Annual report for the SDFI and Petoro 2019:

petoro

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.

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President and CEO's letter and Directors' report

From the opening of Johan Sverdrup.
Photo: Petoro

Grethe K. Moen. Photo: Anne Lise Norheim

A year of contrasts

There were two events in 2019 that were of particular importance both for Petoro and for the Norwegian oil and gas industry: start-up of the Johan Sverdrup field and an acknowledgement from the oil and gas companies that we must step up and take responsibility in the development toward a low-emission society. Together, these events illustrate that the industry continues to see a potential in projects on the Norwegian continental shelf, and that we are capable of participating actively in terms of climate measures.

The Johan Sverdrup development proves that even a mature Norwegian Shelf presents opportunities for independent developments that will generate vast values. Equinor and its partners have been at the forefront in the largest offsho e development project since the 1980s. In terms of technology, the field is a trailblazer – it is both prepared to utilise the technologies of the future, while also setting a new standard for CO_2 efficiency in oil production. The profitability of the development is world-class; Phase 1 of the development will be fully paid for by the end of 2020, just over one year after the field came on stream. This means that the field can produce profitably after this, even with very low oil prices. Given a technical lifetime extending beyond 2050, all indicators point to Johan Sverdrup being an industrial fairy-tale come true, one that will yield billions of kroner in revenues for both its owners and the Norwegian state for a very long time to come.

At the same time as we can take pride in this fantastic field, the oil and gas industry both in Norway and globally faces growing challenges when it comes to our role in contributing to solve the climate challenge. The world is characterised by geopolitical unrest, protectionism and polarisation. Against this backdrop, the industry has evolved from talking about being a part of the solution in the low-emission society, to setting clear goals and adopting firm plans to reach them.

Over the last year, the industry has worked actively to establish joint climate goals for the Norwegian Shelf. In January of this year, a united Norwegian oil and gas industry launched a new climate roadmap. The goal is to reduce greenhouse gas emissions from production by 40 per cent in 2030 as compared with 2005, and to further reduce emissions to near-zero in 2050. Concrete goals like this are essential to maintain the competitiveness of the industry, and in order for Europe to achieve climate neutrality by the middle of this century. Petoro uses the goals in the Paris Agreement as a foundation for our activities, and we have participated in the work to develop the climate roadmap. We are very pleased that our sector agrees with the ambitious goals for cutting emissions. The SDFI portfolio is extensive, representing nearly 30% of all production on the Norwegian Shelf. Petoro bears a great responsibility for helping to achieve the industry's goals.

The Norwegian Shelf excels at safe and efficient ope ations. From the very beginning of the industry in Norway, it has been accustomed to extremely high standards as regards climate and the environment. As early as in 1971, permanent flaring was banned due to the loss of resources and the burden it places on the climate. In addition to the CO_2 tax that was introduced in 1991, we also have a NO_x tax and strict regulations as regards discharges to sea. The oil and gas activities in Norway are also included in the EU's emission trading system. This has contributed to the result that oil and gas produced from the Norwegian Shelf leads the world with its low climate and environmental footprint. Even so, it is crucial that we continue to lead the way toward further emission reductions. Electrification of fields has been and will continue to be a key measure in reducing the climate footprint from actual production of oil and gas. When the Martin Linge field and Johan Sverdrup Phase 2 start up, nearly 50 per cent of the SDFI production will be electrified. This percentage is expected to rise as a result of additional planned electrification projects.

Emissions from production account for about 15 per cent of total emissions from oil and gas. Reducing the emissions from production does not eliminate the emissions that occur when oil and gas is used, but it will nevertheless be a significant contribution towards reducing CO_2 emissions.

Today, the SDFI production consists of approx. 60 per cent gas. Gas, which has a substantially lower climate footprint than oil and coal, could take on greater significance in markets with high coal consumption. Today, CO_2 emissions from just one of Germany's large brown coal power plants are equivalent to total overall CO_2 emissions from production of oil and gas on the Norwegian Shelf. Cost-effective fields and eliable infrastructure make Norwegian gas extremely competitive in Europe.

Various decarbonisation measures are needed in order to achieve the goal of carbon neutrality. Hydrogen produced from natural gas where carbon capture and storage (CCS) is included can also secure a role for gas even in a low carbon society. Therefore, a transitioning of the Norwegian oil and gas industry does not mean shutting down, but rather new opportunities to bring us into a competitive and climate-neutral future. Petoro is in a position to be a prime mover in the transition work, with its broad and multi-faceted portfolio of both fields and infrastructure.

All of this means that we are facing a challenging, but essential energy transformation. It will have a far-reaching impact in most areas; political, socio-economical and commercial. All of us who are players in the industry must contribute in the public debate along with our stakeholders in order to arrive at the best result. We will not solve the climate challenges by discussing a 'to be or not to be' for the Norwegian oil industry. Quite the opposite, in fact. We must be able to pursue more than just a single agenda; in other words, further developing the oil and gas industry while simultaneously accepting our obligation to help solve the climate challenges. In fact, our industry represents a formidable force in contributing to develop low emission solutions by applying cutting edge technological expertise, strong project execution capabilities, financial capacity and a broad global presence. One thing is definitely certain, this is a role the industry wants to take on.

Grethe K. Moen

Grethe K. Moen
President and CEO, Petoro AS

Directors' report

Petoro manages the State's Direct Financial Interest (SDFI), which represents about one-third of Norway's overall oil and gas reserves. The company's objective is to create the greatest possible value and achieve the highest possible revenue for the State from 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 incurs expenses associated with SDFI's ownership interests. Petoro acts as licensee for the state's ownership interests in production licences, fields, pipelines and terminals. As SDFI manager, Petoro contributed a cash flow of NOK 96 billion in 2019, which represents an estimated 36 per cent of the state's total revenues from petroleum activities.

External trends

This year is the 50th anniversary of the Ekofisk discovery and Norway becoming an oil nation. Since then, oil and gas activities have generated substantial values that have benefited society as a whole.

The Norwegian oil and gas industry operates in a global arena with strong competition for capital and competence. Several years of transition and efficiency measu es have contributed to lower costs, which helped bolster the competitiveness of the NCS. New developments and multiple field upgrades in 2019 have resulted in a high activity level and considerable ripple effects and p ovide a basis for substantial revenues moving forward.

There is still a need for efficiency measures on the Norwegian Shelf through transition and improvement measures. With today's high level of activity, there is a risk of costs rising and again challenging the competitiveness of the shelf.

Further efficiency measu es will require new initiatives and new ways of working. Recent years have seen a strong and rapid development in digital technologies, and on a global basis, digitalisation is among the most important strategic instruments for most oil and supplier companies to streamline work processes and further reduce costs. The main challenge in realising the potential of digitalisation is not primarily technology, but rather achieving the required changes in the way we work. Management, culture and work processes are therefore the most important factors. Operators and suppliers are working actively on digitalisation in areas of significant commercial importance within both reservoir, drilling and operations.

The Government recently presented the white paper "The state's direct ownership of companies — sustainable value creation". This white paper reinforces the state's expectation that the companies with direct state ownership have an overall plan for sustainable value creation. This means that the companies must prove that they can balance finances, corporate social responsibility and the environment in a way that contributes to long-term value creation.

A unified Norwegian oil and gas industry has launched a new climate roadmap and new climate targets. Through this, the industry is clearly signalling that it is taking the climate challenge and the Paris Agreement seriously. The oil and gas industry will reduce its greenhouse gas emissions by 40 percent in 2030 compared with 2005, and further reduce emissions to near-zero in 2050. This will require large investments, technology development and industrial expertise. At the same time, it will presume considerable efforts f om all industry players. Petoro wants to be a driving force to ensure that the Norwegian shelf leads the world in tackling the climate challenges and is already working closely with operators and partners in the licenses to investigate which opportunities should be pursued.

Several oil and gas companies are reorienting their strategy in a more sustainable direction and have committed to contributing toward the transition to a low-carbon society. On the Norwegian shelf, electrification, renewable energy and carbon capture and storage (CCS) are emerging as important areas, and considerable activity is already under way here.

Electrification of the platforms, from land or from offsho e wind, is a measure that could contribute to considerable reductions in CO_2 emissions from production. While new field developments were previously the most relevant candidates for electrification, work is currently also under way on concrete plans to electrify a number of fields already in operation with power from shore. The decision was made to develop Hywind Tampen in 2019. This wind farm will reduce the need for power from gas turbines and provide renewable power to the Snorre and Gullfaks fields. Hywind Tampen is pioneering work and an example of how expertise in the oil and gas industry can be utilised within new industrial areas.

CCS is also a measure that could play an important role in reaching climate goals. Through the "Northern Lights" project, Equinor, Shell and Total are cooperating on the transport and storage part of CO_2 from the state's demonstration project "Full-scale CCS chain in Norway". On behalf of the partners in the "Northern

Lights" project, Equinor recently signed a letter of intent with seven European companies to develop value chains within this area. Petoro believes it is important to seek to realise CCS as a measure to reduce the industry's carbon footprint and ensure long-term sustainable resource management on the Norwegian Shelf. This could also open up the opportunity to produce hydrogen from Norwegian natural gas.

Historically, gas as a replacement for coal has considerably reduced the carbon footprint and will continue to do so. Cost-effective fields and eliable infrastructure make Norwegian gas highly competitive. Stronger exploration for gas could help maintain high gas deliveries from the Norwegian Shelf over the long term as well, and thus replace declining self-production in the EU.

Greenhouse gas emissions from the Norwegian shelf are low in an international context. This could provide a competitive advantage if the markets in the future take into account emissions from production and transport in the purchase of fossil fuels. This is particularly important for SDFI, as the gas makes up a significant share of overall production, and the gas is sold primarily in Europe, which has very high ambitions to reduce emissions of greenhouse gases. Improving the Norwegian Shelf's competitiveness therefore requires both additional efficiency measu es and further reductions in emissions of greenhouse gases.

The giant Johan Sverdrup field has started production and this development is leading the way in both the use of digitalisation, record-low emissions with the aid of electrification and good project execution. Greenhouse gas emissions from the field are record-low, both on a Norwegian and international scale, and future-oriented choices have been made as regards digital solutions that can also be implemented elsewhere in the portfolio. The area solution for power from shore to the Sverdrup field and the surrounding area means that as many as ten fields on the Utsira High in the North Sea will now receive power from shore.

The major international oil companies' sell-down on the Norwegian Shelf continued last year. This, along with a considerable extent of player consolidation, has led to strengthened positions for several medium-sized companies. While the emergence of these medium-sized companies contributes positively to further development of the Norwegian Shelf, this development leads to reduced access to valuable international experience and expertise in the joint ventures. In this scenario, Petoro, with its broad portfolio and long-term perspective, will play an important role in continuing to contribute toward active joint ventures on the Norwegian Shelf.

There are still large opportunities for values and employment associated with oil and gas activities on the Norwegian Shelf. Projections from the Norwegian Petroleum Directorate show that barely one-half of recoverable resources have been produced and sold so far. About 25 per cent has been proven and could potentially be recovered. Of these resources, 85 per cent are in existing fields and 15 per cent in discoveries yet to be developed. The last 25 per cent are projections for what could be discovered through future exploration activity. This shows that the Norwegian Shelf still has considerable potential.

There is still significant interest in exploration acreage on the Norwegian Shelf and 83 production licences were awarded in 2019 in Awards in Pre-defined Areas (APA 2018), which is historically high. Exploration activity in 2019 was also high with a total of 57 spudded exploration wells, which is on par with 2018. Oil and gas are still being discovered on the Norwegian Shelf, but results from the Barents Sea have so far been disappointing.

Summary of SDFI results

Net cash flow to the state from SDFI was NOK 96 billion in 2019, NOK 23 billion lower than in 2018. The decline is mainly caused by lower sales and prices, as well as increased investments.

Total production amounted to 964 thousand barrels of oil equivalent (boe) per day, just over 11 per cent lower than in 2018.

Gas production totalled 98 million standard cubic metres (mill. scm) per day in 2019, down 14 per cent from a record-high level of 113 million scm per day last year. The decline in production alongside low gas prices resulted in revenues from equity produced gas of NOK 68 billion, about NOK 21 billion lower than the previous year. The reduction in gas volume was generally associated with use of flexible gas extraction for price optimisation on Troll, as well as production decline due to operational challenges associated with compression on Ormen Lange.

Production of liquids amounted to 349 thousand boe per day, 6 per cent lower than in 2018. This decline was mainly caused by natural production decline, as well as lower production as a result of problems with risers on Snorre. The decline in liquids production was partially offset by the star -up of Johan Sverdrup in October 2019.

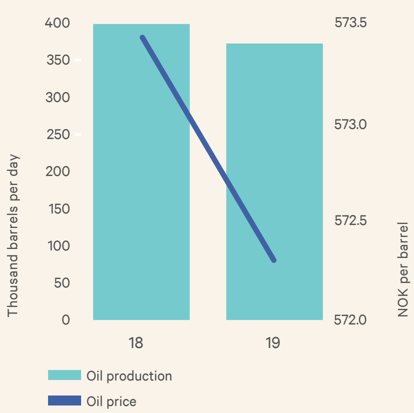
Costs incurred for investment totalled NOK 27 billion, about NOK 4 billion higher than the year before. The increase in investment was primarily caused by increased activity within field development associated with Johan Castberg, Troll Phase 3, Snøhvit and Martin Linge, as well as increased costs for production drilling on multiple fields.

The financial result for 2019 was a net income of NOK 96 billion, NOK 19 billion lower than the previous year. The decline in net income was mainly caused by reduced revenues, in part offset by lower depreciation due to lower sales volume, as well as a reduction in production expenses. The book value of Martin Linge was written down by NOK 1.4 billion in 2019 as a result of cost overruns and postponed start-up.

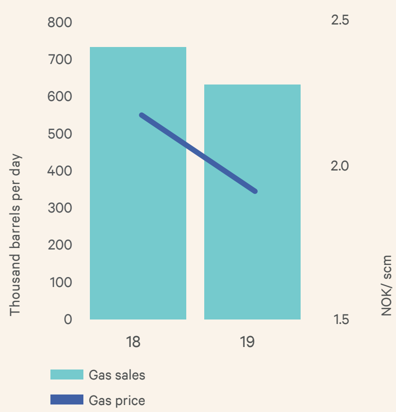
Production costs were NOK 4 billion lower than the previous year. Adjusted for provision associated with a judgement in the trial concerning Troll in 2018 and subsequent settlement in 2019, production costs were on par with the previous year.

The book value of assets at 31 December 2019 was NOK 251 billion. The assets mainly consist of fixed assets related to field installations, pipelines and onshore plants, as well as current debtors. Equity at year-end was NOK 162 billion. Overall debt amounted to NOK 89 billion, of which 70 billion was related to estimated future removal obligations.

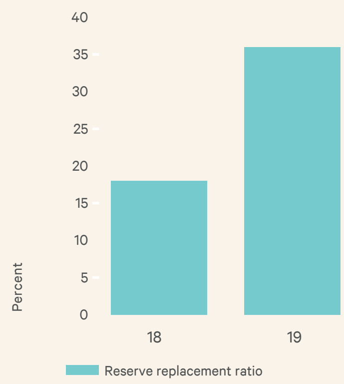
Oil production / - price



Gas sale / -price



Reserve replacement ratio



Health, safety and the environment (HSE)

The objective that the Norwegian petroleum activities shall be world-leading in health, safety and the environment remains firm. This means that the industry must continue working to continuously improve the safety level. In 2019, Petoro has been concerned with putting safety first and has clearly communicated the company's expectations as regards HSE management and HSE culture. At the same time, Petoro has been engaged on learning across the portfolio and quality in risk assessments in a major accident perspective. Petoro also conducted a number of management visits in 2019, focusing on health, safety and the environment on selected fields and onshore plants.

HSE results for 2019 show no incidents with major accident potential. The serious incident frequency, defined as the number of actual and potential serious near-miss incidents per million hours worked, is still too high. The frequency in 2019 was 0.9, compared with 0.7 in 2018. Most incidents were associated with falling objects and the industry increased its efforts in 2019 to prevent such incidents. The personal injury frequency, i.e. the number of personal injuries per million hours worked, increased from 3.8 in 2018 to 3.9 in 2019. No serious discharges to sea were recorded in 2019.

