFI, has significant equity interests in pipelines and onshore facilities operated by Gassco.

Equinor is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL from the SDFI to Equinor totalled NOK 70.3 billion (corresponding to 132 million boe) for 2018, compared with NOK 61.2 billion (145 million boe) for 2017.

Equinor markets and sells the state's natural gas at the government's expense and risk, but in Equinor's name and along with Equinor's own gas. The state receives the market value for the sale of these volumes. The state sold dry gas directly to Equinor as buyer at a value of NOK 387 million in 2018, compared with NOK 311 million in 2017. The state has covered its relative share of Equinor's 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, totalling NOK 13.8 billion in 2018, compared with NOK 11.7 billion in 2017. Open accounts with Equinor totalled NOK 7.3 billion in favour of the SDFI, converted at the exchange rate on the balance sheet date, compared with NOK 8.4 billion in 2017.

Pursuant to the marketing and sale instruction, the SDFI also participates with a financial interest in Equinor Natural Gas LLC (ENG) in the US. Cash flows from ENG 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 Equinor or 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 Equinor Natural Gas LLC (ENG) 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 it is formally owned 56.5 per cent by Equinor 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 Equinor North America Inc. As a result of the merger between former Statoil and Hydro's petroleum activities in 2007, the profit/loss is allocated in accordance with a disproportionate distribution model which gives 48.4 per cent to the SDFI.

The SDFI participates in ENG under the marketing and sale instruction with regard to activities related to the marketing and sale of the state's LNG from Snøhvit. Cash flows from ENG are settled continuously on a monthly basis in connection with the purchase and sale of LNG.

In addition to ENG, the shareholdings in Norsea Gas AS and Norpipe Oil AS are included in the table below. Norsea Gas AS was wound up in 2018. The winding up dividend from Norsea Gas AS was NOK 373.5 million.

All figures in NOK million	**2018**	**2017**
Opening balance financial fixed assets	**238**	362
Share of profit for the year in associated company	**-20**	-123
Closing balance financial fixed assets	**218**	**238**

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 removal date. The removal date is largely expected 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 discount rate for enterprise bonds (OMF) as listed in NRS6.

The estimated decommissioning costs have been adjusted downward by NOK 3.7 billion as a result of changes in future estimated costs from operators, changing the decommissioning and removal date, as well as changes in the discount rate.

The changed estimate in 2017 was specified with changed discount rates (130), changed ownership interest (-195) and changed estimate (-3 501).

All figures in NOK million	**2018**	**2017**
Liability at 1 January	**67 647**	67 546
New liabilities	**2**	2 565
Actual decommissioning	**-174**	-298
Changes to estimates	**-3 682**	-3 566
Interest expense	**1 397**	1 400
Liability at 31 December	**65 190**	**67 647**

NOK 174 million for cessation and decommissioning incurred in 2018, and is included in the accounts on a cash basis.

NOTE 13 OTHER LONG-TERM LIABILITIES

Other long-term liabilities pursuant to 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 transition 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. Future discounted minimum payment for financial leasing totals NOK 1 032 million as of 31 December 2018. Of this, NOK 112 million falls due for payment in 2019, and NOK 450 million is to be paid in the subsequent four years. The residual NOK 470 million shall be paid after 2024.

Repayment liabilities for previously paid-up profit shares in licences with net profit agreements linked to decommissioning is included in long-term liabilities and amounts to NOK 1 533 million.

Other long-term liabilities total NOK 783 million, of which NOK 206 million falls due within more than 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 NGAAP falling due in 2018 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

Accounts receivable from licence operators has been moved from short term liabilities to current assets in the report. A comparable change has been made for comparison figures in 2017.

Not relevant to the accounts on a cash basis.

NOTE 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Pursuant to the marketing and sale instruction issued to Equinor, only limited use is made of derivative financial instruments (derivatives) to manage risk in the SDFI portfolio. This is primarily because the SDFI is owned by the Norwegian state and is accordingly included in the state'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 2018, the market value of the derivatives was NOK 1 008 million in assets and NOK 1 863 million in liabilities. The comparable figures at the end of 2017 were NOK 596 million in assets and NOK 2 275 million in liabilities. These figures include the market value of listed futures and unlisted instruments. The market value of built-in derivatives was related to end-user customers in continental Europe. In 2018, this amounted to NOK 133 million in assets and NOK 283 in liabilities. The comparable figures in 2017 were NOK 498 in assets. Net unrealised loss on outstanding positions as of 31 December 2018 is carried to expense.

Price risk
The SDFI is exposed to fluctuations in oil and gas prices in the global market. Equinor purchases all oil, NGL and condensate from the SDFI at market-based prices. SDFI's revenue from gas sales is the price actually obtained. Based on the arrangement relating to the marketing and sale instruction along with the SDFI's participation in the state'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 most significant part of the company's revenue from the sale of oil and gas is invoiced in USD, EUR or GBP. Parts 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 petroleum, and its exposure in the balance sheet at 31 December 2018 was largely related to one month's outstanding revenue.
Interest risk

The SDFI is primarily exposed to interest risk through financial leases. Together with Equinor, the company 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, NGL and condensate sold to Equinor. 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 financial 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
2019	5 191	1 575
2020	4 315	1 255
2021	3 449	1 172
2022	2 978	1 129
2023	1 499	1 067
Beyond	505	3 684

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 commit to drill a certain number of wells. Licensees are also committed to undertake exploration activities through approved budgets and work programmes. SDFI was committed at year-end to participate in 19 wells with an expected cost in 2019 of NOK 1.1 billion.

The SDFI has also accepted contractual liabilities relating to investments in new and existing fields. Overall, this amounts to NOK 12.6 billion for 2019 and NOK 20.45 billion for subsequent periods, totalling NOK 33 billion. Through approved budgets and work programmes, the SDFI is also committed to operating and investment expenses for 2019. The mentioned liabilities for 2019 are included in this total.

In connection with the sale of the SDFI's oil and gas, Equinor 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 activities are provided as security for lack of financial settlement. In total, the guarantees amount to NOK 1 billion for the SDFI's share.

The SDFI and Equinor deliver gas to customers under joint gas sale agreements. SDFI's 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 Equinor. 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 negatively 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.

