DIRECTORS' REPORT

PETORO AS AND THE SDFI PORTFOLIO

Valemon – Photo: Harald Pettersen/Statoil

DIRECTORS' REPORT 2014

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

The SDFI was established with effect from 1985. Under this arrangement, the state participates as a direct investor in petroleum operations on the Norwegian continental shelf (NCS) so that the Treasury receives revenues and meets expenses associated with the SDFI's participatory interests directly and outside the regular system for taxing petroleum revenues. Petoro acts as the licensee for the state's participatory interests in production licences, fields, pipelines and land-based facilities, and manages the SDFI on the basis of sound business principles.

SUMMARY OF SDFI RESULTS

Net income in 2014 came to NOK 119.7 billion, compared with NOK 132.8 billion the year before. This result was affected by the development of oil and gas prices, and yielded a cash flow to the government of NOK 111.1 billion as against NOK 124.8 billion the year before. Total production averaged one million barrels of oil equivalent per day (boe/d), about three per cent lower than the 2013 figure. Sales for the year corresponded to production.

Investment for 2014 totalled NOK 35.7 billion, which was on a par with the year before.

At 31 December 2014, the portfolio's expected remaining oil, condensate, NGL and gas reserves comprised 6 145 million boe. That was down by 277 million boe from the end of 2013 when account is taken of production for the year and new reserves.

The book value of assets totalled NOK 265.6 billion at 31 December 2014. These assets mainly comprise operating facilities related to field installations, pipelines and land-based plants, as well as current debtors. Equity at 31 December amounted to NOK 171.5 billion. Future removal-liabilities are estimated at NOK 77.5 billion. Current liabilities, which comprise provision for costs incurred but not paid, were NOK 14.1 billion at 31 December.

An external valuation was also conducted by the Ministry of Petroleum and Energy in 2014, which estimated the value of the SDFI portfolio to be NOK 1 234 billion at 1 January 2014.

EXTERNAL TRENDS

Global economic growth was weaker than expected in 2014 and helped to curb the increase in demand for oil. At the same time, oil production from non-Opec countries – particularly shale oil output in the USA – maintained strong growth. A deterioration of the balance between supply and demand in the market and Opec's decision in November to refrain from adjusting its production to help redress that balance resulted in a sharp fall in the price of oil. Brent Blend was down to USD 55 per barrel at 31 December 2014, less than half its peak of USD 115 in June. The average price achieved by the SDFI portfolio in 2014 was USD 99 per barrel, compared with USD 110 the year before. A strong US dollar meant that the reduction was not quite as steep measured in Norwegian kroner. The average price in the latter currency was NOK 617 per barrel, down NOK 30 from 2013.

The declining trend in European demand for gas continued in 2014. Weak economic growth, competition from renewable energy and coal, and a mild winter were the main reasons for this development. European imports of liquefied natural gas (LNG) were on a par with 2013. Russian gas deliveries to Europe were somewhat lower than the year before, while exports of Norwegian gas remained at the same level. Gas exports from the SDFI portfolio were somewhat lower than originally planned, primarily because some production was deferred to boost its value. High stocks at the start of the summer season and robust supplies weakened gas prices during the year. The average gas price achieved for the SDFI portfolio was NOK 2.23 per standard cubic metre (scm), compared with NOK 2.31 in 2013.

Costs have risen sharply over the past decade in all parts of the industry, including field development, operation and maintenance, modification projects, subsea developments and drilling. The increase has been general at all levels of the supply chain. Agreement prevails in the industry that this trend is unsustainable.

Big oil companies have changed their commercial goals during 2013-14 from volume growth towards financial parameters such as cash flow and dividend. That has meant stricter prioritisation of investment funds and increased profitability requirements for new projects. The outcome is that projects are being halted, postponed or continued with a reduced scope.

A substantial commitment was made in 2014 to enhancing efficiency and reducing the level of costs on the NCS. Efficiency improvement efforts currently under way involve all parts of the value chain. Operators and the other licensees have individual approaches to this work.

Portfolio transactions on the NCS have increased in scope during recent years. This has been driven particularly by the individual company's need to free up cash, as manifested through the sale of participatory interests with investment commitments. Portfolio transactions are also used to realise strategic goals and improve tax positions. The interest in selling out of licences is somewhat higher than the availability of relevant buyers. Petoro has so far not found it relevant to exercise the pre-emptive right it holds with respect to all sales of participatory interests in joint ventures on the NCS.

Exploration activity on the NCS was at a high level in 2014. Fifty-nine exploration wells were completed, unchanged from the year before. A record number of exploration wells were drilled in the Barents Sea – 14 compared with 10 in 2013. Exploration activity in this area resulted in a couple of very interesting oil discoveries and successful appraisals. But exploration results in recent years have failed to meet the earlier optimistic estimates, and coming up with profitable development solutions is a challenge.

Attention in petroleum activities on the far northern NCS has shifted from the Snøhvit area, gas resources and gas infrastructure to oil resources in discoveries such as Johan Castberg and Wisting.

The international debate on climate change has continued to challenge the role of fossil fuels in the future global energy mix. A greater concentration on the environment and the climate will be significant with regard not only to demand and prices for oil and not least for gas, but also to the industry's commitment and choices related to improved recovery and new field developments.

HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

The improvement in HSE results is continuing. No incidents with a major accident potential occurred in 2014. Nor were there any large individual discharges to the sea or on land. The serious incident frequency has been developing positively for a number of years, and came to 0.7 per million working hours in 2014 compared with 0.9 the year before. The personal injury frequency also made progress, falling from 4.4 in 2013 to 3.8.