Principal activities in 2019

As of the end of 2019, the portfolio consisted of 200 interests in production licences, 2 more than at the beginning of the year. In January 2020, the Ministry of Petroleum and Energy completed its Awards in Pre-defined Areas (APA 2019), where an additional 14 production licenses were awarded with SDFI participation.

At the end of the year, the portfolio consisted of 35 fields in production. The portfolio contains a total of 39 fields. Decisions have been made to develop four fields, Martin Linge, Johan Castberg, Tor II and Dvalin, but they have yet to come on stream.

In 2019, Plans for Development and Operation (PDOs) were submitted for the Gjøa P1 project which will extract additional resources from the Gjøa field, Tor II which is a further development of the previously shut down Tor field, as well as for the Hywind Tampen offsho e wind farm which will supply the Snorre and Gullfaks fields with electricity.

The authorities approved the Plan for Development and Operation (PDO) for Johan Sverdrup Phase 2 in 2019, which also included the Plan for Installation and Operation of the area solution for power from shore for the Johan Sverdrup, Edvard Grieg, Ivar Aasen and Gina Krog fields. The authorities also approved the second phase of extraction of the Shetland/Lista formation on Gullfaks and the above-mentioned P1 project on Gjøa.

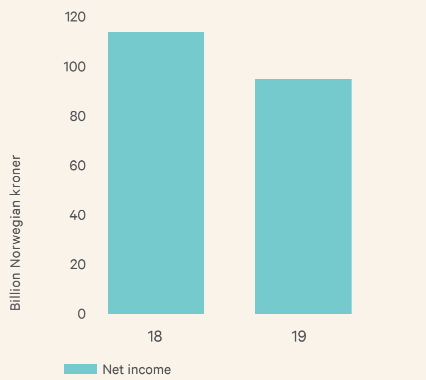
Production from mature oil fields continues to dominate liquids production from the SDFI portfolio. The Troll, Oseberg, Åsgard, Heidrun, Gullfaks and Grane fields accounted for 64 per cent of total liquids production in 2019. In 2019, gas accounted for 64 per cent of overall production measured in oil equivalent. Approximately 70 per cent of the gas production came from Troll, Ormen Lange and Åsgard.

Production from Johan Sverdrup Phase 1 started on 5 October – more than two months ahead of the original schedule. The project was delivered at a cost considerably lower than budgeted. Along with Phase 2, which starts up in 2022, the field will provide a considerable contribution to production on the Norwegian Shelf for decades to come. At plateau, Johan Sverdrup Phase 1 and 2 will produce up to 660,000 bbls per day. As a result of the decision to use power from shore, CO_2 emissions are at a record-low level with only 0.7 kg per bbl. Petoro is a licensee with a 17.36 per cent interest in the field.

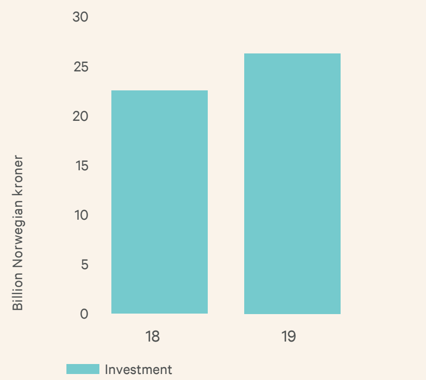
Petoro's strategy has three main areas: competitiveness, mature fields and wells. The areas are supported by four priorities: Optimise recovery strategy, field and further development, maturing wells and efficient drilling and efficien operations. The company works to seize the opportunities created by digitalisation within each priority. Climate and safety requirements make an important framework for the strategy.

Through focused follow-up, supported by in-depth professional commitment, Petoro works to reinforce value creation opportunities with emphasis on long-term business development. The

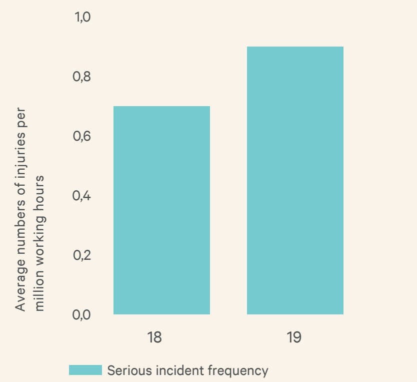
Net income



Investment



Serious incident frequency



company's climate policy emphasises that Petoro shall act as a driving force to ensure that the oil and gas industry on the Norwegian shelf is at the forefront as regards addressing the climate challenges.

In line with this strategy, Petoro in 2019 focused special efforts towa d the Heidrun, Maria, Åsgard, Oseberg and Grane fields. Well maturation and digitalisation have also been addressed as special topics for the entire field portfolio. Within digitalisation, the company has employed strategic collaboration with one supplier, aimed special efforts towa d improving quality and streamlining work processes in reservoir modelling.

On Heidrun, where Petoro has an interest of 57.7 per cent, the company carried out its own simulation studies of the field's northern part in 2019. Through this work, Petoro identified a potential for drilling several new wells and associated development of new infrastructure. Petoro has also studied various gas management solutions for Heidrun, which revealed a potential for increased oil reserves through gas injection in deeper reservoir layers.

On Åsgard, where Petoro has an interest of 35.69 per cent, the company used its own studies in 2019 to identify and specify projects that could contribute to increase the recovery rate to the field's target recovery rate of 60 per cent.

On Oseberg, where Petoro has an interest of 33.6 per cent, the company conducted a study to map the effect of increased gas export from the field's main structure. Petoro has identified seven new profitable drilling targets and the study supports the licence's strategy with a stepwise escalation of gas export leading up to 2022. In connection with increased gas exports, it will be necessary to upgrade gas capacity at the Oseberg Field Centre. Petoro has been a driving force to maximise the value of the project by early phase-in of pre-compression. The concept choice was made in December, and the plan is to start pre-compression in 2024.

On Grane, where Petoro has an interest of 28,91 per cent, the company prepared a technical basis for developing the Breidablikk deposit through a joint simulation model for the Grane and Breidablikk reservoirs. The purpose of the Breidablikk project is to develop resources north of the Grane unit by utilising the capacity in existing infrastructure, which will also contribute to extend the field's production lifetime.

A concept choice was made in 2019 to improve the recovery of gas on the important gas fields Ormen Lange and Snøhvit. The solution involving lowering wellhead pressure while simultaneously installing increased gas compression capacity will yield increased reserves at a low break-even price.

On Maria, where Petoro has an interest of 30 per cent, the company has taken an active role in identifying measures to increase production in light of disappointing production after start-up. One key instrument will be a new injection well, where results from Petoro's own reservoir studies are used as a basis for well placement. Petoro has worked to define a long-term solution to develop the field which will contribute to increase reserves.

As regards new fields in the portfolio, Petoro's efforts a e associated with assessing various development solutions leading up to a concept choice. Petoro emphasises the selection of development solutions with the capacity and expansion opportunities to realise the field's full value potential.

In 2019, Petoro has followed up a substantial portfolio of major development projects: Johan Sverdrup Phase 1 and 2, Johan Castberg, Snorre Expansion Project, Martin Linge, Dvalin and Troll Phase 3. The follow-up has been focused on factors that affect HSE, climate and implementation risk as well as ensuring sound preparations for operations. While project implementation generally has been good, the Martin Linge project has been characterised by multiple significant delays, but operations are expected to start in 2020. Petoro maintained substantial focus on the project last year as well, with primary focus on achieving a safe and good field start-up.

New wells account for about 50 per cent of the potential to add new production to the SDFI portfolio. There is a need for goal-oriented efforts to mature new well targets and thereby increase the likelihood of realising the reserve potential and secure utilisation of contracted rig capacity. In an effort to increase the range of wells in the portfolio and supplement the operators' work, Petoro matured new proposed drilling targets in 2019 on selected fields such as Oseberg, Åsgard, and Heidrun.

Petoro has followed up drilling efficiency on 10 of the fixed drilling facilities on the mature fields in the portfolio since 2002. After remaining stable since 2015, the average drilling cost per well increased from 2018 to 2019. In order to realise reserves in the mature fields and increase the recovery rate, the cost must be reduced through further efficiency measu es.

Digitalisation as an instrument to improve and increase competitiveness is high on the strategic agenda of most oil and gas companies and suppliers. Efforts a e characterised by a strong desire to develop new solutions and new good examples of commercial value are continuously emerging. The challenge moving forward is to reinforce the operative units' drive to improve and thereby stimulate testing of new solutions, as well as changing work processes. There is also a need for greater transparency between players to enable sharing of data. Within drilling, the company has identified concrete improvement opportunities in selected licenses and has proposed them in the joint ventures. Petoro also actively participates in selected industry forums with particular emphasis on sharing data.

In 2019, Petoro has seen significant activity associated with maturing electrification measures that could contribute to considerable reductions in greenhouse gas emissions from the SDFI portfolio. Several of the fields in the portfolio, such as Troll A/Kollsnes, Gjøa and Ormen Lange/Nyhamna, have already been electrified with power from shore. New adopted developments such as Johan Sverdrup and Martin Linge will also be fully electrified at start-up. When Johan Sverdrup Phase 2 and Martin Linge are on stream, 50 per cent of SDFI's oil and gas production will be electrified. In the planning of Johan Castberg, Petoro has emphasised the facilitation of possible future partial electrification.

Ongoing project development on several of the company's mature fields could also provide further reductions in the carbon footprint from the SDFI portfolio in the future. In 2019, the licensees in the Snorre and Gullfaks licenses decided to develop the Hywind Tampen offsho e wind farm. This wind farm will provide renewable power to fields and contribute to reducing emissions of CO_2 from the Norwegian shelf by 200,000 tonnes annually. Petoro is a licensee with a 30 per cent interest in both licences.

Electrification of mature fields is a time-critical measure as the projects' income potential is reduced when the remaining operating period is curtailed. Petoro therefore actively works with operators and partnerships to maintain progress on these projects. If ongoing planned electrification projects can be realised, they could, alongside Hywind Tampen, overall contribute to ensure that 60 per cent of SDFI production is electrified leading up to 2030 and provide average CO_2 emissions per bbl of oil equivalent of about 6-7 kg from the SDFI portfolio.

In 2019, Petoro was a participant in 19 exploration wells, 18 of which were wildcat wells which resulted in six minor discoveries; one gas discovery and five oil discoveries. Only two of the discoveries, Ragnfrid Nord and Telesto, are presumed to be commercial, as they can be tied into existing infrastructure. The exploration wells with medium to considerable volume potential were all dry or proved only minor volumes.

The portfolio's estimated remaining reserves totalled 5,335 million boe at the end of the year, down by 210 million boe from the year before. Reserve growth totalled 142 million boe and was mainly caused by increased gas reserves on Gullfaks, as well as a lifetime extension for Draugen. With a production of 352 million boe, this yielded a reserve replacement rate of 40 per cent in 2019.

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 Accounting Agreement. The funds are managed by the respective operators. This amounted to NOK 512 million for SDFI in 2019. Projects aimed at field-specific qualification of new solutions or pilot application of technology in licences, where the costs are charged to the joint ventures, come in addition. Petoro does not initiate its own technology development and research projects.

Marketing and sale of the products

All oil and natural gas liquids (NGL) from the SDFI portfolio are sold to Equinor. Equinor is responsible for marketing all the SDFI's natural gas along with its own gas as a single portfolio, at the state's expense and risk. Petoro's task is to monitor that Equinor's marketing and sale of the state's petroleum together with its own production complies with the marketing and sale instruction issued 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 ensure rightful distribution of the total value creation. Petoro specifically follows up issues of significant importance, issues of a principle nature and potential conflicts of interest.

In 2019, Petoro prioritised issues within the marketing and sale of oil. In this context, Petoro has maintained particular focus on Equinor's management and follow-up system as regards maximum value creation and equitable distribution.

Petoro is concerned with ensuring that the products are marketed and sold in the markets where the highest price can be achieved, in addition to ensuring that the portfolio's flexibility is used to achieve the highest possible value creation. In this context, optimal further development, regularity, utilisation of capacity and flexibility in production facilities and infrastructure are of significant importance in order to achieve maximum value creation.

Selected verifications have been conducted to ensure that the SDFI receives its rightful share of sales-related costs and revenues. Petoro has maintained a dialogue throughout the year with the Ministry of Petroleum and Energy as regards clarifications related to the marketing and sale instruction.

Working environment and expertise

Petoro's personnel have extensive

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

The company's human resources policy shall ensure that Petoro is an attractive workplace for existing and future employees. This includes diversity and equality, competence development and facilitating a good working environment that prevents discrimination due to age and gender, as well as cultural and geographic background. Petoro emphasises equal opportunities for professional and personal development as well as pay. The company facilitates flexible working hours and adaptation of working conditions to ensure that employees with disabilities can also work for Petoro. "Statement on corporate social responsibility" provides a more detailed account of diversity, inclusion and equality. There are no systematic or significant diffe ences between gender and age groups, either as regards wages, wage development, performance evaluations or development opportunities.

At the end of 2019, Petoro had 65 employees, one more than the year before. Three new employees were hired in 2019. The percentage of women in the company was 32 at the end of 2019, 25 per cent in company management and 43 per cent in the company's board.

Absence due to illness was 1.5 per cent, compared with 2.6 per cent the previous year. The company considers this to be low. Petoro emphasises close follow-up and dialogue as described in the 2019-2022 IA agreement to promote health and prevent absence due to illness. No occupational accidents were recorded among Petoro's personnel in 2019. As part of the effort to safegua d a good working environment, the company regularly conducts work environment surveys followed up with measures.

In 2019, the company conducted extensive work associated with organisational development to further develop Petoro as a driving force on the Norwegian shelf. A new organisation structure and executive team has been established and implemented as of 1 January 2020. Implementation of the new organisation will be supported by activities associated with organisational development.

Collaboration in the company's working environment committee (AMU) and works council (SAMU) lays an important foundation for a good working environment. Cooperation in these bodies is considered to be good.

Corporate governance

The board emphasises good governance to ensure that the state's portfolio is managed in a way which maximises financial value creation in a long-term perspective. Requirements for governance in the public sector are specified in "Regulations on Financial Management in Central Government" and in standards for good corporate governance. The Board observes the Norwegian state's principles for sound corporate governance as expressed in Storting Report 8 2019-2020 "The state's direct ownership in companies - sustainable value creation" and those sections of the "Norwegian Code of Practice for Corporate Governance" regarded as relevant to Petoro's activities and the frameworks established by its form of organisation and ownership.

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

The management system is tailored to Petoro's distinctive nature, and enterprise management is based on balanced scorecards, where goals are established to support the company's strategy. Reference is also made to the dedicated chapter on corporate governance in the annual report.

Corporate social responsibility

Petoro safeguards its corporate social responsibility in line with the relevant guidelines, which are tailored to the company's role. Petoro's funding for performing its management duties and for running the company is provided through appropriations from the government. Petoro is not permitted to provide monetary support for socialpurposes.

Measures which ensure that Petoro discharges its CSR include business ethics guidelines, the HSE declaration, climate policy and an HR policy that ensures diversity and equal opportunity. Petoro has no activity outside Norway but participates indirectly in certain foreign activities as licensee and through the marketing and sale instruction. The board provides a more detailed presentation of the exercise of CSR in a separate section of the annual report.

Risk management and internal control

The board conducted an assessment of the risk scenario in 2019 on the basis of the approved strategy and set targets for the coming year. Measures were identified for reducing the most significant risks which Petoro has an opportunity to influence within the company's established frameworks.

Three internal audit projects were carried out in 2019. The results were summarised in a report to the board describing the audit actions undertaken, findings, as well as proposed and implemented measures for the internal audit projects.

The internal audit projects in 2019 were conducted by PwC, which has also been responsible for the internal financial audit of the SDFI for the 2019 accounting year.

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 board met 8 times in 2019. 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. Balanced scorecard is a key instrument used by the board in following up the company's results.

The board considers major investment decisions in the portfolio. It also follows up activities in the licenses and the monitoring of marketing and sales and financial management, including assessments of the overall risk scenario.

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. A declaration has been drawn up by the board on remuneration of the chief executive and senior personnel.

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

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 2019 is complete.

The work of the board is based on the "Board Instructions", which describe its responsibilities and mode of working. As an appendix to the Instructions, the board has adopted supplementary provisions for matters which it will consider. The board also reviews the company guidelines on business ethics and CSR, as well as the Board Instructions. Directors must routinely report their ownership of shares or similar interest in other companies which could constitute, or which could be perceived as constituting, a conflict of interest with their position. They are furthermore required to report other relationships with licensees involved in petroleum activities on the NCS or with companies that supply goods or services to licensees.