According to NGAAP a liability is recognised in the SDFI accounts if the initial verdict from a court has a negative outcome regardless of the the company`s view of a favorable outcome when the initial verdict has been appealed. In the case of Troll Unit a liability for the initial verdict has been recognised in the accounts amounting to NOK 2.4 billion as of 31 December 2018.

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, which means that the management makes assessments and exercises judgement in a number of areas. Changes in the underlying assumptions could have a significant 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' plan for development and operation (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 in the SDFI's profit.

Drilling expenses for exploration wells 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 prepared, these investments are reviewed for depreciation if there are indications of a decline in value. The assessment of whether an asset must be written down is largely based on discretionary 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	**2018**	**2017**
Equity at 1 Jan.	**168 063**	156 302
Net income	**114 210**	98 919
Cash transfers to the state	**- 119 666**	- 87 157
Equity at 31 Dec.	**162 607**	**168 063**

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 audit takes place during the period from 1 May 2018 – 30 April 2019, and the result of the audit will be reported in the form of an auditor's report by 1 May 2019.

In addition, PricewaterhouseCoopers AS (PwC) has been engaged by Petoro's board of directors 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

	2018		2017		2016	
Oil* in million bbl, Gas in billion Sm^3	**Oil**	**Gas**	**Oil**	**Gas**	**Oil**	**Gas**
Expected remaining reserves at 1 Jan.	1 615	678	1 489	712	1 599	743
Corrections for earlier years **	-9	0	0	0	-3	-1
Change in estimates	-33	-6	30	3	18	-1
Extensions and discoveries	127	0	112	0	1	0
Improved recovery	7	1	129	4	20	1
Purchase of reserves	0	0	0	0	2	6
Sale of reserves	0	0	0	0	0	0
Production	-136	-41	-145	-41	-150	-37
Expected remaining reserves at 31 Dec.	**1 572**	**632**	**1 615**	**678**	**1 489**	**712**

* Oil includes NGL and condensate

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

Reserve growth is the total of changes in estimates, extensions and discoveries, as well as improved recovery

At the end of 2018, the portfolio's estimated total remaining reserves were 5 544 million boe, down by 335 million boe from the end of 2017. Production was 396 million boe in 2018. The reserve growth of 62 million boe primarily came from the decision on Johan Sverdrup Phase 2. This gives a reserve replacement rate for 2018 of 16 per cent, compared with 78 per cent in 2017.

NOTE 22 RESEARCH AND DEVELOPMENT

Petoro contributes to research and development (R&D) through the SDFI meeting its share of the operator's costs for general research and development pursuant to the Accounting Agreement. NOK 497 million was expensed by the SDFI for R&D in 2018 as regards charges from the operators during the year.

NOTE 23 INCIDENTS AFTER THE BALANCE-SHEET DATE

In the third quarter of 2018, Equinor entered into an agreement to purchase 100 per cent of the shares in Danske Commodities (DC). The agreement was approved in January 2019 and entered into force on 1 February 2019. DC is one of Europe's largest companies within short-term electricity trading. Short-term gas trading is also part of the company's activities. Petoro is in dialogue with Equinor regarding handling the SDFI's participation as regards the transaction under the Marketing and Sale Instruction.

NOTE 24 STATE'S OVERVIEW OF INTERESTS

Production licence	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)
018	5.00000	5.00000
018 B	5.00000	5.00000
018 C	-	5.00000
018 DS	-	5.00000
028 C	30.00000	30.00000
034	40.00000	40.00000
036 BS	20.00000	20.00000
036 E	20.00000	20.00000
037	30.00000	30.00000
037 B	30.00000	30.00000
037 E	30.00000	30.00000
038	-	30.00000
038 C	30.00000	30.00000
038 D	30.00000	30.00000
040	30.00000	30.00000
043	30.00000	30.00000
043 BS	30.00000	30.00000
043 ES	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	30.00000
052	37.00000	37.00000
053	33.60000	33.60000
053 C	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

Production licence	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)
093 C	47.88000	47.88000
093 D	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
102 H	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
120 CS	16.93548	16.93548
124	27.09000	27.09000
128	24.54546	24.54546
128 B	54.00000	54.00000
128 D	24.54546	24.54546
128 E	24.54546	24.54546
134	13.55000	13.55000
152	30.00000	30.00000
153	30.00000	30.00000
153 B	30.00000	30.00000
153 C	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
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
193 FS	30.00000	30.00000

Production licence	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)
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
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	40.00000
248 HS	40.00000	40.00000
248 I	40.00000	40.00000
248 J	40.00000	-
250	45.00000	45.00000
255	30.00000	30.00000
255 B	30.00000	30.00000
255 C	30.00000	30.00000
255 D	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	35.00000
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
537 B	20.00000	-
602	20.00000	20.00000
608	20.00000	20.00000
612	-	20.00000

Production licence	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)
615	20.00000	20.00000
615 B	20.00000	20.00000
618	-	20.00000
659	30.00000	30.00000
682	20.00000	20.00000
685	20.00000	20.00000
695	20.00000	20.00000
718	-	20.00000
720	20.00000	20.00000
728	-	20.00000
728 B	-	20.00000
745 S	-	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	20.00000
775	20.00000	20.00000
775 B	20.00000	-
776	20.00000	20.00000
777	20.00000	20.00000
777 B	20.00000	20.00000
777 C	20.00000	20.00000
777 D	20.00000	-
793	20.00000	20.00000
795	20.00000	20.00000
805	-	20.00000
815	20.00000	20.00000
829	20.00000	20.00000
830	20.00000	20.00000
831	20.00000	20.00000
832	20.00000	20.00000
832 B	20.00000	-
837	20.00000	20.00000
841	20.00000	20.00000
844	20.00000	20.00000
848	-	20.00000
849	-	20.00000
854	20.00000	20.00000
855	20.00000	20.00000
857	20.00000	20.00000
858	20.00000	20.00000
859	20.00000	20.00000
860	20.00000	20.00000
864	20.00000	20.00000
885	20.00000	20.00000
886	20.00000	20.00000
886 B	20.00000	-