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

Petoro's board comprises Gunn Wærsted as chair, Brian Bjordal as deputy chair, Per Arvid Schøyen, Trude J. H. Fjeldstad and Hugo Sandal as shareholder-elected directors. Board members 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 Equinor (previously 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 Ministry of Petroleum and Energy constitutes its general meeting.

Petoro's share capital at 31 December 2019 was NOK 10 million, distributed among 10,000 shares owned by the Ministry of Petroleum and Energy on behalf of the Norwegian state. Petoro's business office is in Sta anger.

Net income and allocations

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

In 2019, Petoro AS was the parent company of Petoro Iceland AS, which is planned liquidated in 2020. The subsidiary was established in December 2012 and, as a branch, acted as licensee in production licences where the Norwegian state chose to participate. The subsidiary had no activity in 2019. The company's share capital at 31 December 2019 comprised NOK 2 million, distributed among 2,000 shares.

Funds for operating Petoro AS are provided by the state, which is directly liable for the contractual obligations incurred by the companies. NOK 358.7 million was appropriated for ordinary operation of Petoro AS in 2019.

Total expenses in 2019 were in accordance with the board's approved budget, the company's appropriation and allocation letter. The financial result for Petoro AS totalled NOK 975,000. The board proposes that the profit in Petoro AS be transferred to other equity. Net income for the year increased other equity to NOK 14 million as of 31 December 2019.

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

Outlook

The world is facing substantial challenges in order to reach the UN's Sustainable Development Goal and the ambitions of the Paris Agreement. This has contributed to increased pressure on the oil and gas industry. Today, fossil energy sources account for 80 per cent of global energy consumption. Energy systems are highly complex and will take long time to change. The industry takes this challenge seriously and several leading companies have recently changed their strategy to develop their activities in the face of tackling a low-carbon future.

The international and national climate debate has been further intensified and more and more people are questioning the legitimacy of the oil and gas industry in a climate perspective. Many are advocating a cessation date for oil and gas activities on the Norwegian shelf. Climate risk, associated with physical changes and transitioning to a low-carbon society, is high on the agenda of the oil and gas industry. It is particularly important to understand how the climate challenge could affect prices and demand for various energy sources, as well as which requirements will be set for industry's carbon footprint.

Mature fields on the Norwegian shelf are the backbone of the Norwegian petroleum industry in general and the SDFI portfolio in particular. These fields are associated with considerable value creation opportunities. There is still a considerable potential to increase the recovery rate; this presumes the drilling of a considerable number of new wells, high drilling efficienc , optimisation of recovery strategies and efficient operations.

CO_2 emissions per produced unit will increase along with declining production from mature fields. Moving forward, Petoro will expend considerable efforts to reduce greenhouse gas emissions and electrification is included as part of a comprehensive further development of the mature fields. Electrification often takes place alongside a license's desire for extended lifetime for installations, or a need for more power for e.g. gas compression, in both instances to increase recovery and value. Petoro will continue to work actively to mature measures to reduce emissions of greenhouse gases, as well as ensure good technical and cost-effective solutions.

The start-up of Johan Sverdrup Phase 1 was an important milestone for the Norwegian Shelf and over the next few years, other major projects such as Troll Phase 3, Johan Castberg, Johan Sverdrup Phase 2, Snorre Expansion Project and Martin Linge will be completed. Without new major oil and gas discoveries, production from the Norwegian Shelf will decline rapidly in the last half of the 2020s. This will entail available capacity in fields and infrastructure. There is a certain potential in utilising this vacant capacity. Increased exploration in surrounding areas is key in order to discover more profitable gas and oil resources that can be developed quickly by utilising the competitiveness inherent in the existing infrastructure. Maintaining exploration activity on the Norwegian Shelf and access to attractive exploration acreage in the areas the authorities open for petroleum activities is therefore important.

Recruitment to the petroleum industry is expected to be challenging moving forward. The trend for several years has been that fewer and fewer young people are choosing educations aimed at the petroleum industry. Strengthening the industry's focus on transition and measures to reduce its carbon footprint, as well as digitalisation, are considered to be important recruitment instruments for the industry.

The SDFI portfolio is highly robust, even with low oil and gas prices. However, future revenues from the activities will be highly dependent on price developments. Price insecurity is still high going forward, both for oil and gas. The development in the oil market moving forward will primarily be determined by the development in the supply of oil, particularly from OPEC and shale oil. Demand is expected to continue to increase in the years to come, but over the longer term, it could decline somewhat depending on e.g. economic growth and climate policy. Protectionism and trade wars increase the fear of reduced economic growth. This is an important factor for further developments in the demand for oil. The demand for gas increases every year. In Europe, this is primarily taking place at the expense of coal, which results in considerable reductions in greenhouse gas emissions. With declining self-production in the EU, Norway will keep its key position as a supplier of gas to Europe. Norwegian gas is competitive, well-supported by a cost-effective and reliable infrastructure as well as low emissions. However, increased deliveries of both pipeline gas from Russia and LNG from the US result in particular price pressure for gas. With a further increase in global LNG capacity, one can expect continued pressure on gas prices, unless Asia increases LNG imports to a considerable extent.

The oil and gas industry is facing substantial challenges in light of the expected energy transition. Climate policy will continue to challenge fossil fuels, which will face increased competition from renewable energy. The role of gas in Europe's future energy supply is a topic of considerable interest. An extensive development of renewable energy is needed in order to reach the EU's long-term climate targets. It will also be necessary to develop new technology to reduce greenhouse gas emissions, e.g. through CCS or by de-carbonising natural gas to hydrogen with CO2 storage. In the meantime, Norwegian gas will play an important role in climate policy by replacing coal.

The oil and gas industry wants to be part of the solution to the climate challenge. With leading technology expertise, a global presence and financial resources, the industry can contribute both low-emission production and the development of new profitable de-carbonised value chains.

Stavanger, 5 March 2020

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Trude J. H. Fjeldstad
Director

Per Arvid Schøyen
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

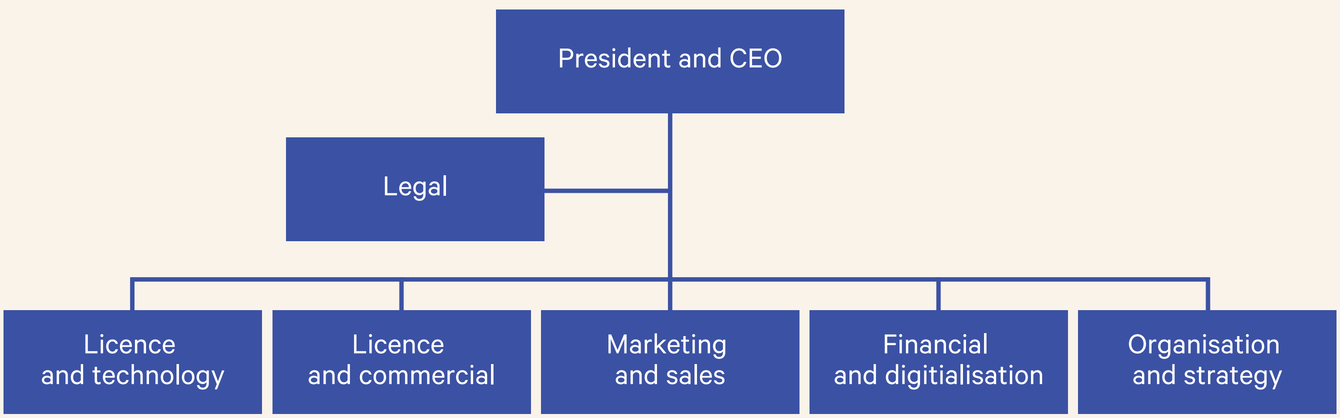
2

Introduction to the enterprise and key figures 2019

Snorre A
Photo: Bo B. Randulff & Even Klepp

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 65 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 as of 1 January 2020 is as shown in the figure above.

Key figures for Petoro AS

	2019	2018	2017
Total appropriation / administration grant (NOK million) *	**287**	280	274
Full-time equivalents (average number of full-time equivalents employed)	**62.9**	64.2	64.4
Payroll share of administration grant (per cent) **	**37**	38	39
Payroll costs per full-time equivalents (NOK million) **	**1.71**	1.64	1.66
Share of administration grant for studies and cutting-edge expertise (per cent)	**20**	16	15

* *excluding VAT*

** *payroll as specified in Note*

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 ownership interests in production licences, fields, pipelines and onshore facilities, and manages this portfolio based on sound business principles. At the end of 2019, the portfolio consisted of 200 production licences, 35 producing fields and 16 pipelines and terminals, as well as follow-up of 14 production licences with net profit agreements.

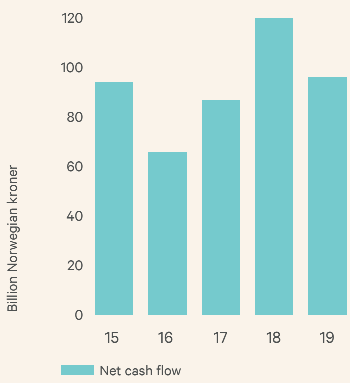
The SDFI portfolio represents about one-third of Norway's overall oil and gas reserves and yielded a cash flow of NOK 96 billion in 2019.

Key figures for SDFI

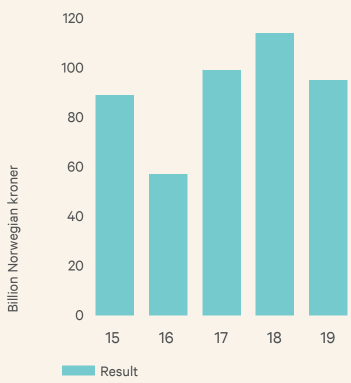
	2019	2018	2017
Net cash flow (in NOK million)	**96 184**	119 666	87 157
Operating revenue (NOK million) (NGAAP)	**153 395**	177 431	150 720
Production expenses (million NOK) (NGAAP)	**13 690**	17 440	14 262
Net profit (in NOK million) (NGAAP)	**95 647**	114 210	98 919
Investment (in NOK million) (capital accounts)	**26 331**	22 555	26 564
Production — oil and NGL (1,000 bbl/d)	**349**	370	398
Production - dry gas (million scm/d)	**98**	113	113
Production - total (thousand boe/d)	**964**	1 084	1 110
Remaining reserves (million boe)	**5 335**	5 544	5 879
Reserve replacement rate (annual percentage)	**40**	16	78
Reserves added (million boe)	**142**	62	316
Oil price (USD/bbl)	**65**	71	54
Oil price (NOK/bbl)	**572**	573	449
Gas price (NOK/scm)	**1.92**	2.17	1.72

Key figures 2019

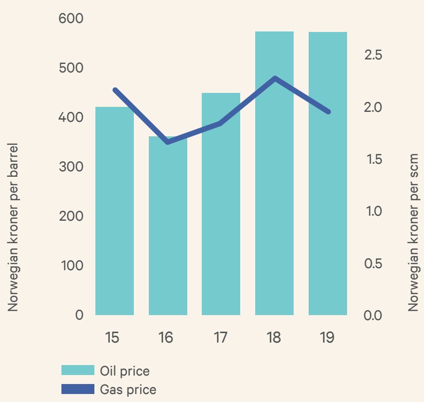
Cash flow



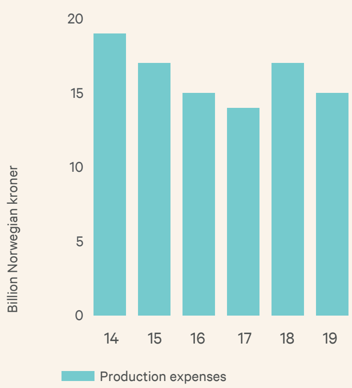
Result



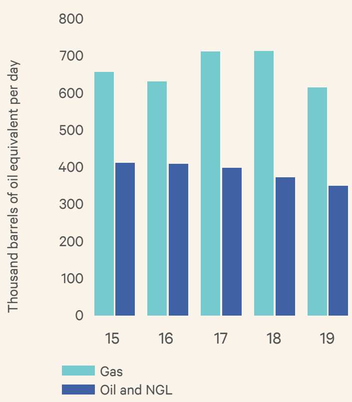
Oil and gas prices



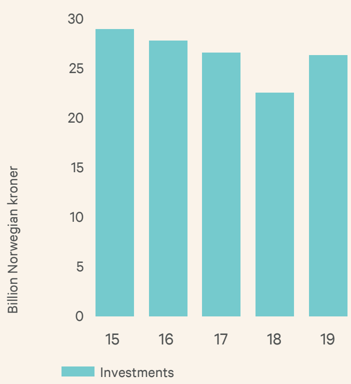
Production expenses



Production



Investments (cash)



3

Activities and results from the year

Johan Sverdrup August 2019.
Photo: Ole Jørgen Bratland / Equinor

Activities and results in 2019

Reference is made to the letter of assignment to Petoro AS for 2019, and to the business plan for Petoro AS. The targets set in the letter of assignment and Petoro's performance in relation to these are presented below.

Safeguarding the state's direct participating interests

Petoro shall be an active partner that helps maximise the value of the SDFI portfolio through comprehensive assessments. The work shall be focused on areas and tasks where the company, based on the portfolio and in interaction with other players on the Norwegian Continental Shelf, can provide a particular contribution toward increased value creation, considering the state's overall financial interests. Petoro shall 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 2019."
Management parameters: Volume figures. De elopment over time and description of deviations.

Total production amounted to 964 thousand bbls of oil equivalent (boe) per day, just over 11 per cent lower than in 2018.

Gas production totalled 98 million standard cubic metres (mill. scm) per day in 2019, down 14 per cent from a record-high level of 113 million scm per day last year. The decline in production alongside low gas prices resulted in revenues from self-produced gas of NOK 68 billion, about NOK 21 billion lower than the previous year. The reduction in gas volume was generally associated with use of flexible gas extraction for price optimisation on Troll, as well as production decline due to operational challenges associated with compression on Ormen Lange.

Liquids production amounted to 349 thousand boe per day, 6 per cent lower than in 2018. This decline was mainly caused by natural production decline, as well as lower production as a result of problems with risers on Snorre. The decline in liquids production was partially offset by the star -up of Johan Sverdrup in October 2019.

Beyond ordinary licence follow-up where the operator and partners stipulate production targets and the operator is challenged on nonconformity management and mitigating measures, Petoro's efforts in 2019 have been particularly aimed at influencing the operator to now both report and follow up on shut-in wells and production efficiency on select fields. etoro's efforts have also been aimed at completing new wells and implementing planned drilling programmes. These are important tools to increase production from the SDFI portfolio.

"Petoro will prepare operational targets as regards efficient operations."
Management parameters: Development in operating expenses with description of deviations.

Efficiency measu es on fields in operation has been an important part of Petoro's work in 2019 as well. The company has been a driving force for efficiency measu es and cost reductions, particularly within the area of drilling and wells, as well as operations and maintenance.

The need for efficiency imp ovements 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 on 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 efficienc , simplified well design and increased availability of drilling facilities. Average drilling cost per well was stable for a number of years, but last year saw an increase of 15 per cent compared to the new level. In order to realise reserves in the mature fields and to increase the recovery rate, costs must be reduced through further efficiency measu es.

Petoro is also paying attention to the development in production expenses, including costs for operation and maintenance of fields and infrastructure. After a number of years of falling production expenses, costs increased somewhat from 2017 to 2018. Adjusted for the provision for and subsequent settlement in the COSL case on Troll, however, production costs in 2019 were on par with 2018. Petoro follows up costs and efficiency measu es, e.g. by using benchmark analyses.

Digitalisation is an important instrument for efficient ope ations. Petoro has therefore been a driving force for broad implementation across the SDFI portfolio, as well as establishment and follow-up of implementation plans on select fields. Within drilling, the company has identified concrete improvement opportunities in select licenses and has proposed them in the joint ventures. Petoro also actively participates in select industry forums with particular emphasis on sharing data.

"Petoro will prepare operational targets as regards safeguarding safety and environmental concerns."
Management parameters: Serious incidents and CO_2 emissions. Development over time and description of deviations.