Production licence	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)
892	20.00000	20.00000
894	20.00000	20.00000
896	20.00000	20.00000
899	20.00000	20.00000
902	20.00000	20.00000
904	30.00000	-
907	20.00000	-
916	20.00000	-
921	20.00000	-
923	20.00000	-
934	20.00000	-
935	20.00000	-
949	20.00000	-
950	20.00000	-
954	20.00000	-
958	20.00000	-
959	20.00000	-
960	20.00000	-
961	20.00000	-
964	25.00000	-

Net profit licences *		
027		
027 B		
027 C		
027 D		
027 FS		
027 GS		
028		
028 B		
028 S		
029		
029 B		
029 C		
033		
033 B		

Unitised fields	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)	Remaining production period	Licence period
Flyndre Unit	-	0.35400	-	-
Fram H-Nord Unit	11.20000	11.20000	2030	2024
Gimle Unit	24.18630	24.18630	2032	2023
Grane Unit	28.90500	28.90500	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	2036
Martin Linge Unit	30.00000	30.00000	2031	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	2040	2031
Sindre Unit	27.09000	27.09000	2032	2023
Snorre Unit	30.00000	30.00000	2040	2040
Snøhvit Unit	30.00000	30.00000	2051	2035
Statfjord Øst Unit	30.00000	30.00000	2025	2026
Sygna Unit	30.00000	30.00000	2025	2026
Troll Unit	56.00000	56.00000	2054	2030
Valemon Unit	30.00000	30.00000	2026	2031
Vega Unit	28.32000	28.32000	2030	2024
Visund Inside	30.00000	30.00000	2040	2034
Åsgard Unit	35.69000	35.69000	2032	2027

Felt	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)	Remaining production period	Licence period
Atla	30.00000	30.00000	2019	2025
Draugen	47.88000	47.88000	2035	2024
Dvalin	35.00000	35.00000	2032	2041
Ekofisk	5.00000	5.00000	2050	2028
Eldfisk	5.00000	5.00000	2050	2028
Embla	5.00000	5.00000	2050	2028
Gjøa	30.00000	30.00000	2027	2028
Heimdal	20.00000	20.00000	2021	2021
Johan Castberg	20.00000	20.00000	2052	2019
Kvitebjørn	30.00000	30.00000	2035	2031
Maria	30.00000	30.00000	2033	2036
Rev	30.00000	30.00000	2019	2021
Skirne	30.00000	30.00000	2020	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	2030	2040
Tune	40.00000	40.00000	2021	2020
Urd	24.54546	24.54546	2035	2026
Veslefrikk	37.00000	37.00000	2025	2020
Vigdis	30.00000	30.00000	2040	2040

Fields no longer producing	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)	Licence period
Jette Unit	30.00000	30.00000	2021
Jotun (027 B)	-	-	-
Tor Unit	3.68744	3.68744	2028
Varg	30.00000	30.00000	-
Yttergryta	19.95000	19.95000	2027

PIPELINES AND ONSHORE FACILITIES

Oil infrastructure	At 31 Dec. 2018 Participating interest (%)	At 31 Dec. 2017 Participating interest (%)	Licence period
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
Mongstad Terminal DA	35.00000	35.00000	-

Gas infrastructure			
Gassled**	46.69700	46.69700	2028
Haltenpipe	57.81250	57.81250	2020
Mongstad Gas Pipeline (EMV)	56.00000	56.00000	2030
Nyhamna	26.13840	26.13840	2041
Polarled	11.94600	11.94600	2041
Valemon Rikgassrør	30.00000	30.00000	2031
Dunkerque Terminal DA	30.35317	30.35317	2028
Zeepipe Terminal J.V.	22.88161	22.88161	2028
Vestprosess DA	41.00000	41.00000	-
Norsea Gas AS (Interest)	-	40.00600	-
Ormen Lange Eiendom DA	36.48500	36.48500	-

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

* Production licences where the SDFI is not a licensee, but is entitled to a share of possible profit.
** Gassled has multiple transport licenses with various licence periods

RESOURCE ACCOUNTS 2018

The enclosed tables show remaining reserves for resource classes 1 through 3, as well as resources for resource classes 4 through 8.

		Remaining recoverable resources		
	Resource classes 1 to 8	**Oil, NGL and condensate** million Sm^3	**Gas** billion Sm^3	**Oil equivalents** million Sm^3
RC 1-3	Reserves	249.9	631.5	881.4
RC 4	Resources in planning phase	30.1	34.6	64.7
RC 5	Production likely, but not clarified	27.5	50.0	77.4
RC 6	Development not likely	6.0	3.7	9.7
RC 7	Resources in new discoveries that have not been evaluated and potential future improved recovery measures	66.4	57.1	123.5
RC 8	Prospects	20.6	14.1	34.7
	Sum	**401**	**791**	**1192**

	Original recoverable reserves			Remaining reserves		
Field	**Oil and NGL*** mill scm	**Gas** mill scm o.e.	**Oil equivalent** mill scm o.e.	**Oil and NGL*** mill scm	**Gas** mill scm o.e.	**Oil equivalent** mill scm o.e.
Nøkken	0.02	0.04	0.05	0.02	0.04	0.05
Atla	0.10	0.39	0.50	0.03	0.00	0.03
Draugen	71.12	0.80	71.92	1.34	0.00	1.33
DVALIN	0.30	6.28	6.58	0.30	6.28	6.58
Ekofisk group[1)]	37.08	10.37	47.46	5.22	0.73	5.96
FRAM H-NORD	0.08	0.00	0.08	0.01	0.00	0.01
GIMLE	0.79	0.22	1.02	0.01	0.01	0.02
GJØA	9.47	11.45	20.92	1.94	3.19	5.13
GRANE	43.01	0.00	43.01	8.79	0.00	8.79
Gullfaks group[2)]	142.06	32.27	174.32	9.91	7.83	17.74
HEIDRUN	115.78	26.77	142.56	22.03	15.50	37.53
HEIMDAL	1.34	9.23	10.57	0.00	0.01	0.02
JOHAN CASTBERG	17.78	0.00	17.78	17.78	0.00	17.78
JOHAN SVERDRUP	72.07	1.78	73.85	72.07	1.78	73.85

	Original recoverable reserves			Remaining reserves		
Felt	**Oil and NGL*** mill scm	**Gas** mill scm o.e.	**Oil equivalent** mill scm o.e.	**Oil and NGL*** mill scm	**Gas** mill scm o.e.	**Oil equivalent** mill scm o.e.
KRISTIN	7.17	5.70	12.87	0.57	0.69	1.26
KVITEBJØRN	15.67	28.94	44.61	3.75	5.47	9.23
MARIA	2.46	0.08	2.54	2.10	0.08	2.18
MARTIN LINGE	4.50	7.72	12.22	4.50	7.72	12.22
NORNE	52.32	6.92	59.24	2.40	2.90	5.30
Norne satellites[3)]	3.66	0.16	3.82	0.90	0.01	0.91
ORMEN LANGE	7.00	111.63	118.63	1.75	36.39	38.15
OSEBERG	142.76	39.27	182.03	8.01	22.00	30.01
OSEBERG SØR	23.91	7.47	31.37	4.46	3.53	7.99
OSEBERG ØST	8.34	0.13	8.46	1.01	0.01	1.03
REV	0.27	0.80	1.07	0.02	0.00	0.02
SINDRE	0.01	0.01	0.02	0.01	0.01	0.02
SKIRNE	0.70	3.09	3.79	0.08	-0.16	-0.08
SNORRE	95.72	1.99	97.71	27.60	0.06	27.66
SNØHVIT	12.06	62.73	74.80	7.99	46.62	54.61
STATFJORD NORD	12.97	0.64	13.61	0.83	-0.09	0.74
STATFJORD ØST	12.34	1.32	13.66	0.32	0.09	0.40
SVALIN	2.95	0.00	2.95	1.17	0.00	1.17
SYGNA	3.37	0.00	3.37	0.18	0.00	0.18
TORDIS	20.63	1.41	22.04	1.32	0.12	1.44
TROLL	186.37	802.20	988.57	20.82	439.68	460.50
TUNE	1.49	7.68	9.17	-0.05	-0.18	-0.23
VALEMON	0.61	4.12	4.73	0.17	1.36	1.54
VEGA	6.52	6.22	12.74	2.80	2.97	5.76
VESLEFRIKK	22.14	2.16	24.30	0.68	0.74	1.43
VIGDIS	22.65	0.51	23.16	3.29	-0.06	3.22
Visund group[4)]	17.65	19.49	37.14	5.52	12.34	17.86
ÅSGARD	71.69	78.93	150.62	8.24	13.86	22.10
Totalt	**1269**	**1301**	**2570**	**250**	**632**	**881**

1) Ekofisk group consists of Ekofisk, Eldfisk and Embla
2) Gullfaks group: Gullfaks and Gullfaks Sør
3) Norne satellites: Skuld and Urd
4) Visund group: Visund and Visund Sør

Riksrevisjonen

Vår referanse 2018/00628-4

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 2018. Årsregnskapet består av ledelseskommentarer og oppstilling av bevilgnings- og artskontorapportering, inklusiv noter til årsregnskapet for regnskapsåret avsluttet per 31. desember 2018.

Bevilgnings- og artskontorapporteringen viser at 118 687 390 263 kroner er rapportert netto til bevilgningsregnskapet.

Etter Riksrevisjonens mening gir Statens direkte økonomiske engasjements årsregnskap et dekkende bilde av virksomhetens disponible bevilgninger, inntekter og utgifter i 2018 og av mellomværende med statskassen per 31. desember 2018, i samsvar med regelverket for økonomistyring i staten.

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 fra International Organization of Supreme Audit Institutions (INTOSAIs etikkregler), og vi har overholdt de øvrige etiske forpliktelsene våre i samsvar med disse kravene og INTOSAIs etikkregler. Etter vår oppfatning er revisjonsbevisene vi har innhentet tilstrekkelige og hensiktsmessige som grunnlag for vår konklusjon.

Øvrig informasjon i årsrapporten

Ledelsen er ansvarlig for årsrapporten, som består av årsregnskapet (del VI) og øvrig informasjon (del I–V). Riksrevisjonens uttalelse omfatter revisjon av årsregnskapet og virksomhetens etterlevelse av administrative regelverk for økonomistyring, ikke øvrig informasjon i årsrapporten (del I–V). Vi attesterer ikke den øvrige informasjonen.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese den øvrige informasjonen i årsrapporten. Formålet er å vurdere om det foreligger vesentlig inkonsistens mellom den øvrige informasjonen, årsregnskapet og kunnskapen vi har opparbeidet oss under revisjonen. Vi vurderer også om den øvrige informasjonen ser ut til å inneholde vesentlig feilinformasjon. Dersom vi konkluderer med at den øvrige informasjonen inneholder vesentlig feilinformasjon, er vi pålagt å rapportere dette i revisjonsberetningen.

Det er ingenting å rapportere i så måte.

Ledelsens, styrets og det overordnede departementets ansvar for årsregnskapet

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

Det overordnede departementet og styret har det overordnede ansvaret for at virksomheten rapporterer relevant og pålitelig resultat- og regnskapsinformasjon og har forsvarlig internkontroll.

Riksrevisjonens oppgaver og plikter ved revisjonen av årsregnskapet
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 som er 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 de beslutningene brukere treffer på grunnlag av årsregnskapet.

Vi utøver profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen, i samsvar med *lov om Riksrevisjonen, instruks om Riksrevisjonens virksomhet* og ISSAI 1000–2999.

Vi identifiserer og anslår risikoene for vesentlig feilinformasjon i årsregnskapet, enten den skyldes misligheter eller utilsiktede feil. Videre utformer og gjennomfører vi revisjonshandlinger for å håndtere slike risikoer og innhenter tilstrekkelig og hensiktsmessig revisjonsbevis som grunnlag for vår konklusjon. Risikoen for at vesentlig feilinformasjon ikke blir avdekket, er høyere for feilinformasjon som skyldes misligheter, enn for feilinformasjon som skyldes utilsiktede feil. Grunnen til det er at misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, feilpresentasjoner eller overstyring av intern kontroll.