The objective that the Norwegian petroleum activities shall be world-leading in health, safety and the environment remains firm. This means that the industry must continue working to continuously improve the safety level. In 2019, Petoro has been concerned with putting safety first and has clearly communicated the company's expectations as regards HSE management and HSE culture. At the same time, Petoro has been concerned with learning across the portfolio and quality in risk assessments in a major accident perspective. Petoro also conducted a number of management visits in 2019, focusing on health, safety and the environment on selected fields and onshore plants.

HSE results for 2019 show no incidents with major accident potential. The serious incident frequency, defined as the number of actual and potential serious near-miss incidents per million hours worked, is still too high. The frequency in 2019 was 0.9, compared with 0.7 in 2018. Most incidents were associated with falling objects and the industry bolstered its efforts in 2019 to prevent such incidents. The personal injury frequency, i.e. the number of personal injuries per million hours worked, increased from 3.8 in 2018 to 3.9 in 2019. No serious discharges to sea were recorded in 2019.

In light of the climate challenge, a unified Norwegian oil and gas industry has launched a new climate roadmap and new climate targets. Through this, the industry is clearly signalling that it is taking the climate challenge and the Paris Agreement seriously. The oil and gas industry will reduce its greenhouse gas emissions by 40 percent in 2030 compared with 2005, and further reduce emissions to near-zero in 2050. This will require vast investments, technology development and industrial expertise. At the same time, it will presume considerable efforts f om all industry players. Petoro wants to be a driving force to ensure that the Norwegian shelf leads the world in tackling the climate challenges and is already working closely with operators and partners in the licenses to investigate which opportunities should be pursued.

Petoro prepares the "Annual External Environment Report" each year, which is published alongside the annual report. The 2018 report states that the emissions of carbon dioxide (CO_2) from the SDFI portfolio in 2018 amounted to 3 million tonnes, which is 0.2 million tonnes lower than in 2017. The decline in CO_2 emissions is mainly caused by the shutdown of a gas turbine and CO_2-reducing measures offsho e. SDFI's share of overall emissions from the Norwegian shelf amounted to 25%. Emissions of CO_2 per produced unit (emission intensity) from the SDFI portfolio went down from 8.0 kg/boe to 7.6 kg/boe from 2017 to 2018. This is 16% lower than the average for the Norwegian shelf, where emission intensity was 9.0 kg/boe.

Priority targets and activities in 2019

In 2019, 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 the greatest possible profitable production and value from mature fields"
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects

In line with Petoro's strategy, the company has focused special efforts in 2019 toward the Heidrun, Maria, Åsgard, Oseberg and Grane fields. Well maturation and digitalisation have also been addressed as special topics for the entire field portfolio. Within digitalisation, the company has employed strategic collaboration with a supplier, aimed special efforts towa d improving quality and streamlining work processes in reservoir modelling.

On Heidrun in 2019, Petoro has carried out dedicated simulation studies of the northern part of the field. Through this work, Petoro identified a potential for drilling several new wells and associated development of new infrastructure. Petoro has also studied various gas disposal solutions for Heidrun, which revealed a potential for increased oil reserves through gas injection in deeper reservoir layers.

On Åsgard, the company used its own studies in 2019 to identify and specify projects that could contribute to increase the recovery rate to the field's target recovery rate of 60 per cent.

On Oseberg in 2019, Petoro has carried out a study to map the effect of increased gas export from the field's main structure. Petoro has identified seven new profitable drilling targets and the study supports the licence's strategy with a stepwise escalation of gas export leading up to 2022. In connection with increased gas exports, it will be necessary to upgrade gas capacity at the Oseberg Field Centre. Petoro has been a driving force to maximise the value by the project by early phase-in of pre-compression. The concept choice was made in December, and the plan is to start pre-compression in 2024.

On Grane, Petoro prepared a technical basis for development in 2019 of the Breidablikk deposit through a joint simulation model for the Grane and Breidablikk reservoirs. The purpose of the Breidablikk project is to develop resources north of the Grane unit by utilising the capacity in existing infrastructure, which will also contribute to extend the field's production lifetime.

On Maria, the company has taken an active role in 2019 in identifying measures to increase production in light of disappointing production after start-up. One key measure will be a new injection well, where results from Petoro's own reservoir studies are used as a basis for well placement. Petoro has worked to define a long-term solution to develop the field which will contribute to increase reserves.

"Petoro will contribute to good operational preparations for projects in the implementation phase."
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

In 2019, Petoro followed up a major portfolio of large development projects with development decisions and which will start producing in the years to come: Johan Sverdrup Phase 1 and 2, Johan Castberg, Snorre Expansion Project, Martin Linge, Dvalin and Troll Phase 3. The follow-up has been focused on factors that affect HSE, climate and implementation risk as well as ensuring sound preparations for operations.

While project implementation has generally been good, the Martin Linge project has been characterised by multiple significant delays, but operations are expected to start in 2020. Petoro maintained substantial focus on the project last year as well, with primary focus on achieving a safe and good field start-up.

In 2019, Petoro paid special attention to operation preparations for Johan Sverdrup Phase 1, which came on stream on 5 October – more than two months ahead of schedule. The project was delivered at a cost considerably lower than budgeted. Future-oriented choices have been made as regards digital solutions that can also be utilised elsewhere in the portfolio. The area solution for power from shore to the Sverdrup field and the surrounding area means that a total of ten fields on the Utsira High in the North Sea can now receive power from shore. Along with Phase 2, which will start up in 2022, the field will produce up to 660,000 bbls per day at plateau and provide a considerable contribution to production on the Norwegian Shelf for decades to come.

"Petoro will contribute to realising new development projects as well as utilising time-critical infrastructure in fields and transport systems."
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects

In 2019, a Plan for Development and Operation (PDO) was submitted for the Hywind Tampen offsho e wind farm, which will reduce the need for power from gas turbines and provide renewable power to the Snorre and Gullfaks fields. A PDO was also submitted for the Gjøa P1 project, which will extract additional resources from the Gjøa field, and Tor II which is a further development of the previously shut down Tor field.

The SDFI portfolio also includes a number of future development projects in the planning phase, which will be matured toward an investment decision in a few years. The future projects primarily consist of further development projects and electrification projects on mature fields, but also a few minor discoveries. As regards new fields in the portfolio, Petoro's efforts a e associated with assessing various development solutions leading up to a concept choice. Petoro emphasises the selection of development solutions with the capacity and expansion opportunities to realise the field's full value potential.

In 2019, Petoro has seen significant activity associated with maturing measures to electrify fields and onshore facilities. The electrification measures are decisive in order to satisfy requirements and expectations for a reduced carbon footprint from production on the Norwegian Shelf, as e.g. forecasted in the roadmap from the industry. While new field developments were previously the most relevant candidates for electrification, work is currently also under way on concrete plans to electrify a number of fields already in operation with power from shore.

Electrification is included as part of a comprehensive further development of the mature fields. Electrification often takes place alongside a license's desire for extended installation lifetime, or a need for more power for e.g. gas compression, in both instances to increase recovery and value. Petoro will continue to work actively to mature climate impact-reducing measures, as well as ensure good technical and cost-effective solutions. Electrification of mature fields is a time-critical measure as the projects' income potential is reduced when the remaining operating period is curtailed. Petoro therefore actively works with operators and partnerships to maintain progress on these projects.

In 2019, Petoro has also worked on improved recovery of gas on the important gas fields Ormen Lange and Snøhvit, where concept choices were made in 2019. The solution involving lowering wellhead pressure while simultaneously installing increased gas compression capacity will yield increased reserves at a low break-even price.

Monitoring Equinor's marketing and sale of the state's petroleum

Petoro will 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 instruction issued to Equinor ASA. This includes contributing to rightful distribution of income and costs.

"Petoro will monitor the marketing and sale of the state's petroleum with attention to the market situation, potential differences in interests, as well as issues of significant importance as regards value."
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.

In line with the allocation letter, Petoro has focused its risk-based follow-up on prioritised issues within the marketing and sale of oil. In this context, Petoro has maintained particular focus on Equinor's management and follow-up system as regards maximum value creation and rightful distribution.

Petoro is concerned with ensuring that the products are marketed and sold in the markets where the highest price can be achieved, in addition to ensuring that the portfolio's flexibility is used to achieve the highest possible value creation. In this context, optimal further development, regularity, utilisation of capacity and flexibility in production facilities and infrastructure are of significant importance in order to achieve maximum value creation.

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 good financial management and control of SDFI pursuant to the 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 2019, 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 analysis and reporting on the SDFI's financial standing and development in accordance with deadlines specified in the Allocation Letter.

The company also received a clean audit report from the Office of the Auditor General for 2018.

Efficient ope ations

Petoro will work systematically to utilise its allocated resources in an efficient manner. The company will prepare operational targets and indicators that demonstrate the efficiency of the company's operations and which can be compared over time.

"Petoro will design its performance of the company's primary tasks in an efficient manne "
Management parameters: Initiatives, measures and work initiated by Petoro and demonstrating the effect thereo .

Petoro aims to carry out its activities as efficiently as possible. In ecent years, the company has carried out a number of efficiency and cos -reducing measures, for example by negotiating contracts for services the company uses, implementation and use of new digital tools and systems, as well as simplification of administrative processes and routines.

Petoro's portfolio of production licences has increased steadily since the company was established and at the end of 2019, the portfolio consisted of 200 production licences with SDFI ownership interests. The company has organised its licence follow-up in an efficient manne , such that new production licences the company receives for administration are also included in the follow-up within the same staffing f amework. Over the course of the year, Petoro has carried out a number of measures to develop the organisation's ability to solve its tasks and deliver results in accordance with the company's vision, strategy and goals. A new organisation structure and executive team has been established and implemented as of 1 January 2020. Petoro has also completed its update of the company's management system, as well as entered into a contract with a new accounting supplier for the SDFI as of 1 March 2020.

"Petoro will utilise its opportunities for efficient ope ation by applying digital solutions and digital data sharing"
Management parameters: Initiatives, measures and work initiated by Petoro and demonstrating the effect thereo .

Petoro works continuously to specify how digitalisation can be utilised to conduct the activities as efficiently as possible. The company's goal is to reduce the time spent on routine tasks, streamline reporting and supervisory tasks, as well as improve the company's influence through better insight, analyses and decision documentation.

In 2019, Petoro has prepared a digital strategy plan that will facilitate the realisation of gains through further development, skills development and increased use of digital tools in the company's work processes. Also during the course of the year, Petoro has implemented and utilised new digital tools and systems within the company's three main areas, as well as for collaboration across the company. This work has made the company's administrative information more accessible as well as streamlined work processes and data management.

4

Management and control

From the drilling floor at Johan Sverdrup.
Photo: Arne Reidar Mortensen / Equinor

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 og Gunn Wærsted. (Photo: Elisabeth Tønnessen)

Gunn Wærsted

Chair

Year of election: 2014
Other directorships: Chair Telenor; director Nationwide Building Society, director Fidelity Int, director Saferoad
Education: MBA, BI Norwegian Business School.
Career: Executive vice president in DnB responsible for capital management and life insurance; CEO, in addition to being chief executive in 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 Arvid 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 f om 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 Management New Business/ Managing director Statkraft Tofte 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; 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, Strategic analysis, 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, chair 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 leader business analytics and performance management, 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. (roughly equivalent to a bachelor's degree) from the University of Tromsø.
Career: Broad experience from the oil and gas industry, both upstream and downstream from Petoro, Total and Equinor. Previously researcher for Fiskeriforskning AS and trainee at Credit Suisse.

Management of Petoro

Behind from left: Heidi Iren Nes, Ole Njærheim, Jonny Mæland and Kjell Morisbak Lund.
In front from left: Olav Boye Siversten, Grethe Kristin Moen and Hilde Fey Lunde. (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 in Statoil and Shell. Her most recent post at the latter was head of the E&P business in Norway and of HSE in Europe.

Hilde Fey Lunde

Vice president licence follow-up and commercial
Education: Civil engineer Petroleum technology from NTNU, Diploma from Institute Français du Petrole (IFP), Paris
Career: Broad experience from the Norwegian and international oil and gas business. Came to Petoro in 2016 with experience from executive positions in DEA/E.ON/E.ON Ruhrgas both in Norway and the UK, most recently as Manager Development and Production. Held a number of positions over 10 years internationally in both upstream and downstream for ConocoPhillips.

Jonny Mæland

CFO
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.

Heidi Iren Nes

Vice president organisation and strategy
Education: MSc in business economics, Norwegian School of Economics, Bergen.
Career: Started in Petoro's finance department in 2008 after a few years in Subsea 7 Norway. Then transitioned into a new role in Petoro's marketing department from 2013 to 2019. Was also an employee representative on the Petoro board from 2016 to 2018.

Kjell Morisbak Lund

Vice president licence follow-up and technology
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, sta and management positions in Statoil - most recently as HSE director for midstream and downstream activities.

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: Broad experience from financial and commercial consultancy as Managing Director for ECON Consulting Group. Njærheim has also been investment director for IKM Invest AS and Spring Capital AS. He has previously worked for e.g. Lyse Energi and Standard and Poor's/DRI.

Olav Boye Sivertsen

Vice president legal a airs
Education: Law degree from the University of Oslo.
Career: Has previously held posts as legal affairs officer a ExxonMobil, head of the legal affairs department for Mobil Norway, and 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.

Corporate governance

The State's Direct Financial Interest in petroleum activities on the Norwegian continental shelf (SDFI) represents one-third of Norway's oil and gas reserves. Petoro manages substantial assets on behalf of the Norwegian state. This requires good governance that safeguards expectations from the owner, stakeholders and society at large.

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 Report to the Storting No. 8 2019-2020 "The state's direct ownership in companies - sustainable value creation" 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. In the following the main topics with relevance for Petoro AS are further accounted for.

The board emphasises good corporate governance and management in order to ensure that the SDFI 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 petroleum 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. The company's management system is tailored to the distinctive nature of the enterprise and contains governing documentation that shall contribute to the realization of Petoro's goals and strategies and accomplishment ofits primary tasks in a systematic manner within the given framework. The company's privacy policy is included in the management system.

Petoro's values base is integrated in its business activities. Petoro's values - dynamic, responsible, inclusive and bold – are the foundation that will define how the employees work and thereby support the goals and strategy.

Petoro reports on the follow-up of its corporate social responsibility (CSR) in a separate chapter of this annual report.

Activities

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 the petroleum produced from the state's direct participating interests, in line with the marketing and sale instruction issued to Equinor
- Financial management for 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 allocation. In addition, the company's articles of association, strategy, values and guidelines on business ethics, including its guidelines for exercising the company's CSR, provide guidance for exercising Petoro's activities.

Petoro's strategy is based on the company's vision and overall goals. The objective is to create the greatest possible value and achieve the greatest possible revenue for the State from SDFI. The company's vision is to be a driving force on the Norwegian shelf. Safety and climate requirements constitute 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. Maturing new wells, drilling efficienc , continuous optimisation of the recovery strategy, cost-effective field development and further development of existing infrastructure, as well as efficient ope ations, have been selected as the company's strategic priorities.

Digitalisation is a strategic priority across the company's main dutiestasks. This applies both for the use of digital solutions in joint ventures, internally in the company and between Petoro and other companies. In 2019, the company prepared a dedicated digital strategy plan.

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

The company 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. The company works to reinforce value creation opportunities with emphasis on long-term business development through focused follow-up, supported by in-depth professional commitment. Petoro's follow-up of activities in the joint ventures is diffe entiated 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.

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".

A special system has also been established for approving external directorships held by employees. Employees must ensure that their ownership of shares does not create any conflict between their personal interests and management of the state's participating interests or the interests of Petoro AS. Senior employees (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 o der to conduct ongoing commercial follow-up of Norwegian participating interests in production licences awarded by the Icelandic authorities. Petoro Iceland AS had no participating interests on the Icelandic continental shelf in 2019. The company is being liquidated.

Equal treatment of shareholders

Shares in Petoro AS are owned by the state and the company has no personal shareholders.

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 has delegated the authority of the general meeting for the subsidiary Petoro Iceland AS to the President and CEO of Petoro AS for liquidating the company's activities on the Icelandic shelf.

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 8 times in 2019.