Vi gjør også følgende:

- opparbeider oss en forståelse av den interne kontrollen som er relevant for revisjonen, for å utforme revisjonshandlinger som er hensiktsmessige ut fra omstendighetene, men ikke for å gi uttrykk for en mening om hvor effektiv virksomhetens interne kontroll er
- evaluerer om regnskapsprinsippene som er brukt, er hensiktsmessige, og om tilhørende opplysninger som er utarbeidet av ledelsen, er rimelige
- evaluerer den totale presentasjonen, strukturen og innholdet i årsregnskapet, inkludert tilleggsopplysningene
- evaluerer om årsregnskapet representerer de underliggende transaksjonene og hendelsene på en måte som gir et dekkende bilde i samsvar med regelverket for økonomistyring i staten

Vi kommuniserer med ledelsen og informerer det overordnede departementet, blant annet om det planlagte omfanget av revisjonen og når revisjonsarbeidet skal utføres. Vi vil også ta opp forhold av betydning som er avdekket i løpet av revisjonen, for eksempel svakheter av betydning i den interne kontrollen.

Når det gjelder forholdene som vi tar opp med ledelsen og informerer det overordnede departementet om, tar vi standpunkt til hvilke som er av størst betydning ved revisjonen av årsregnskapet, og avgjør om disse skal regnes som sentrale forhold ved revisjonen. De beskrives i så fall i et eget avsnitt i revisjonsberetningen, med mindre lov eller forskrift hindrer offentliggjøring. Forholdene omtales ikke i beretningen hvis Riksrevisjonen beslutter at det er rimelig å forvente at de negative konsekvensene av en slik offentliggjøring vil være større enn offentlighetens interesse av at saken blir omtalt. Dette vil bare være aktuelt i ytterst sjeldne tilfeller.

Dersom vi gjennom revisjonen av årsregnskapet får indikasjoner på vesentlige brudd på administrative regelverk med betydning for økonomistyring i staten, gjennomfører vi utvalgte revisjonshandlinger for å kunne uttale oss om hvorvidt det er vesentlige brudd på slike regelverk.

Uttalelse om øvrige forhold

Konklusjon knyttet til administrative regelverk for økonomistyring
Vi uttaler oss om hvorvidt vi er kjent med forhold som tilsier at virksomheten har disponert bevilgningene på en måte som i vesentlig grad strider mot administrative regelverk med betydning for økonomistyring i staten. Uttalelsen gis med moderat sikkerhet og bygger på ISSAI 4000-serien for etterlevelsesrevisjon. Moderat sikkerhet for uttalelsen oppnår vi gjennom revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi finner nødvendige.

Basert på revisjonen av årsregnskapet og kontrollhandlinger vi har funnet nødvendige i henhold til ISSAI 4000-serien, er vi ikke kjent med forhold som tilsier at virksomheten har disponert bevilgningene i strid med administrative regelverk med betydning for økonomistyring i staten.

Oslo; 30.04.2019

Etter fullmakt

Tora Struve Jarlsby
ekspedisjonssjef

Lars Christian Møller
avdelingsdirektør

Brevet er ekspedert digitalt og har derfor ingen håndskreven signatur

PETORO AS INCOME STATEMENT

All figures in NOK 1000	NOTES	2018	2017
Invoiced state contribution	1	280 252	274 148
Other revenue	1	482	3 283
Change in deferred revenue recorded	2	-264	-1 898
Total operating revenue		**280 470**	**275 533**
Payroll expenses	3,11	158 547	160 620
Depreciation	4	3 472	3 082
Accounting fee	15	15 362	15 789
Office expenses	14	11 152	10 528
ICT costs	15	29 367	23 868
Other operating expenses	13	60 019	56 478
Total operating expenses		**277 919**	**270 365**
Operating profit		**2 551**	**5 168**
Financial revenue	5	3 410	1 320
Financial expenses	5	-215	-110
Net financial profit		**3 195**	**1 210**
NET INCOME FOR THE YEAR		**5 747**	**6 378**
TRANSFERS			
Transferred from (to) other equity		5 747	6 378
Total transfers		**5 747**	**6 378**

PETORO AS BALANCE SHEET AT 31 DECEMBER

All figures in NOK 1000	NOTES	2018	2017
ASSETS			
Fixed assets			
Tangible fixed assets			
Operating equipment, fixtures, office machines, etc.	4	**6 360**	6 097
Total tangible fixed assets		**6 360**	**6 097**
Financial assets			
Shares in subsidiaries	6	**0**	0
Total financial assets		**0**	0
Total fixed assets		**6 360**	**6 097**
Current assets			
Trade debtors		**6**	5 369
Other debtors	7	**13 159**	11 525
Bank deposits	8	**229 986**	211 867
Total current assets		**243 150**	228 760
TOTAL ASSETS		**249 510**	**234 857**
EQUITY AND LIABILITIES			
Equity			
Paid in capital			
Share capital (10 000 shares at NOK 1 000)	9	**10 000**	10 000
Retained earnings			
Other equity	10	**12 998**	7 251
Total equity		**22 998**	**17 251**
Liabilities			
Provisions			
Pension liabilities	11	**166 745**	159 062
Deferred revenue government contribution	2	**6 360**	6 097
Total provisions		**173 105**	**165 159**
Current liabilities			
Trade creditors		**19 280**	19 111
Tax payable		**10 941**	10 415
Other current liabilities	12	**23 186**	22 921
Total current liabilities		**53 407**	52 447
Total liabilities		**226 512**	217 606
TOTAL EQUITY AND LIABILITIES		**249 510**	**234 857**

Stavanger, 6 March 2019

Gunn Wærsted
Chair

Bjørn Bjordal
Deputy Chair

Per Arvid Schøyen
Director

Trude J. H. Fjeldstad
Director

Hugo Sandal
Director

Ragnar Sandvik
Director
Elected by the employees

Anne-Cathrine Nilsen
Director
Elected by the employees

Grethe K. Moen
President and CEO

PETORO AS CASH FLOW STATEMENT

	All figures in NOK 1 000	2018	2017
	LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES		
	Profit/loss	**5 747**	6 378
+	Depreciation	**3 472**	3 082
+/-	Change in trade debtors	**5 364**	-4 956
+/-	Change in trade creditors	**169**	6 417
+/-	Change in accrued items	**7 104**	13 299
	Net change in liquidity from operating activities	**21 856**	**24 220**
	LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES		
-	Invested in tangible fixed assets	**3 736**	4 980
	Net change in liquidity from investing activities	**3 736**	**4 980**
	LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES		
+	Equity paid	**0**	0
	Net change in liquidity from financing activities	**0**	**0**
	Net change in liquid assets through the year	**18 120**	19 241
+	Cash and cash equivalents at 1 Jan.	**211 867**	192 627
	Cash and cash equivalents at 31 Dec.	**229 988**	**211 867**

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 state on 9 May 2001. The company's objective is to be responsible. on behalf of the state. 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 Equinor ASA and the owner of the SDFI. On this basis. Equinor ASA handles marketing and sale of the state's petroleum. pursuant to instructions. Petoro AS is responsible for monitoring that Equinor ASA discharges its responsibilities under the adopted 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 AS is the parent company for Petoro Iceland AS. which was established in December 2012. Through a branch registered in Iceland. the subsidiary is a licensee and participant in production licences in which the Norwegian state chooses to participate. The company's share capital at 31 December 2018 comprised NOK 2 million. distributed among 2 000 shares. The company has no employees and has entered into a management agreement with Petoro AS. The activity in the company has been very limited over the past year. Therefore no consolidated accounts have been prepared for Petoro AS in 2018. This omission does not have any significance as regards assessing the Group's position and result.

GENERAL
The annual accounts for Petoro AS have been set up in accordance with the provisions of the Accounting Act and Norwegian accounting standards for other enterprises.

CLASSIFICATION OF ASSETS AND LIABILITIES
Assets intended for ownership or use over a longer period are classified as fixed assets. Other assets are classified as current assets. Debtors 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 deduction for planned depreciation. If the actual value of fixed assets is 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.

ACCOUNTS RECEIVABLE
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 for employees with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act with maximum rates. The company has a transitional arrangement for employees who are less than 15 years from retirement age as of 1 January 2016. 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.

The period's pension expense is included in payroll expenses and comprises 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 benefit-based scheme. as well as premiums for the contribution-based scheme.
Estimate deviations 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.

INCOME TAXES
The company is exempt from tax pursuant to Section 2-30 of the Taxation Act.

OPERATING REVENUE
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 recorded 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 appropriation for the year. excluding VAT. was NOK 280.3 million. The amount is recorded as operating contribution from the Norwegian government. Other revenue primarily relates to invoicing of services provided to Petoro Iceland AS.

NOTE 2 DEFERRED REVENUE

The change in deferred revenue comprises deferred revenue related to NOK 3.7 million in investments made during 2018. ref. Note 4. as well as NOK 3.5 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 1000)	**2018**	**2017**
Pay	**105 421**	107 223
Directors' fees	**1 841**	1 787
Liability insurance for the board (applies to the entire board of directors)	**105**	108
Payroll tax	**15 632**	16 038
Pensions (see Note 11)	**31 991**	31 222
Other benefits	**3 557**	4 242
Total	**158 547**	**160 620**

Employees at 31 December	64	65
Employees with a signed contract who had not started work at 31 December	0	1
Average number of full-time equivalents employed	64.2	64.4

Remuneration of senior executives (All figures in NOK 1000)	**Fixed salaries**[1]	**Loyalty scheme**[2]	**Cash allowance**[3]	**Other taxable benefits**[4]	**Taxable pay**	**Expensed pension**
Grethe K. Moen	3 369	0	212	190	3 771	2 431
Rest of the management team:						
Olav Boye Sivertsen[5]	1 921	58	483	158	2 621	345
Roy Ruså	2 300	67	145	166	2 678	806
Ole Njærheim	2 337	0	130	152	2 619	218
Jonny Mæland[6]	2 128	0	500	142	2 770	219
Kjell Morisbak Lund[7]	2 687	66	139	153	3 045	217
Hege Manskow	1 439	0	90	144	1 673	246
Rest of the management team:	**12 813**	**191**	**1 486**	**915**	**15 406**	**2 051**

1. Fixed salaries consist of basic salary and holiday pay.
2. The company's loyalty scheme made disbursements in January 2018 to three managers who satisfied the terms for the scheme. This disbursement is not included in pensionable income. This scheme was discontinued in 2017.
3. Cash allowance includes variable pay and nonrecurring disbursements. Cash allowance not included in pensionable income.
4. Other administratively set remuneration includes car allowance. as well as minor remuneration for new subscriptions. telephone and broadband communication.
5. Cash allowance includes compensation (nonrecurring disbursement) for surrendering the right to early pension. Not included in holiday pay or pension.
6. Cash allowance (nonrecurring disbursement) in connection with employment. Not included in holiday pay or pension.
7. Fixed salaries includes cash allowance as compensation for loss of defined benefit pension calculated based on actuarial assumptions and pensionable income.

Grethe K. Moen. Olav Boye Sivertsen and Roy Ruså have a transitional arrangement for pension that is still defined benefit. while other executives in the company have a defined contribution arrangement.

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. The loyalty scheme was discontinued in 2017. The second of three discontinuation rates was disbursed in January 2018.

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 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. The board determines compensation for the CEO. who in turn determines the compensation for other members of the company's senior management within the approved framework.

Main principles for remuneration
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 principles for good corporate governance.

Basic pay is the main component in Petoro's compensation scheme. Senior executives are also entitled to benefits on an 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.

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.

Petoro has a variable salary scheme. The principle and framework for performance-related salary have been stipulated by the board and embedded 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. This scheme covers all employees. including the President and CEO. with an equal percentage of basic salary. The board will assess goal attainment and stipulate performance-related salary in accordance with the assessed goal attainment within the framework of 10 per cent of basic salary.

On 4 May 2017. the board decided to discontinue the loyalty scheme for employees. The President and CEO was not covered by this scheme. which was established in 2013 to aid the competitive situation. The discontinuation has been implemented with disbursement of the final payment in January 2019 to employees who were part of the scheme at the date of discontinuation.

Share programmes. options and other option-like arrangements are not used in Petoro.