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 SDFI portfolio, follow-up and consideration of activities in the joint ventures, and monitoring of gas sales — including an assessment of the overall risk picture. The Board has chosen to organise its work related to compensation through a sub-committee comprising two of the shareholder-elected directors, one of whom is the deputy chair. No other sub-committees have been established. In the event of conflicts of interest, the established practice has been for the director concerned to abstain from the board's consideration of the matter. Conflicts of interest are a fixed item on the agenda for the Board's meetings and consideration of matters.

An annual self-assessment is conducted by the board, which encompasses an evaluation of its own work and mode of working, as well as its collaboration with company management. The self-assessment for 2019 is complete. The board reviewed the company's CSR, business ethics guidelines and board instructions.

Risk management and internal control

Risk management in Petoro is a continuous process where management and the board identify and prioritise relevant risks for Petoro's goal attainment. The board undertakes an annual review of the company's most important risk areas and internal control. 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 prioritised 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.

The company's internal control shall ensure that its activities are carried out in accordance with the company's governance model and compliance with regulatory requirements. 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 the management system is 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. 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 management

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. In 2019, the management team consisted of 8 people, including the President and CEO. Details of the actual remuneration paid are provided in a note to the annual accounts.

Information and communication

The Petoro board has established a communication strategy to ensure that an open dialogue is pursued both in-house and externally, so that the company's employees and other stakeholders are well informed about its business activities.

The company publishes information via its website, including press releases as well as the interim and annual reporting of its results. Petoro's annual report presents a broad description of 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.

Auditor

The Office of the Auditor Gene al (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.

The board has also 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. 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's internal auditor function. In this role, the company audits the internal control systems in accordance with the instructions and an annual plan approved by the board. The internal auditor handles the company's function for receiving notices.

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

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. etoro'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 corporate social responsibility are expressed in the report to the Storting on state ownership. The Ministry of Trade, Industry and Fisheries presented Meld. St.8 (2019-2020) "The state's direct ownership in companies - sustainable value creation" in November. 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 diffe ence. 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 2019, Petoro has been a driving force for increased quality in major accident workshops and has demonstrated through the Petroleum Safety Authority Norway's main topic "Safe, Strong, Clear" that safety is priority number one. Focus has also been on learning from investigations of serious incidents across the joint ventures. Major accident workshops are an important part of the joint ventures' 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 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 will work to ensure that a broad spectrum of effective climate solutions and new technology are considered in selected licenses.

Electrification of installations is the single measure that can provide a substantial contribution toward reducing emissions from the Norwegian shelf, particularly of CO_2. Johan Sverdrup started up on 5 October 2019 with power from shore. As regards the Tampen area, the partners in the Snorre and Gullfaks fields submitted a Plan for Development and Operation of a floating offsho e wind farm consisting of 11 floating wind turbines that will replace about one-third of the gas-fired power on the platforms with renewable wind power. Along with fields such as Troll A, Gjøa and Ormen Lange, which have already been electrified, they will contribute to low average CO_2 emissions from the SDFI portfolio.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of its annual report on the external 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 unl wful 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 PetoroAktiv employee association organises a number of social, cultural and athletic activities for employees. The various events are well-attended.

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 diffe ences 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.

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Outlook

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

Hywind Tampen floating wind farm
Illustration: Equinor

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Figures for 2019

Annual accounts SDFI and Petoro AS

Compliance report for the SDFI annual 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 land-based facilities. Petoro is charged with managing the SDFI portfolio on the basis of sound business principles. As of the end of 2019, the portfolio consisted of 200 production licences, 2 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. One production license was carved out from existing licenses with SDFI participation in 2019, one license was transferred to Petoro and 14 production licences were relinquished.

Confirmation

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

The board confirms that the company accounts have been prepared in accordance with the Accounting Act and Norwegian generally accepted accounting principles (NGAAP) and provide a true and fair picture of the SDFI's assets, obligations and financial results at 31 December 2019.

Assessment of significant factors

Appropriation and capital accounts

In accordance with the supplemental allocation letter dated 19 December 2019, the SDFI's appropriation for investments[1] totalled NOK 27.0 billion. The appropriation for operating income[2] totalled NOK 95.8 billion. The appropriation for interest on the state's capital[3] totalled NOK 2.8 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 handles marketing and sale of SDFI's products through the marketing and sale instruction issued by the Ministry of Petroleum and Energy.

The general ledger accounts report

on the cash basis shows net reported revenues including financial income totalling NOK 153.0 billion in 2019, compared with NOK 175.7 billion in 2018. These revenues are substantially influenced by lower gas prices in 2019 as well as a lower sales volume. Expenses reported in the appropriation accounts comprise payments of NOK 26.3 billion as investments and NOK 30.5 billion as operating expenses. Payments in 2018 amounted to NOK 22.6 billion related to investments and NOK 32.8 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 22.7 billion in 2019, compared with NOK 23.6 billion the previous year.

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.

Net cash flow transferred to the state amounted to NOK 96 billion, compared with NOK 120 billion the previous year. The total sales volume amounted to 978 million bbls of oil equivalents (boe) per day, just over 11 per cent lower than in 2018.

Gas production totalled 98 million standard cubic metres (mill. scm) per

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

day in 2019, down 14 per cent from a record-high level of 113 million scm per day last year. The decline in production alongside low gas prices resulted in revenues from self-produced gas of NOK 68 billion, about NOK 21 billion lower than the previous year. The reduction in gas volume was generally associated with use of flexible gas extraction for price optimisation on Troll, as well as operational challenges associated with compression on Ormen Lange.

Liquids production amounted to 349 thousand boe per day, 6 per cent lower than in 2018. This decline was mainly caused by natural production decline, as well as lower production as a result of problems with the riser on Snorre. The decline in liquids production was partially offset by the star -up of Johan Sverdrup in October 2019.

Costs incurred for investment totalled NOK 27 billion, about NOK 4 billion higher than the year before. The increase in investment was primarily caused by increased activity within field development associated with Johan Castberg, Troll phase 3, Snøhvit and Martin Linge, as well as increased production drilling on multiple fields.

The annual profit for 2019 totalled NOK 96 billion, about NOK 19 billion lower than the year before. The decline in net income was mainly caused by reduced revenues, in part offset by lower depreciation due to lower sales volume, as well as a reduction in production expenses.

Production costs were NOK 4 billion lower than the previous year. Adjusted for a provision associated with a judgement in the trial concerning Troll in 2018 and subsequent settlement in 2019, production costs were on par with the previous year.

The book value of Martin Linge was written down by NOK 1.4 billion as a result of cost overruns and postponed start-up. Compared with the previous year, the change in impairment is not substantial, as Maria was written down by NOK 1.6 billion in 2018.

The book value of assets at 31 December 2019 was NOK 251 billion. The assets mainly consist of fixed assets related to field installations, pipelines and onshore plants, as well as current debtors. Equity at year-end came to NOK 162 billion. Overall debt amounted to NOK 89 billion, of which 70 billion was related to estimated future removal obligations. Removal obligations have increased by NOK 4.7 billion as a result of updated removal estimates, a lower discount rate, as well as the removal date being one year earlier.

The portfolio's estimated remaining reserves in resource classes 1-3 totalled 5,335 million boe at the end of 2019, down by 210 million boe from the year before. Reserve growth totalled 142 million boe and was mainly caused by increased gas reserves on Gullfaks, as well as an economic life extension for Draugen. With a production of 352 million boe, this yielded a reserve replacement rate of 40 per cent in 2019, compared with 16 per cent in 2018.

Additional information

The Office of the Auditor Gene al (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 2020.

The Board has appointed PwC to conduct a financial audit of the SDFI accounts as part of Petoro's internal audit process. PwC submits its audit report to the Petoro AS board regarding the annual accounts pursuant to the accounting principles on a cash basis and in accordance with international auditing standards. PwC's audit work forms the basis for the OAG's review of the annual accounts.

Stavanger, 5 March 2020

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

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Director

Per Arvid Schøyen
Director

Hugo Sandal
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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 of the Provisions and more detailed provisions in circular R-115 of December 2019 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 expenses and revenues for the accounting year
c) the accounts are prepared in accordance with the cash basis.
d) expenses and revenues are shown gross in the accounts

The reporting presentations of the appropriation accounts and general ledger accounts are prepared on the basis of the same principles but are grouped in diffe ent 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. This 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 undertakings.

Accounts on cash basis, SDFI
Appropriation accounts

Presentation of appropriation accounts reporting 31 Dec. 2019 - Figures in NOK

Expense chapter	Chapter name	Category	Description	Total allocation	2019 accounts	(Increase)/ decrease in expenses
2440	Expenses	30	Investments	27,000,000,000	26,330,658,156	669,341,844
5440	Expenses	24.02	Operating expenses	30,500,000,000	30,051,480,854	448,519,146
5440	Expenses	24.03	Exploration and field development expenses	2,100,000,000	2,245,020,546	(145,020,546)
5440	Expenses	24.04	Depreciation	23,200,000,000	22,673,976,264	526,023,736
5440	Expenses	24.05	Interest	2,800,000,000	2,759,231,562	40,768,438
Total expensed				**85,600,000,000**	**84,060,367,382**	**1,539,632,618**

Revenue chapter	Chapter name	Category	Description	Total allocation	2019 accounts	Excess revenue and lower revenue (-)
5440	Revenues	24.01	Operating revenue	154,400,000,000	155,105,753,964	705,753,964
5440	Expenses	30	Depreciation	23,200,000,000	22,673,976,264	(526,023,736)
5440	Expenses	80	Interest on fixed capital	2,800,000,000	2,791,024,989	(8,975,011)
5440	Expenses	85	Interest on open accounts	0	(31,793,427)	(31,793,427)
Total recognised				**180,400,000,000**	**180,538,961,790**	**138,961,790**
5440		**24**	**Operating profit**	**95,800,000,000**	**97,376,044,738**	**1,576,044,738**
Net reported to appropriation accounts					**(96,478,594,408)**	

Capital accounts

0677.03.04693	Settlement account Norges Bank - paid in	143,854,322,656
0677.03.08710	Settlement account Norges Bank - paid in	16,231,429,019
0677.04.05015	Settlement account Bank of Norway - paid out	(63,901,638,344)
	Change in open accounts	294,481,077
Total reported		0

Holdings reported to the capital accounts (31 Dec)

Account	Text	2019	2018	Change
	Open accounts with the Treasury	(3,658,572,222)	(3,364,091,145)	(294,481,077)

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		27,000,000,000	27,000,000,000
5440.24.02		30,500,000,000	30,500,000,000
5440.24.03		2,100,000,000	2,100,000,000
5440.24.04		23,200,000,000	23,200,000,000
5440.24.05		2,800,000,000	2,800,000,000
5440.24.01		154,400,000,000	154,400,000,000
5440.30		23,200,000,000	23,200,000,000
5440.80		2,800,000,000	2,800,000,000
5440.85		0	0
5440.24		95,800,000,000	95,800,000,000

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 2019 – Figures in NOK

	Items			
	Open account government			3,658,572,221
	Fixed assets before impairment		196,195,643,290	
	Impairment		(1,408,391,994)	
	Fixed asset account		194,787,251,296	194,787,251,296
Total				**198,445,823,518**
	Open account state at 01.01.2019		(3,364,091,145)	
	Total expenses	26,330,658,155		
	Total revenue	(122,809,252,563)		
	Cash flow	(96,478,594,407)	(96,478,594,407)	
	Net transfer to the state		96,184,113,331	
Open account state at 31.12.2019			**(3,658,572,222)**	**(3,658,572,222)**
	Fixed assets 01.01.2019		(192,538,961,399)	
	Investments for the year		(26,330,658,156)	
	Depreciation for the year		22,673,976,264	
	Impairment		1,408,391,994	
	Fixed assets 31.12.2019		(194,787,251,296)	(194,787,251,296)
Total				**(198,445,823,518)**

Stavanger, 5 March 2020

Gunn Wærsted
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Deputy chair

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Director

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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

Accounts on cash basis, SDFI
General ledger accounts report

Specification of the general ledger accounts report 31. Dec. 2019		
	2019	**2018**
Operating revenues reported to the appropriation accounts		
Sales and lease payments received	134,844,137,426	165,261,085,854
Other amounts paid in	18,123,858,820	10,431,743,093
Total paid in from operations	**152,967,996,246**	**175,692,828,947**
Operating expenses reported to the appropriation accounts		
Depreciation	22,673,976,264	23,636,285,287
Other disbursements for operations	30,539,912,130	32,765,810,337
Total disbursed to operations	53,213,888,394	56,402,095,625
Net reported operating expenses	**(99,754,107,852)**	**(119,290,733,322)**
Investment and financial income reported to the appropriation accounts		
Financial income paid in	2,137,757,718	(230,094,872)
Total investment and financial income	**2,137,757,718**	**(230,094,872)**
Investment and financial expenses reported to the appropriation accounts		
Paid out for investment	26,339,149,222	22,612,511,194
Paid out for share purchases	(10,150,360)	(62,040,944)
Paid out for financial expenses	4,517,480,126	4,555,477,706
Total investment and financial expenses	**30 846 478 988**	**27 105 947 955**
Net reported investment and financial expenses	**28,708,721,270**	**27,336,042,828**
Revenues and expenses reported under common chapters		
Depreciation (see Ch. 5440 revenue)	(22,673,976,264)	(23,636,285,287)
Interest on the government's capital and open accounts with the Treasury (see Ch. 5440 revenue)	(2,759,231,562)	(3,096,414,481)
Net reported expenses under joint chapters	**(25,433,207,826)**	**(26,732,699,768)**
Net expenses reported to the appropriation accounts	**(96,478,594,408)**	**(118,687,390,263)**

Accounts on cash basis, SDFI
General ledger accounts report

Overview of change open accounts with the Treasury

Assets and liabilities*	**2019**	**2018**
O/U call	1,538,205,263	(520,145,318)
AP nonop	(302,058,421)	(127,073,112)
AR nonop	152,439,303	(61,302,117)
Inventory nonop	19,026,800	(92,977,768)
Prep exp nonop	(110,411,404)	(146,686,467)
Working cap - nonop	(972,658,814)	(39,167,375)
VAT	(30,061,650)	8,998,653
Total change open accounts with the Treasury	**294,481,077**	**(978,353,504)**

*)
O/U call - prepayments calculated net of JV cash call and billing
AP nonop - accounts payable in settlements from operators
AR nonop - accounts receivable in settlements from operators
Inventory nonop - inventory in settlements from JV operators
Prep exp nonop – prepaid expenses to operators - settlements
Working cap - nonop - primarily accruals in monthly settlements from operators
VAT - balance of VAT payments

Comment on change in open account from 2018 to 2019:
The change primarily reflects changes prepayments and provisions in the licences.

Accounts based on accounting act
Income statement pursuant to NGAAP - SDFI

All figures in NOK million	Notes	2019	2018
OPERATING REVENUE			
Operating revenue	3, 4, 9, 11	**153,395**	**177,431**
Total operating revenue		**153,395**	**177,431**
OPERATING EXPENSES			
Exploration expenses		**1,614**	**1,780**
Production expenses	5	**13,690**	**17,440**
Transport and processing expenses	5	**9,686**	**9,720**
Depreciation and impairment	2	**26,050**	**27,135**
Costs gas purchases, storage and admin.	5, 9, 10	**5,405**	**5,815**
Total operating expenses		**56,445**	**61,890**
Operating income		**96,950**	**115,541**
FINANCIAL ITEMS			
Financial income		**1,837**	**1,705**
Financial expenses	7,12	**3,140**	**3,036**
Net financial items	8	**-1,304**	**-1,331**
NET INCOME FOR THE YEAR	19	**95,647**	**114,210**

Accounts based on accounting act SDFI balance sheet at 31 December

All figures in NOK million	Notes	2019	2018
Intangible fixed assets	2	**61**	**65**
Tangible fixed assets	1, 2, 18, 21	**220,986**	**216,529**
Financial assets	2, 11	**1,464**	**218**
Fixed assets		**222,512**	**216,811**
Inventory	6	**2,353**	**3,608**
Trade debtors	9, 10	**25,858**	**26,654**
Bank deposits		**0**	**61**
Current assets		**28,211**	**30,323**
TOTAL ASSETS		**250,722**	**247,134**
Equity at 1 Jan.		**162,607**	**168,063**
Paid from/(to) the state during the year		**(96,184)**	**(119,666)**
Net income		**95,647**	**114,210**
Equity	19	**162,070**	**162,607**
Long-term decommissioning liabilities	12, 18	**69,883**	**65,190**
Other long-term liabilities	13	**4,270**	**3,348**
Long-term liabilities		**74,153**	**68,538**
Trade creditors		**2,516**	**2,315**
Other current liabilities	9, 14, 15	**11,983**	**13,674**
Current liabilities		**14,499**	**15,989**
TOTAL EQUITY AND LIABILITIES		**250,722**	**247,134**

Stavanger, 5 March 2020

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Accounts based on accounting act
SDFI Cash flow statement

All figures in NOK million	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from operations	3, 4	155,106	175,463
Cash disbursements from operations	5	(30,051)	(32,036)
Disbursements from exploration and field development		(2,216)	(2,193)
Change in working capital in the licences		1,153	352
Change over/under call in the licenses		(1,538)	520
Cash flows from operating activities		**122,454**	**142,106**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments	2, 11	(26,331)	(22,555)
Cash flow from investment activities		**(26,331)**	**(22,555)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net transfer to the state		(96,184)	(119,666)
Cash flow from financing activities		**(96,184)**	**(119,666)**
Change in bank deposits of apportioned liability partnerships (DA)		(61)	(115)

Note information for accounts based on the Accounting Act

General

As of 31 December 2019, Petoro AS acted as licensee on behalf of the SDFI for interests in 200 production licences and 16 joint ventures for pipelines and terminals, including the company's management of commercial interests in Mongstad Terminal DA and Vestprosess DA, and the shares in Norsea Gas AS and Norpipe Oil AS. The SDFI is also entitled to potential profits in production licences with net profit agreements. Petoro has the same rights and obligations as other licensees and manages the SDFI on the NCS on the basis of sound business principles.