Petoro AS implemented a new pension plan for the company with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act. From the same date. Petoro AS has no collective pension plan for employees with pay above 12 G. Petoro AS has a transitional scheme that is still defined-benefit also for pay above 12 G. This is the same for executives as for other employees less than 15 years from retirement age (67) at 1 January 2016. 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. The 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 can choose to resign at age 65 with reduced benefits. The remaining executives retire at 67. These pension agreements were established before the new guidelines of 13 February 2015 on employment terms for senior executives in state-owned companies came into force.

Senior executives appointed after the new guidelines came into force 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 AS will have no new senior executives with a defined benefit pension and no pension expenses over and above those which follow from the defined benefit plan will accrue (pursuant to the Defined Contribution Pension Act).

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. The board addressed the wage evaluation of the President and CEO in the board meeting on 20 September 2018. In 2018. the evaluation of other executives was carried out in the third quarter.

NOTE 4 TANGIBLE FIXED ASSETS

All figures in NOK 1000	Fixtures and fittings	Operating equipment	ICT	Total
Acquisition cost at 1 January 2018	4 979	8 553	36 327	49 859
Additions fixed assets	-	356	3 380	3 736
Disposal fixed assets/obsolescence	-	-	-	-
Acquisition cost 31 December 2018	**4 979**	**8 909**	**39 707**	**53 595**
Accumulated depreciation 1 January 2018	4 372	8 372	31 018	43 762
Reversed accumulated depreciation	-	-	-	-
Depreciation for the year	142	179	3 151	3 472
Accumulated depreciation 31 December 2018	**4 514**	**8 551**	**34 169**	**47 234**
Book value 31 December 2018	**465**	**358**	**5 538**	**6 360**
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

All figures in NOK 1000	2018	2017
Financial income		
Interest income	2 786	860
Currency gain agio	624	460
Financial expenses		
Interest expenses	-	-
Currency loss disagio	215	110
Other financial expenses	-	-
Net financial items	**3 195**	**1 210**

NOTE 6 INVESTMENTS IN SUBSIDIARY

Company (All figures in NOK 1000)	**Acquisition date**	**Business office**	**Ownership interest**	**Voting interest**	**Equity 31 December**	**Result 2018**
Petoro Iceland AS	11 Dec 2012	Stavanger	100 %	100 %	2 272	-4

Petoro AS received NOK 2 million in state contributions in 2012. which are earmarked share capital in Petoro Iceland AS. The contribution is entered against the cost price of the shares. For this reason. the investments in Petoro Iceland AS are recorded on the balance sheet at NOK 0.

The company 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 in the amount 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 2018.

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

Bank deposits total NOK 230 million. including NOK 8 million in withheld tax and funds to cover unsecured pension obligations in the amount of NOK 172 million.

NOTE 9 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The company's share capital at 31 December 2018 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 state. and all have the same rights.

NOTE 10 EQUITY

Petoro AS (all figures in NOK 1000)	**Share capital**	**Other equity**	**Total**
Equity at 1 January 2018	**10 000**	7 251	17 251
Result for 2018		5 747	5 747
Equity at 31 December 2018	**10 000**	**12 998**	**22 998**

NOTE 11 PENSION COSTS. ASSETS AND LIABILITIES

The company is obliged to offer 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 for the company 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 as of 1 January 2016. Premiums for the defined contribution plan are expensed on a continuous basis.

Net pension cost (all figures in NOK 1000)	**2018**	**2017**
Present value of benefits earned during the year	**14 806**	15 614
Interest expense on pension obligation	**7 710**	7 237
Return on pension plan assets	**-3 898**	- 2 852
Recorded change in estimates	**5 241**	3 260
Payroll tax	**1 918**	2 045
Pension cost. defined benefit scheme	**25 777**	25 304
Pension cost. defined contribution plan	**6 214**	5 918
Net pension cost	**31 991**	**31 222**

Capitalised pension obligation	**2018**	**2017**
Estimated pension obligation at 31 Dec.	**335 004**	313 665
Pension plan assets (market value)	**-101 827**	-92 900
Net pension obligations before payroll tax	**233 177**	220 765
Unrecorded change in estimates	**-66 432**	-61 703
Capitalised pension obligation	**166 745**	**159 062**

Calculation of the year's net pension cost is based on the assumptions of previous years. The net pension liability is calculated on the basis of assumptions in the present year. Petoro has allocated own funds to cover unsecured pension obligations. ref. Note 8.

	2018	**2017**
Discount rate	**2.60%**	2.50%
Expected return on plan assets	**4.30%**	4.00%
Expected increase in pay	**2.75%**	2.50%
Expected increase in pensions	**0.80%**	0.40%
Expected adjustment of the National Insurance Scheme's basic amount (G)	**2.50%**	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

KPMG AS is the company's chosen auditor. Fees charged for external auditing of the group's financial statements in 2018 totalled NOK 0.4 million. There were no invoices for additional services in 2018.

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 portfolio. 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 has invoiced NOK 0.6 million for financial auditing and NOK 0.6 million for internal auditing in 2018. Costs have also been expensed for services from PwC within partner auditing totalling NOK 1.6 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 AS chose to exercise its option to extend the lease to 31 December 2020. The remaining term of the lease is now two years. with an option to renew for a further five-year period. Rent for the year totalled NOK 11.1 million. which includes all operating and shared expenses.

NOTE 15 SIGNIFICANT CONTRACTS

Petoro has entered into an agreement with Upstream Accounting Excellence (UPAX) for the delivery of accounting and associated ICT services related to the SDFI accounts. 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. Petoro has exercised the option for a one-year extension. Evry is the sub-contractor for ICT services. The recorded accounting fee for UPAX in 2018 amounted to NOK 14.3 million. Other services purchased from the contractor totalled NOK 1.1 million.

NOTE 16 CLOSE ASSOCIATES

Petoro AS is the parent company for Petoro Iceland AS. The company has no employees and has entered into a management agreement with the parent company. The services as manager for Petoro Iceland AS are estimated at market price based on time spent and government travel rates. There is no debt in the parent company vis-à-vis the subsidiary at year-end.