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

Accounting principles for the company accounts

The principal diffe ence 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. Diffe ences 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 partnerships with shared liability relating to the production of petroleum are included under the respective items in the income statement and recorded in the balance sheet based on relative ownership interest 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.

SDFI's participation in Equinor's investments that fall under the marketing and sale instruction, are assessed as investments in associated companies or jointly controlled enterprises and are recorded pursuant to 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.

SDFI's ownership interests in limited companies is recorded in the balance sheet in accordance with the cost method and any dividend is recorded as a financial item. In addition, revenue from production licences with net profit agreements (concerns licences awarded in the second licensing round) is recorded as other income.

The functional currency is the Norwegian krone.

Revenue recognition principles

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

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

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

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

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

Purchases and sales between fields and/or transport systems

Internal expenses and revenues are eliminated in purchases and sales between fields and/or transport systems in which the

SDFI is both owner and shipper, so that only costs paid to third parties appear as net transport costs.

Foreign currencies
Transactions in foreign currencies are recorded at the transaction rate. Monetary items in foreign currencies are valued at the exchange rate 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. Equivalent criteria are applied for classification of current and long-term liabilities.

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

Exploration and development costs
Petoro employs the successful efforts method to ecord exploration costs for SDFI oil and gas operations. This means that costs related to geological and geophysical surveying are expensed. However, expenses linked to the drilling of exploration wells are recognised in the balance sheet in anticipation of evaluation. Such costs are expensed if the evaluation determines that the discovery is not commercially viable. Considerable time can elapse between the drilling of a well and a final development decision. Capitalised exploration well expenses are accordingly assessed quarterly to determine whether sufficient p ogress is being made in the projects so that the criteria for capitalisation continue to be met. Dry wells or those where progress is insufficient a e 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 79.8 per cent of expected remaining oil reserves in 2019, while the corresponding figure for gas reserves was 83.4 per cent. The reserve estimates are revised annually, and any changes affect only futu e 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 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 value in use. The value in use is calculated using expected future cash flows, which are discounted using a discount rate based on the weighted average cost of capital (WACC) calculated for the company.

The impairment charge will be reversed if the conditions for writing down the asset no longer apply, limited to what the value would have been if no writedown was undertaken.

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 offsho e 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 corporate bonds (OMF) as stated 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. Petoros accounting is based on the operators' assessments in monthly settlements (billings) 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
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 financial instruments, is considered to be the most sensible approach, and where the portfolio is balanced in volume and time. Eliminations are carried out where legal rights exist to offset un ealised 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. Liabilities related to legal disputes are recognized when an initial verdict from a court is announced and SDFI is on the losing side, regardless of whether the verdict has been appealed.

NOTE 1 Asset transfers and changes

In January 2019, the Ministry of Petroleum and Energy completed its Awards in Predefined Areas (APA 2018), where 14 production licenses were awarded with SDFI participation. One production license was carved out from existing licenses with SDFI participation in 2019, one license was transferred to Petoro and 14 production licences were relinquished.
In January 2020, the Ministry of Petroleum and Energy completed its Awards in Pre-defined Areas (APA 2019), 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 18	Historical cost at 1 Jan 19	Accumulated depreciation 1 Jan 19	Addition 2019	Impair-ment 2019	Disposal 2019	Transfers 2019	Depre-ciation 2019	Book value at 31 Dec 19
Fields under development	33,212	33,212	0	5,843	-1,408	0	-15,540	0	22,107
Fields in operation	151,071	560,199	-409,128	23,557	0	-64	15,829	-22,069	168,324
Pipelines and terminals	27,890	71,759	-43,869	843	0	0	0	-2,568	26,165
Capitalised exploration expenses	4,355	4,355	0	1,013	0	-689	-289	0	4,390
Total tangible fixed assets	**216,529**	**669,525**	**-452,997**	**31,257**	**-1,408**	**-753**	**0**	**-24,638**	**220,986**
Intangible assets	65	288	-223	0	0	0	0	-4	61
Financial fixed assets	218	218	0	1,246	0	0	0	0	1,464
Total fixed assets (NGAAP)	**216,811**	**671,071**	**-454,260**	**32,504**	**-1,408**	**-753**	**0**	**-24,642**	**222,512**
Translation to cash basis	-24,273	-65,254	40,982	-6,173	0	753	0	1,968	-27,725
Total fixed assets on cash basis	**192,539**	**605,817**	**-413,278**	**26,331**	**-1,408**	**0**	**0**	**-22,674**	**194,787**

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

Depreciation assessments calculate utility values by discounting future cash flows using a discount rate based on 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 real discount rate in the calculation of value in use is 7-8 per cent. Inflation is calculated at 2 per cent annually. When the value in use is assessed to be lower than the book value, the assets are written down to their utility value.

The price assumptions used to calculate impairment are generally as follows:

Nominal prices/year	2020	2021	2025	2030
Oil NOK/bbl	540	539	520	520
Gas price NOK/scm	1.9	1.9	2.0	2.0

Impairment in the order of NOK 1,408 million has been undertaken on Martin Linge as a result of further cost increases in 2019 and production start being postponed to the third quarter of 2020.

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

Financial assets totalling NOK 1,464 million include capacity rights for regasification of LNG at the Cove Point terminal in the US with an associated agreement regarding the sale of LNG from Snøhvit to Equinor Natural Gas LLC (ENG) in the US, as well as SDFI's share of Equinor's acquisition of Danske Commodities (DC). 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. SDFI's share of DC are linked to gas activities under the marketing and sale instruction. These activities are assessed as investments in associated companies and recorded according to the equity method (see also Note 11).

NOTE 3 Specification of operating revenue by area

All figures in NOK million	**2019**	**2018**
License	**134,186**	159,162
Infrastructure and Market	**23,736**	23,001
Net profit agreements	**193**	406
Elimination internal sales	**(4,720)**	(5,138)
Total operating revenue (NGAAP)	**153,395**	**177,431**
Conversion to cash basis	**1,711**	(1,968)
Total cash basis	**155,106**	**175,463**

Infrastructure and Market generally consists of revenues from the resale of gas, tariff evenues for transport and processing, unrealised losses and revenues from trading inventory. Trading inventory mainly relates to physical volumes.

NOTE 4 Specification of operating revenue by product

All figures in NOK million	**2019**	**2018**
Crude oil, NGL and condensate	**64,937**	70,340
Gas	**73,883**	94,786
Transport and processing revenue	**12,562**	11,178
Other revenue	**1,820**	721
Net profit agreements	**193**	406
Total operating revenue (NGAAP)	**153,395**	**177,431**
Conversion to cash basis	**1,711**	(1,968)
Total cash basis	**155,106**	**175,463**

All oil, NGL and condensate from SDFI is sold to Equinor. All gas is sold by Equinor through the marketing and sale instruction issued to Equinor at 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	2019	2018
PRODUCTION EXPENSES		
License	**10,265**	13,819
Infrastructure and Market	**3,426**	3,621
Total production expenses	**13,690**	**17,440**
TRANSPORT AND PROCESSING EXPENSES		
License	**14,224**	14,907
Infrastructure and Market	**182**	(49)
Elimination internal purchases	**(4,720)**	(5,138)
Total transport and processing expenses	**9,686**	**9,720**
OTHER OPERATING EXPENSES		
Expenses for gas purchases, storage and administration	**5,405**	5,815
Total other operating expenses	**5,405**	**5,815**
Total operating expenses	**28,780**	**32,975**
Conversion to cash basis	1,271	(939)
Total cash basis	**30,051**	**32,036**

Production expenses for License includes settlement in the case associated with the Troll Unit. An allocation of NOK 2.2 billion was made for the initial verdict from the court in 2018. The verdict was appealed, but the parties entered into a settlement in early January 2020, before final legal proceedings. The allocation for SDFI's share was reversed in 2019, and the actual settlement of NOK 926 million was allocated in 2019. See also Note 23 regarding incidents after the balance sheet date.

Over / underlift is included in the figure for Infrastructure and Market under production expenses. Gassled and other gas infrastructure is organisationally placed under Market as regards reporting of production expenses and transport- and processing expenses.

NOTE 6 Inventories

All figures in NOK million	2019	2018
Petroleum products	**920**	2,194
Spare parts	**1,432**	1,413
Inventory	**2,353**	**3,608**

Petroleum products comprise LNG and natural gas. The SDFI does not hold inventories of crude oil, as the diffe ence 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 2019 letter of assignment to Petoro from the Ministry of Petroleum and Energy.

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

The accounts on a cash basis include an open account with the government which represents the diffe ence between the recorded amount in the chapter/item in the appropriation accounts and changes in liquidity.

Interest on the open account with the government is calculated in accordance with the 2019 letter of assignment to Petoro from the Ministry of Petroleum and Energy. The interest rate applied is linked to the interest rate on short-term government securities and corresponds to the interest rate applied to short-term loans to the Treasury, calculated on the basis of the average monthly balance in the open account with the government.

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

NOTE 8 Net financial items

All figures in NOK million	**2019**	**2018**
Interest income	**406**	5
Other financial revenue	**1**	2
Currency gain	**1,429**	1,698
Currency loss	**(886)**	(1,577)
Unrealised currency loss/gain	**(635)**	166
Interest expenses	**(48)**	(56)
Other financial expenses	**115**	(171)
Interest on decommissioning liability	**(1,686)**	(1,397)
Net financial items	**(1,304)**	**(1,331)**

Not relevant to the accounts on a cash basis.

NOTE 9 Related parties

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 related parties of the SDFI. Petoro, as licensee for SDFI, has significant participating interests in pipelines and terminals operated by Gassco.

Equinor is the buyer of the state's oil, condensate and NGL. Sales of oil, condensate and NGL from the SDFI to Equinor totalled NOK 65 billion (corresponding to 126 million boe) for 2019, compared with NOK 70 billion (132 million boe) for 2018.

Equinor markets and sells the state's natural gas at the government's expense and risk, but in Equinor's name and along with its own production. The state receives the market value for these sales. The state sold dry gas directly to Equinor at a value of NOK 270 million in 2019, compared with NOK 387 million in 2018. Equinor is reimbursed by the state for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for resale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 12.6 billion in 2019, compared with NOK 13.8 billion in 2018. Open accounts with Equinor totalled NOK 8.3 billion in favour of the SDFI, converted at the exchange rate on the balance sheet date, compared with NOK 7.3 billion in 2018.

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. Equinor finalised its acquisition of Danske Commodities (DC) in 2019 and the SDFI is a participant under the marketing and sale instruction for the part associated with the gas activities. This participating interest entitles Petoro to a share of future results. The investments are recorded in accordance with the equity method and are 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 and Gassco. The SDFI participates as a partner in production licences on the NCS. These are accounted for in accordance with the proportionate consolidation method.

NOTE 10 Accounts receivable

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

NOTE 11 Investments in associated companies

As of 1 January 2009, the SDFI's participation in 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 Stamfo d 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 former Statoil and Hydro's petroleum activities in 2007, the profit/loss is allocated in accordance with a skewed distribution model which gives 48.4 per cent to the SDFI.

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 2019, the SDFI has recognised an investment associated with Equinor's acquisition of Danske Commodities (DC) under the marketing and sale instruction. DC is one of Europe's largest companies within short-term electricity trading. The company's activities also include short-term gas trading. The company is headquartered in Aarhus, Denmark. The company is formally owned by Equinor, but SDFI participates in the investment through the marketing and sale instruction. The acquisition agreement was entered into in the third quarter of 2018 and was finalised on 1 February 2019. The SDFI's participation in DC is assessed as an investment in an associated company and is recorded in accordance with the equity method. After the transaction date, the SDFI is entitled to a share of the result from gas activities that fall under the marketing and sale instruction. The investment was recorded with an acquisition cost of NOK 1,190 million.

The table below includes the shareholdings in Norpipe Oil AS in addition to ENG and DC. Norsea Gas AS was liquidated in 2018.

All figures in NOK million	**2019**	**2018**
Opening balance financial fixed assets	**218**	238
Share of profit for the year in associate company	**56**	(20)
2019 additions	**1,190**	0
Closing balance financial fixed assets	**1,464**	**218**

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 latter is expected largely to occur one or two years after cessation of production. See Note 24.

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 corporate bonds (OMF) as stated in NRS6.

The estimate for decommissioning costs has increased by NOK 4.7 billion as a result of changes in future cost estimates from operators, alterations to cessation and decommissioning dates, as well as a change in the discount rate.

All figures in NOK million	**2019**	**2018**
Liability at 1 Jan	**65,190**	67,647
New liabilities	**23**	2
Actual decommissioning	**(409)**	(174)
Changes to estimates	**3,393**	(3,682)
Interest expense	**1,686**	1,397
Liability at 31 Dec	**69,883**	**65,190**

In 2019 NOK 409 million is recognised as actual removal costs and included in the accounts on a cash basis. Estimated cost for 2020 related to actual removal is NOK 405 million SDFI share.

NOTE 13 Other long-term liabilities

Other long-term liabilities pursuant to NGAAP comprise:

- debt related to financial lease agreements for three LNG carriers delivered in 2006
- income not yet earned in anticipated repayment of profit shares in licenses with net profit agreements
- debt to Equinor in connection with acquisition of Danske Commodities

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 876 million as of 31 December 2019. Of this, NOK 156 million will be disbursed in 2020 and 623 million will be paid over the subsequent four years. The remaining NOK 97 million will be paid after 2025.

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 1,467 million.

Equinor finalised its acquisition of Danske Commodities in 2019. SDFI became a participant in the part of the acquisition associated with gas activities under the marketing and sale instruction. The investment amount for the SDFI share was NOK 1,190 million.

Other long-term liabilities total NOK 737 million, of which NOK 133 million falls due within five years from the balance sheet date.

Not relevant to the accounts on a cash basis.

NOTE 14 Other current liabilities

Other current liabilities pursuant to NGAAP falling due in 2019 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 receivables from license operators have been reclassified from short term liabilities to current assets in the report.

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 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 2019, the market value of the derivatives was NOK 2,300 million in assets and NOK 2,252 million in liabilities. The comparable figures at the end of 2018 were NOK 1,008 million in assets and NOK 1,863 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. This amounted to NOK 145 million in assets and NOK 148 million in liabilities in 2019. The comparable figures in 2018 were NOK 133 million and NOK 283 million, respectively. Net unrealised gains on outstanding positions at 31 December 2019 are not recognised as income under the Norwegian Accounting Act and generally accepted accounting principles (NGAAP).

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. The 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 government's overall risk management, limited use is made of financial instruments (derivatives). They are primarily employed to manage price risk for sales at fixed prices or for deferred gas production to counteract fluctuations in profit and loss owing to variations in commodity prices.

Currency risk

The majority of the company's revenue from the sale of oil and gas is invoiced in USD, EUR or GBP. Part of its operating expenses and investments are also billed in equivalent currencies. When converting to NOK, currency fluctuations will affect the SDFI s income statement and balance sheet. The SDFI does not utilise currency hedging in relation to future sales of the SDFI's petroleum, and its exposure in the balance sheet at 31 December 2019 was largely related to one month's outstanding revenue.

Interest risk

The SDFI is primarily exposed to credit risk through financial leasing contracts. These are recognised in the SDFI accounts in accordance with the Norwegian Accounting Act and generally accepted accounting principles (NGAAP). Together with Equinor, it has a financial liability related to leasing contracts 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
2020	4,080	1,620
2021	3,345	1,542
2022	2,340	1,454
2023	1,384	1,335
2024	199	1,051
Beyond	225	2,816

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. The SDFI was committed at year-end to participate in 13 wells with an expected cost to the SDFI in 2020 of NOK 1 billion.

The SDFI has also accepted contractual liabilities relating to investments in new and existing fields. Overall, this amounts to NOK 12.3 billion for 2020 and NOK 13.4 billion for subsequent periods, totalling NOK 25.7 billion. Through approved budgets and work programmes, the SDFI was also committed to operating and investment expenses for 2020. The mentioned liabilities are included in budgets and work programmes for 2020.

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 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 p oduction 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 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.

Some long-term gas sales agreements include provisions for price revision which may result in claims from arbitration awards. SDFIs exposure to ongoing arbitration is considered not to have material effect on the SDFI financial esult or financial position. Based on SDFI's consideration no provision has been made in the annual accounts for 2019. Planned date for clarification of outcome is uncertain, but the result is assumed to be settled during 2020.

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. 2018 included a provision for a liability associated with an intital verdict from court totalling NOK 2.4 billion including interest. The verdict was appealed, but the parties entered into an out of court settlement in early January 2020, before final legal proceedings. The initial provision for the SDFI's share was reversed and provision was made for the actual settlement in 2019.

Not relevant to the accounts on a cash basis.

NOTE 18 Significant estimates

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

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

Drilling expenses 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 esults 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 indications of a decline in value. The assessment of whether an asset must be written down is primarily based on judgements and assumptions about future market prices.

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

Not relevant to the accounts on a cash basis.

NOTE 19 Equity

All figures in NOK million	**2019**	**2018**
Equity at 1 Jan.	**162,607**	168,063
Net profit	**95,647**	114,210
Equity adjustments	**-**	-
Cash transfers to the government	**(96,184)**	(119,666)
Equity at 31 Jan	**162,070**	**162,607**

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 Gene al (OAG) of 7 May 2004, the OAG is the external auditor for the SDFI. The audit takes place during the period from 1 May 2019 – 30 April 2020, and the result of the audit will be reported in the form of an auditor's report by 1 May 2020.

PricewaterhouseCoopers AS (PwC) has also 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

	2019		2018		2017	
Oil* in million bbls, Gas in billion scm	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**
Expected reserves at 1 Jan.	**1572**	**632**	**1615**	**678**	**1489**	**712**
Corrections for earlier years	3	1	(9)	0	0	0
Change in estimates	37	7	(33)	(6)	30	3
Extensions and discoveries	0	0	127	0	112	0
Improved recovery	48	1	7	1	129	4
Production	(127)	(36)	(136)	(41)	(145)	(41)
Expected remaining reserves at 31 Dec.	**1533**	**604**	**1572**	**632**	**1615**	**678**

* Oil includes NGL and condensate.

The portfolio's estimated remaining reserves totalled 5,335 million boe at the end of 2019, down by 210 million boe from the year before. Production in 2019 came to 352 million boe. The reserve growth of 142 million boe was primarily from increased gas reserves on Gullfaks and longer economic life on Draugen. This yields a reserve replacement rate for 2019 of 40 per cent, compared with 16 per cent in 2018.

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 512 million was expensed by the SDFI for R&D in 2019 as regards charges from the operators during the year.

NOTE 23 Events after the balance sheet date

The parties entered into a settlement in early January 2020 in an ongoing court case associated with the Troll Unit. The settlement has been incorporated in the accounts for 2019 and will have a cash effect in 202 .

NOTE 24 SDFI overview of interests

Production licence	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)
018	5.00000	5.00000
018 B	5.00000	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 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	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

Production licence	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)
078	30.00000	30.00000
079	33.60000	33.60000
085	62.91866	62.91866
085 B	62.91866	62.91866
085 C	56.00000	56.00000
089	30.00000	30.00000
093	47.88000	47.88000
093 B	47.88000	47.88000
093 C	47.88000	47.88000
093 D	47.88000	47.88000
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	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

Production licence	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)
152	30.00000	30.00000
153	30.00000	30.00000
153 B	30.00000	30.00000
153 C	30.00000	30.00000
158	47.88000	47.88000
169	30.00000	30.00000
169 B1	37.50000	37.50000
169 B2	30.00000	30.00000
169 C	-	50.00000
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
193 GS	30.00000	-
195	35.00000	35.00000
195 B	35.00000	35.00000
199	27.00000	27.00000
208	30.00000	30.00000
209	35.00000	35.00000
211	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	40.00000
250	45.00000	45.00000
255	30.00000	30.00000

Production licence	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)
255 B	30.00000	30.00000
255 C	30.00000	30.00000
255 D	30.00000	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
516	24.54545	24.54545
532	20.00000	20.00000
537	20.00000	20.00000
537 B	20.00000	20.00000
602	20.00000	20.00000
608	20.00000	20.00000
615	20.00000	20.00000
615 B	20.00000	20.00000
659	-	30.00000
682	-	20.00000
685	20.00000	20.00000
695	20.00000	20.00000
749	20.00000	20.00000
751	-	20.00000
762	20.00000	20.00000

Production licence	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)
768	-	20.00000
768 B	-	20.00000
775	-	20.00000
775 B	-	20.00000
776	-	20.00000
777	20.00000	20.00000
777 B	20.00000	20.00000
777 C	20.00000	20.00000
777 D	20.00000	20.00000
793	-	20.00000
795	-	20.00000
815	20.00000	20.00000
829	20.00000	20.00000
830	20.00000	20.00000
831	-	20.00000
832	20.00000	20.00000
832 B	20.00000	20.00000
837	20.00000	20.00000
841	20.00000	20.00000
844	20.00000	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	20.00000
892	20.00000	20.00000
894	20.00000	20.00000
896	20.00000	20.00000
899	-	20.00000
902	20.00000	20.00000
902 B	20.00000	-
904	30.00000	30.00000
907	20.00000	20.00000

Production licence	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)
916	20.00000	20.00000
921	20.00000	20.00000
923	20.00000	20.00000
934	20.00000	20.00000
935	20.00000	20.00000
949	20.00000	20.00000
950	20.00000	20.00000
954	20.00000	20.00000
958	20.00000	20.00000
959	20.00000	20.00000
959 B	20.00000	-
960	20.00000	20.00000
961	20.00000	20.00000
964	25.00000	25.00000
968	20.00000	-
970	20.00000	-
973	20.00000	-
976	20.00000	-
983	20.00000	-
985	20.00000	-
986	30.00000	-
993	20.00000	-
1025 S	20.00000	-
1026	30.00000	-
1028	20.00000	-
1031	20.00000	-

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

Unitised fields	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)	Remaining production period	License period
Fram H-Nord Unit	11.20000	11.20000	2030	2024
Gimle Unit	24.18630	24.18630	2031	2023
Grane Unit	28.90500	28.90500	2043	2030
Gullfaks Unit	30.00000	30.00000	2035	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	2032	2027
Norne Inside	54.00000	54.00000	2036	2026
Ormen Lange Unit	36.48500	36.48500	2041	2040
Oseberg Area Unit	33.60000	33.60000	2040	2031
Sindre Unit	27.09000	27.09000	2031	2023
Snorre Unit	30.00000	30.00000	2040	2040
Snøhvit Unit	30.00000	30.00000	2048	2035
Statfjord Øst Unit	30.00000	30.00000	2025	2026
Sygna Unit	30.00000	30.00000	2025	2026
Tor Unit	3.68744	3.68744	2049	2028
Troll Unit	56.00000	56.00000	2054	2030
Valemon Unit	30.00000	30.00000	2030	2031
Vega Unit	30.00000	28.32000	2030	2024
Visund Inside	30.00000	30.00000	2034	2034
Åsgard Unit	35.69000	35.69000	2032	2027

Field	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)	Remaining production period	License 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	2028	2028
Gjøa	30.00000	30.00000	2028	2028
Heimdal	20.00000	20.00000	2021	2021
Johan Castberg	20.00000	20.00000	2052	2049
Kvitebjørn	30.00000	30.00000	2035	2031
Maria	30.00000	30.00000	2036	2036
Rev	30.00000	30.00000	2020	2023
Skirne	30.00000	30.00000	2022	2025
Skuld	24.54546	24.54546	2036	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	2025
Urd	24.54546	24.54546	2036	2026
Veslefrikk	37.00000	37.00000	2022	2025
Vigdis	30.00000	30.00000	2040	2040

Fields no longer producing	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)	License period
Jette Unit	-	30.00000	-
Varg	-	30.00000	-
Yttergryta	19.95000	19.95000	2027

PIPELINES AND ONSHORE FACILITIES

Oil infrastructure	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)	License 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	-
Johan Sverdrup Eiendom DA	17.36000	17.36000	-

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 Rich Gas Pipeline	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	-
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 (ENG).

* 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 2019

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

	Resource classes 1-8	**Remaining recoverable reserves** **Oil, NGL and condensate** mill scm	**Gas** bn scm	**Oil equivalents** mill scm
RK 1-3	Reserves	243.7	604.2	848.0
RK 4	In the planning phase	43.2	51.3	94.5
RK 5	Recovery likely but not clarified	21.8	39.8	61.6
RK 6	Development unlikely	4.9	1.0	6.0
RK 7	Resources in new discoveries not evaluated and potential future IOR measures	67.1	60.1	127.2
RK 8	Prospects	19.2	14.3	33.5
	Total	**399.9**	**770.8**	**1170.7**

	Original recoverable reserves			**Remaining reserves**		
Fields	**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.
Atla	0.12	0.42	0.54	0.04	0.01	0.05
Draugen	74.78	0.80	75.59	4.44	0.00	4.43
Dvalin	0.30	6.28	6.58	0.30	6.28	6.58
Ekofisk group [1)]	37.29	10.75	48.04	5.02	1.05	6.07
Fram H-Nord	0.08	0.00	0.08	0.01	0.00	0.01
Gimle	0.79	0.22	1.02	0.00	0.00	0.00
Gjøa	10.44	12.17	22.61	2.40	3.07	5.47
Grane	43.48	(1.91)	41.56	7.78		7.78
Gullfaks group [2)]	143.79	34.89	178.68	10.01	8.99	19.01
Kristin	7.29	5.85	13.14	0.51	0.69	1.20
Heidrun	117.27	26.77	144.04	21.69	14.84	36.52
Heimdal	1.34	9.24	10.58	0.00	0.00	0.00
Johan Castberg	17.78	0.00	17.78	17.78	0.00	17.78
Johan Sverdrup	72.07	1.78	73.85	71.38	1.75	73.14

Kvitebjørn	15.48	29.87	45.34	3.07	4.97	8.04
Maria	2.68	0.12	2.79	2.16	0.12	2.28
Martin Linge	4.58	7.93	12.50	4.58	7.93	12.50
Norne	53.00	7.02	60.02	2.77	2.65	5.42
Norne Satellites [3)]	3.65	0.16	3.81	0.79	0.01	0.79
Nøkken 34/11-2 S	0.02	0.04	0.05	0.02	0.04	0.05
Ormen Lange	6.88	109.74	116.61	1.39	29.89	31.28
Oseberg	143.93	39.37	183.30	7.69	20.76	28.45
Oseberg Sør	24.29	8.40	32.69	4.33	4.46	8.79
Oseberg Øst	8.05	0.12	8.18	0.58	0.01	0.59
Rev	0.27	0.80	1.07	0.01	0.00	0.02
Sindre Unit	0.01	0.01	0.02	0.01	0.01	0.02
Skirne	0.73	3.20	3.93	0.10	(0.12)	(0.03)
Snorre	96.13	1.99	98.12	27.08	0.06	27.15
Snøhvit	12.10	64.82	76.91	7.59	46.83	54.43
Statfjord Nord	12.69	0.64	13.33	0.42	(0.10)	0.32
Statfjord Øst	12.42	1.36	13.77	0.35	0.12	0.47
Svalin	2.89	0.00	2.89	0.95	0.00	0.95
Sygna	3.40	0.00	3.40	0.16	0.00	0.16
Tordis	20.94	1.43	22.37	1.43	0.03	1.45
Troll	187.62	802.19	989.80	18.07	422.72	440.79
Tune	1.49	7.52	9.01	(0.05)	(0.36)	(0.41)
Valemon	0.67	4.47	5.15	0.17	1.28	1.45
Vega	7.66	7.32	14.98	3.60	3.56	7.16
Veslefrikk	21.84	2.01	23.85	0.27	0.55	0.81
Vigdis	22.96	0.51	23.48	3.28	(0.06)	3.22
Visund group [4)]	17.75	19.78	37.53	4.72	11.07	15.78
Åsgard	72.10	79.28	151.38	6.82	11.14	17.97
	1283.03	**1307.35**	**2590.38**	**243.72**	**604.24**	**847.96**

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

Vår referanse 2019/00723-5

Riksrevisjonen

STATENS DIREKTE ØKONOMISKE
ENGASJEMENT SDØE
Org. nr.: 980977269

Riksrevisjonens beretning

Til Statens direkte økonomiske engasjement

Uttalelse om revisjonen av årsregnskapet

Konklusjon

Riksrevisjonen har revidert årsregnskapet for Statens direkte økonomiske engasjement for 2019. Årsregnskapet består av ledelseskommentarer, oppstilling av bevilgningsrapportering med note A og B, oppstilling av artskontorapportering og oppstilling av virksomhetsregnskap med resultat, balanse og noter for regnskapsåret avsluttet 31. desember 2019.

Bevilgnings- og artskontorapporteringen viser at 96.478.594.408 kroner er rapportert netto til bevilgningsregnskapet. Årsresultatet i virksomhetsregnskapet er 95.647 millioner kroner.

Etter Riksrevisjonens mening gir årsregnskapet til Statens direkte økonomiske engasjement et dekkende bilde av virksomhetens disponible bevilgninger, inntekter og utgifter for 2019 og kapitalposter pr 31. desember 2019, i samsvar med regelverket for økonomistyring i staten. Vi mener videre at virksomhetsregnskapet gir et dekkende bilde av virksomhetens resultat for 2019 og av eiendeler, gjeld og egenkapital per 31. desember 2019, i samsvar med norsk regnskapslov og god regnskapsskikk.

Grunnlag for konklusjonen

Vi har gjennomført revisjonen i samsvar med *lov om Riksrevisjonen*, *instruks om Riksrevisjonens virksomhet* og internasjonale standarder for offentlig finansiell 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 og norsk regnskapslov og god regnskapsskikk. 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 finansiell revisjon, 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 internasjonale standarder for offentlig finansiell revisjon.

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, 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, og informerer det overordnede departementet om dette.