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Til generalforsamlingen i Petoro AS

Uavhengig revisors beretning

Uttalelse om revisjonen av årsregnskapet

Konklusjon

Vi har revidert Petoro AS' årsregnskap som viser et overskudd på kr 5 747 000. Årsregnskapet består av balanse per 31. desember 2018, resultatregnskap og kontantstrømoppstilling for regnskapsåret avsluttet per denne datoen og noteopplysninger til årsregnskapet, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening er det medfølgende årsregnskapet avgitt i samsvar med lov og forskrifter og gir et rettvisende bilde av selskapets finansielle stilling per 31. desember 2018, og av dets resultater og kontantstrømmer for regnskapsåret avsluttet per denne datoen i samsvar med regnskapslovens regler og god regnskapsskikk i Norge.

Grunnlag for konklusjonen

Vi har gjennomført revisjonen i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder de internasjonale revisjonsstandardene International Standards on Auditing (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet i Revisors oppgaver og plikter ved revisjon av årsregnskapet. Vi er uavhengige av selskapet slik det kreves i lov og forskrift, og har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Etter vår oppfatning er innhentet revisjonsbevis tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

Øvrig informasjon

Ledelsen er ansvarlig for øvrig informasjon. Øvrig informasjon omfatter informasjon i årsrapporten bortsett fra årsregnskapet og den tilhørende revisjonsberetningen.

Vår uttalelse om revisjonen av årsregnskapet dekker ikke øvrig informasjon, og vi attesterer ikke den øvrige informasjonen.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese øvrig informasjon med det formål å vurdere hvorvidt det foreligger vesentlig inkonsistens mellom øvrig informasjon og årsregnskapet, kunnskap vi har opparbeidet oss under revisjonen, eller hvorvidt den tilsynelatende inneholder vesentlig feilinformasjon.

Dersom vi konkluderer med at den øvrige informasjonen inneholder vesentlig feilinformasjon er vi pålagt å rapportere det. Vi har ingenting å rapportere i så henseende.

Styrets og daglig leders ansvar for årsregnskapet

Styret og daglig leder (ledelsen) er ansvarlig for å utarbeide årsregnskapet i samsvar med lov og forskrifter, herunder for at det gir et rettvisende bilde i samsvar med regnskapslovens regler og god regnskapsskikk i Norge. Ledelsen er også ansvarlig for slik internkontroll som den finner nødvendig for

KPMG

Revisors beretning - 2018
Petoro AS

å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet så lenge det ikke er sannsynlig at virksomheten vil bli avviklet.

Revisors oppgaver og plikter ved revisjonen av årsregnskapet

Vårt mål 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 inneholder vår konklusjon. Betryggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir vurdert som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke økonomiske beslutninger som brukerne foretar basert på årsregnskapet.

Som del av en revisjon i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, utøver vi profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen. I tillegg:

- identifiserer og anslår vi risikoen for vesentlig feilinformasjon i regnskapet, enten det skyldes misligheter eller utilsiktede feil. Vi utformer og gjennomfører revisjonshandlinger for å håndtere slike risikoer, og innhenter revisjonsbevis som er tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon. Risikoen for at vesentlig feilinformasjon som følge av misligheter ikke blir avdekket, er høyere enn for feilinformasjon som skyldes utilsiktede feil, siden misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, uriktige fremstillinger eller overstyring av internkontroll.

- opparbeider vi oss en forståelse av den interne kontroll som er relevant for revisjonen, for å utforme revisjonshandlinger som er hensiktsmessige etter omstendighetene, men ikke for å gi uttrykk for en mening om effektiviteten av selskapets interne kontroll.

- evaluerer vi om de anvendte regnskapsprinsippene er hensiktsmessige og om regnskapsestimatene og tilhørende noteopplysninger utarbeidet av ledelsen er rimelige.

- konkluderer vi på hensiktsmessigheten av ledelsens bruk av fortsatt drift-forutsetningen ved avleggelsen av regnskapet, basert på innhentede revisjonsbevis, og hvorvidt det foreligger vesentlig usikkerhet knyttet til hendelser eller forhold som kan skape tvil av betydning om selskapets evne til fortsatt drift. Dersom vi konkluderer med at det eksisterer vesentlig usikkerhet, kreves det at vi i revisjonsberetningen henleder oppmerksomheten på tilleggsopplysningene i regnskapet, eller, dersom slike tilleggsopplysninger ikke er tilstrekkelige, at vi modifiserer vår konklusjon om årsregnskapet og årsberetningen. Våre konklusjoner er basert på revisjonsbevis innhentet inntil datoen for revisjonsberetningen. Etterfølgende hendelser eller forhold kan imidlertid medføre at selskapet ikke fortsetter driften.

- evaluerer vi den samlede presentasjonen, strukturen og innholdet, inkludert tilleggsopplysningene, og hvorvidt årsregnskapet representerer de underliggende transaksjonene og hendelsene på en måte som gir et rettvisende bilde.

Vi kommuniserer med styret blant annet om det planlagte omfanget av revisjonen og til hvilken tid revisjonsarbeidet skal utføres. Vi utveksler også informasjon om forhold av betydning som vi har avdekket i løpet av revisjonen, herunder om eventuelle svakheter av betydning i den interne kontrollen.

Revisors beretning - 2018
Petoro AS

Uttalelse om andre lovmessige krav

Konklusjon om årsberetningen

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, mener vi at opplysningene i årsberetningen om årsregnskapet og forutsetningen om fortsatt drift er konsistente med årsregnskapet og i samsvar med lov og forskrifter.

Konklusjon om registrering og dokumentasjon

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi har funnet nødvendig i henhold til internasjonal standard for attestasjonsoppdrag (ISAE) 3000 «Attestasjonsoppdrag som ikke er revisjon eller forenklet revisorkontroll av historisk finansiell informasjon», mener vi at ledelsen har oppfylt sin plikt til å sørge for ordentlig og oversiktlig registrering og dokumentasjon av selskapets regnskapsopplysninger i samsvar med lov og god bokføringsskikk i Norge.

Stavanger, 6. mars 2019
KPMG AS

Mads Hermansen
Statsautorisert revisor

PETORO'S FINANCIAL CALENDAR 2019

7 Mars	Annual result 2017/fourth quarter report 2018
9 May	First quarter report 2019
21 August	Second quarter report/first-half report 2019
29 October	Third quarter report 2019

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