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; 23.04.2020

Etter fullmakt

Tora Struve Jarlsby
ekspedisjonssjef

Lars Torvund-Storvand
avdelingsdirektør

Brevet er ekspedert digitalt og har derfor ingen håndskreven signatur

Petoro AS income statement

All figures in NOK 1 000	NOTES	2019	2018
Invoiced state contribution	1	**286,960**	280,252
Other revenue	1,16	**2,848**	482
Change in deferred revenue recorded	2	**2,677**	(264)
Total operating revenue		**292,485**	**280,470**
Payroll expenses	3,11	**162,275**	158,547
Depreciation	4	**3,397**	3,472
Accounting fee	15	**16,239**	15,362
Office expense	14	**10,742**	11,152
ICT costs	15	**34,950**	29,367
Other operating expenses	13	**68,126**	60,019
Total operating expenses		**295,728**	**277,919**
Operating profit		**(3,243)**	**2,551**
Financial revenue	5	**4,541**	3,410
Financial expenses	5	**(324)**	(215)
Operating loss		**4,218**	**3,195**
NET INCOME FOR THE YEAR		**975**	**5,747**
TRANSFERS			
Transferred from (to) other equity		**975**	5,747
Total transfers		**975**	**5,747**

Petoro AS balance sheet at 31 December

All figures in NOK 1 000	NOTES	2019	2018
ASSETS			
Fixed assets			
Tangible fixed assets			
Operating equipment, fixtures, etc	4	**3,683**	6,360
Total tangible fixed assets		**3,683**	**6,360**
Financial assets			
Shares in subsidiaries	6	**0**	0
Total financial assets		**0**	0
Total fixed assets		**3,683**	**6,360**
Current assets			
Trade debtors		**968**	6
Other debtors	7	**14,285**	13,159
Bank deposits	8	**231,638**	229,986
Total current assets		**246,891**	243,150
TOTAL ASSETS		**250,575**	**249,510**
EQUITY AND LIABILITIES			
Equity			
Paid-in capital			
Share capital (10,000 shares of face value NOK 1,000)	9	**10,000**	10,000
Retained earnings			
Other equity	10	**13,973**	12,998
Total equity		**23,973**	**22,998**
Liabilities			
Provisions			
Pension liabilities	11	**175,653**	166,745
Deferred revenue government contribution	2	**3,683**	6,360
Total provisions		**179,336**	**173,105**
Current liabilities			
Trade creditors		**15,930**	19,280
Withheld taxes and social security		**10,452**	10,941
Other current liabilities	12	**20,883**	23,186
Total current liabilities		**47,265**	53,407
Total current liabilities		**226,602**	226,512
TOTAL EQUITY AND LIABILITIES		**250,575**	**249,510**

Stavanger, 5 March 2020

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Trude J. H. Fjeldstad
Director

Per Arvid Schøyen
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	2019	2018
	LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES		
	Net profit	**975**	5,747
+	Depreciation	**3,397**	3,472
+/-	Change in trade debtors	**(962)**	5,364
+/-	Change in trade creditors	**(3,350)**	169
+/-	Change in accrued items	**2,314**	7,104
	Net change in liquidity from operating activities	**2,373**	**21,856**
	LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES		
-	Invested in tangible fixed assets	**720**	3,736
	Net change in liquidity from investing activities	**720**	**3,736**
	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	**1,652**	18,120
+	Liquidity reserves at 1 Jan.	**229,986**	211,867
	Liquidity reserves at 31 Dec.	**231,638**	**229,986**

Petoro AS - Note information

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. Petoro is responsible for monitoring that Equinor ASA discharges its responsibilities under the applicable marketing and sale instruction.

Petoro AS is also responsible for presenting separate annual accounts for the SDFI portfolio. The cash flow for the SDFI is accordingly excluded from the limited company's annual accounts.

Petoro AS was the parent company of Petoro Iceland AS in 2019. The subsidiary was established in December 2012 and, as a branch, acted as licensee in production licences where the Norwegian state chose to participate. The subsidiary had no activity in 2019 and will be liquidated in 2020. Therefore no consolidated accounts have been prepared for Petoro AS in 2019. This omission does not have any significance as regards assessing the Group's position and result. The company's share capital at 31 December 2019 comprised NOK 2 million, distributed among 2,000 shares.

General

The annual accounts for Petoro AS were prepared 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. Receivables due within one year are classified as current assets. Equivalent criteria are applied for classification of current and long-term liabilities.

Fixed assets

Fixed assets are carried at historical cost with a deduction for planned depreciation. Should the fair value of a fixed asset be lower than the book value, and this decline is not expected to be temporary, the asset will be written down to its fair value. Fixed assets with a limited economic lifetime are depreciated on a straight-line basis over their economic lifetime.

Shares in subsidiaries

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

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 AS has a defined contribution-based pension scheme pursuant to the Defined Contribution Pensions Act. Premiums for the defined contribution plan are expensed on a continuous basis.

The company has a transitional arrangement that is still defined benefit-based for employees who were less than 15 years from retirement age on 1 January 2016. 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.

Changes made to estimates as a result of new information or changes in actuarial assumptions in excess of the larger of 10 per cent of the value of the pension plan assets or 10 per cent of the pension obligations are recorded in the income statement over a period which corresponds to the employees' expected average remaining period of employment.

Current liabilities

Current liabilities are assessed at their face value.

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 recognised 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 287 million. The amount is recorded as operating contribution from the Norwegian government. Other revenue primarily relates to services in connection with negotiation management in the SDFI portfolio.

NOTE 2 Deferred revenue

The change in deferred revenue recorded in the income statement comprises deferred revenue related to NOK 0.7 million in investments made during 2019, as well as NOK 3.4 million in depreciation of investments made during the year and in earlier years, cf. Note 4.

NOTE 3 Payroll expenses, number of employees, benefits, etc.

Payroll expenses (All figures in NOK 1 000)	**2019**	**2018**
Pay	**107,300**	105,421
Directors' fees	**1,906**	1,841
Liability insurance for the board (applies to the entire board of directors)	**105**	105
Payroll tax	**15,769**	15,632
Pensions (Note 11)	**33,574**	31,991
Other benefits	**3,621**	3,557
Total	**162,275**	**158,547**

Employees at 31 December	65	64
Employees with a signed contract who had not started work at 31 Dec	1	0
Average number of full-time equivalents employed	62.9	64.2

Remuneration of senior executives (All figures in NOK 1,000)	**Fixed salaries**[1]	**Loyalty scheme**[2]	**Cash allowance**[3]	**Other taxable benefits**[4]	**Taxable pay**	**Expensed pension**[8]
Grethe K. Moen	3,477	0	235	180	3,892	1,984
Rest of the management team:						
Olav Boye Sivertsen	2,006	58	133	158	2,355	195
Roy Ruså	2,390	67	162	155	2,774	762
Ole Njærheim	2,461	0	167	157	2,785	210
Jonny Mæland	2,400	0	162	158	2,720	206
Kjell Morisbak Lund[5]	2,791	66	155	152	3,164	210
Bjørn Kvanvik[6]	1,936	29	97	112	2,174	514
Marion Svihus[7]	2,204	66	150	119	2,539	1,058
Rest of the management team	**16,188**	**286**	**1,026**	**1,011**	**18,511**	**3,155**

1. Fixed salaries consist of basic salary and holiday pay.
2. Disbursement from the company loyalty scheme to five executives who satisfied requirements. The scheme was discontinued in 2017 and the last disbursement took place in January 2019. This disbursement is not included in pen-sionable income.
3. Cash allowance includes performance-related pay. This disbursement is not included in pensionable income.
4. Other taxable remuneration includes car allowance, as well as minor remuneration for news subscriptions, telephone and broadband communication. Not included in holiday pay or pension.
5. Fixed salaries include cash allowance as compensation for loss of the defined benefit pension scheme calculated based on actuarial assumptions and pensionable income.
6. Fixed salaries include compensation for deputyship as vice president technology 1 Jan 2019-31 Dec. 2019
7. Acting vice president organisation and business support 1 Jan. 2019-31 Dec. 2019.
8. Expensed pension represents the current year's premium in the defined contribution scheme and the estimated cost of the defined benefit scheme for the President and CEO and managers covered by this.

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 AS 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.

Total compensation for the President and CEO and the other senior executives shall reflect the responsibilities and complexity of the role in question, the company's values and culture, the relevant executive's behaviour and performance, and the need to attract and retain key personnel. The arrangements are transparent and in accordance with the principles for good corporate governance.

Basic pay is the main component in Petoro's compensation scheme. Senior executives are also entitled to benefits on 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 group comprising relevant companies in the upstream petroleum 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 AS has a performance-related salary scheme to promote achievement of the company's goals. 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". This scheme covers all employees, including the President and CEO, with an equal percentage of basic salary.

The board will stipulate performance-related salary in accordance with the assessed goal attainment within the framework of 10 per cent of basic salary. The goals included in the assessment of performance-related salary consist of select quantitative goals associated with operational and financial activities, as well as goals associated with the company's prioritised activities. The goals shall be based on objective, definable and measurable criteria that management can influence and are stipulated with a point of departure in the company's strategy and risk scenario, as well as guidelines laid out in allocation letters from the Ministry of Petroleum and Energy.

In 2019, the following goals were included in the assessment of performance-related salary; Serious incidents (frequency), liquids production (kboed), project progress (milestones), drilling progress (completed wells), as well as concrete goals and milestones linked to further development of Heidrun, maturing well targets, digitalisation, monitoring the marketing and sale instruction issued to Equinor ASA, organisational development and efficiency measu es. Performance-related salary for 2019 was addressed by the board after the preparation of annual accounts. The accounts for 2019 include provision of an estimated amount for performance-related salary for the year. Performance-related salary disbursed in 2019 amounted to 7 per cent of basic salary based on the company's goal attainment in 2018.

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 by the company.

Petoro AS has a defined contribution-based pension scheme pursuant to the Defined Contribution Pensions Act. The company has no collective pension scheme for employees whose pay exceeds 12 G. This scheme was introduced on 1 Jan. 2016. Petoro AS has a transitional scheme that is still defined-benefit for pay above 12 G. This is the same for executives as for other employees less than 15 years from retirement age (67) at 1 Jan. 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. Her employment contract stipulates a mutual six-month period of notice. Agreement has been entered into on a pay guarantee scheme of 12 months in addition to the period of notice. One member of the management team can choose to resign at age 65 in 2019 with reduced benefits. 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. The remaining executives retire at 67.

Senior executives appointed after the relevant 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 President and CEO and other senior executives was conducted with effect f om 1 July. The board addressed the wage evaluation of the President and CEO in the board meeting on 20 September 2019. In 2019, the evaluation of other executives was carried out in the third quarter.

NOTE 4 Tangible fixed assets

All figures in NOK 1,000	Fixtures and fittings	Operating equipment	ICT	Total
Acquisition cost 1 Jan. 2019	4,979	8,908	39,707	53,594
Additions fixed assets	-	96	624	720
Disposal fixed assets/obsolescence	-	-	-	-
Acquisition cost 31 Dec. 2019	**4,979**	**9,004**	**40,331**	**54,314**
Accumulated depreciation 1 Jan. 2019	4,514	8,551	34,169	47,234
Reversed accumulated depreciation	-	-	-	-
Depreciation for the year	84	159	3,154	3,397
Accumulated depreciation 31 Dec. 2019	**4,598**	**8,710**	**37,323**	**50,631**
Book value at 31 Dec. 2019	**381**	**294**	**3,008**	**3,683**
Economic life	Lease term	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 1,000	2019	2018
Financial income		
Interest income	4,383	2,786
Currency gain	159	624
Financial expenses		
Interest expenses	-	-
Currency loss	324	215
Operating loss	**4,218**	**3,195**

NOTE 6 Investments in subsidiary

Company (All figures in NOK 1000)	**Acquisition date**	**Business offic**	**Interest**	**Voting share**	**Equity 31 Dec.**	**Profit 2019**
Petoro Iceland AS	11 Dec.2012	Stavanger	100 %	100 %	4,236	1,963

Petoro AS received a contribution of NOK 2 million in 2012 which was earmarked as share capital for Petoro Iceland AS. This contribution has been offset against the acquisition price of the sha es. For that reason, investment in Petoro Iceland has been recorded as NOK 0 in the balance sheet.

The company had no activity in 2019 and will be liquidated in 2020. The company has not received appropriations over the Fiscal Budget in 2019. The management agreement with Petoro AS and overdraft facility agreement with the parent company, Petoro AS, will be void once the company is liquidated. The facility remained undrawn at 31 December 2019.

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 232 million, including NOK 8 million in withheld tax and funds to cover unsecured pension obligations in the amount of NOK 185 million.

NOTE 9 Share capital and shareholder information

The company's share capital at 31 December 2019 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 1 000)	**Share capital**	**Other equity**	**Total**
Equity at 1 Jan. 2019	**10,000**	12,998	22,998
Net profit		975	975
Equity at 31 Dec. 2019	**10,000**	**13,973**	**23,973**

NOTE 11 Pension costs, assets and liabilities

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

The company implemented a new pension plan with effect f om 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 on 1 January 2016. Premiums for the defined contribution plan are expensed on a continuous basis.

Net pension cost (Figures in NOK 1 000)	**2019**	**2018**
Present value of benefits earned during the year	**14,859**	14,806
Interest expense on pension obligation	**8,539**	7,710
Return on pension plan assets	**(4,568)**	(3,898)
Recorded change in estimates	**6,340**	5,241
Payroll tax	**1,910**	1,918
Pension cost, defined benefit scheme	**27,080**	25,777
Pension cost, defined contribution plan	**6,494**	6,214
Net pension cost	**33,574**	**31,991**

Capitalised pension obligation	**2019**	**2018**
Estimated pension obligation at 31 Dec	**347,514**	335,004
Pension plan assets (market value)	**(114,751)**	(101,827)
Net pension obligations before payroll tax	**232,763**	223,177
Unrecorded change in estimates	**(57,110)**	(66,432)
Capitalised pension obligation	**175,653**	**166,745**

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 AS has allocated dedicated funds to cover unsecured pension liabilities, cf. Note 8.

The actuarial assumptions are based on common assumptions made in the insurance business for demographic factors.

	2019	**2018**
Discount rate	**2.30%**	2.60%
Expected return on plan assets	**3.80%**	4.30%
Expected increase in pay	**2.25%**	2.75%
Expected increase in pensions	**0.50%**	0.80%
Expected adjustment of the National Insurance Scheme's Basic Amount (G)	**2.00%**	2.50%

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

The company's chosen auditor is KPMG AS. Fees charged for external auditing of the consolidated financial statements in 2019 totalled NOK 0.3 million. Consultancy services from KPMG totalling NOK 1.1 million have also been expensed in connection with implementation of and training in a new digital collaboration solution.

In accordance with the Act relating to the Office of the Auditor Gene al of 7 May 2004, the OAG is the external auditor for the SDFI. PricewaterhouseCoopers AS (PwC) has been engaged as the company's financial accountant in order to prepare a financial audit of the SDFI accounts as part of the company's internal auditing. PwC invoiced NOK 0.6 million for financial auditing and NOK 0.6 million for internal auditing in 2019. Costs have also been expensed for invoiced services from PwC within joint venture auditing totalling NOK 1.0 million.

NOTE 14 Leases

Petoro AS entered into a lease with Smedvig Eiendom AS for office p emises in the autumn of 2003. The ordinary term of the lease expired 31.12.2014. Petoro AS chose to exercise the last option in the lease to 31.12.2020. The remaining lease term is now 2 years with option for a period of another 5 years. Rent for the year totalled NOK 11,1 million, including all operating and shared expenses.

NOTE 15 Significant contracts

Petoro AS has an agreement with TMF Norway Energy AS (TMF) concerning the delivery of accounting services and associated ICT services associated with SDFI accounting. This agreement entered into force on 1 March 2014 and runs for five years with an option for Petoro AS to extend it for a further year. Petoro AS has exercised the option that covers the 2019 financial year. Evry is the sub-contractor for ICT services. The expensed accounting fee to TMF in 2019 amounted to NOK 14.9 million. Other purchased services from the supplier amounted to NOK 2.2 million.

A new contract for the delivery of accounting services and associated ICT services linked to the SDFI was entered into with Azets Insights AS in autumn 2019 and will be in force from 1 March 2020 to 1 March 2025 with a two-year extension option. The subcontractor for ICT operations and application management is Basis Consulting AS.

NOTE 16 Related parties

Petoro AS was the parent company of Petoro Iceland AS at year-end. There has been no activity in Petoro Iceland AS in 2019, and the company will be liquidated in 2020. The subsidiary had no credit with the parent company at year-end.

Equinor ASA and Petoro AS have the same owner, the Ministry of Petroleum and Energy, and are thus related parties. There were no significant transactions in 2019 between Equinor ASA and Petoro AS. Petoro AS acted as negotiation manager in certain fields associated with the SDFI portfolio where Equinor ASA is operator, cf. Note 1.

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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 975 000. Årsregnskapet består av balanse per 31. desember 2019, 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 2019, 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 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.

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, forutsetningen om fortsatt drift og forslaget til resultatdisponering 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, 5. mars 2020
KPMG AS

Mads Hermansen
Statsautorisert revisor

Petoro's financial calendar 2020

6 March	Annual result 2019 / fourth quarter report 2019
11 May	First quarter report 2020
5 August	Second quarter report / first-half report 2020
30 October	Third quarter report 2020

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