Major restructuring and change processes in the industry are influencing the risk picture, and Petoro has become more vigilant over HSE and technical integrity in its follow-up of licences.

An initiative was taken by Petoro, ConocoPhillips, ExxonMobil and Total in 2010 to improve the involvement of licensees in safety efforts. This work led in 2014 to guidelines for handling major accident risk at licence level, which has resulted in increased involvement by licensees in risk management. These guidelines are now being incorporated as an industry standard through the Norwegian Oil and Gas Association. Petoro participated during 2014 in 11 working meetings on major accidents, and the experience was positive. It also participated in several HSE management inspections on selected fields and installations during the year.

HIGHLIGHTS AND RESULTS 2014

The SDFI portfolio comprised 182 production licences at 31 December, up by three from 1 January. Participatory interests in 11 production licences were awarded for Petoro to manage during January 2015.

Following a revision of the company's strategy in 2013, its attention is concentrated primarily on mature fields, field development and the far north. An assessment in the autumn of 2014 determined that this strategy continued to provide the right response to the challenges and opportunities facing Petoro.

Output from the mature oil fields continues to dominate production in the SDFI portfolio. Troll, Åsgard, Oseberg, Heidrun, Snorre and Gullfaks accounted for about 60 per cent of total liquids production, while 75 per cent of gas output came from Troll, Ormen Lange and Åsgard. Only limited new capacity was introduced in 2014 when production began from the fast-track projects Fram H-North and Svalin C and M in the North Sea. Valemon and Eldfisk II came on stream in early January 2015. Huldra ceased production in the autumn of 2014.

In line with the strategy, work continued in 2014 on realising the reserve base and supplementary resources in the mature fields. Special commitments were made with Snorre, Heidrun and Oseberg. Petoro has given particular emphasis to realising greater drilling efficiency on these fields and to clarifying their reserve and resource bases.

Petoro continued to be active as a driving force for the Snorre 2040 project, and contributed through its own work to strengthening the reserve base and development solution for a possible new Snorre C platform. These efforts have led to a positive development of reserves which could be developed with such an installation. On the development side, Petoro has proposed a number of specific measures to reduce the weight and thereby the cost of a new platform. A decision on continuation (DG2) has been postponed several times and was scheduled in February 2015 for the fourth quarter of 2016. Plans now call for an investment decision in 2017, with production starting in 2022. This postponement reflects unsatisfactory profitability for the project, and work is now under way on more thorough changes to the platform solution. The choice of concept remains unchanged. Petoro has been concerned that the project is time critical. A delay to the timetable for such a development involves the risk of losing reserves because of the limited technical operating life of existing installations. Further work will include a closer look at measures which can counteract this.

Through its own independent work on understanding the reservoir in 2014, Petoro identified an increased reserve base in Heidrun and the associated need for additional well targets on this field. This contributed to a decision by the partnership to continue with a binding process for deciding on a Heidrun future development project. Conceptual studies will address the whole resource potential of this field, and a choice of concept is planned for late 2016.

The contribution made by Petoro to the Oseberg future development project led to the identification of a reserve base which meant that a simple new unstaffed wellhead platform was chosen as the concept, in line with the company's wishes.

Petoro's commitment to Johan Sverdrup in 2014 concentrated particularly on promoting an integrated development of the field both in the first phase and for subsequent stages. The company has worked on solutions which ensure maximum long-term value creation, including one field centre, robust power capacity and provision for measures which can improve recovery. The concept chosen in February 2014 for phase one was in line with Petoro's view. The company has conducted extensive analyses of the potential for enhanced oil recovery (EOR), and proposed solutions for this. Combined with other promising measures for improved recovery in the future, that potential will be studied further as an integrated part of work on phase two leading up to the choice of concept in 2016. This is in line with Petoro's strategy of safeguarding future opportunities when pursuing new field developments.

The company actively supported Statoil's candidacy to serve as operator for the unitised field. This proposal received unanimous support from the partnership in the fourth quarter of 2014.

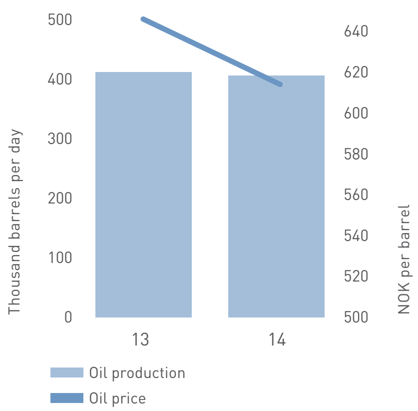
Petoro completed its own evaluations during the year as the basis for securing a rightful share of the value in this large field, which extends over several licences with a different composition of partners in each licence. The supplementary appropriation from the owner for this purpose was increased in 2014, tailored to the applicable plans for the Johan Sverdrup project. Extensive unitisation negotiations were conducted throughout 2014 and right up to the submission of the plan for development and operation (PDO) to the government on 13 February 2015. At that point, a majority of the licensees in the underlying licences – including Petoro – expressed support for a unitisation agreement which was submitted to the government for final determination of its terms.

In the far north, Petoro's attention has been concentrated on measures for improving regularity in Snøhvit LNG and efforts to ensure that all relevant development solutions for the Johan Castberg field are matured and assessed ahead of a final concept choice. Production efficiency for Snøhvit LNG came to 84 per cent, including turnarounds, which encourages expectations that plant and operating problems experienced over a number of years have been overcome. Work on the choice of concept for Johan Castberg continued throughout 2014. Petoro has been concerned to ensure that the various development solutions are individually optimised while also increasing their robustness to profitability challenges and uncertainties in both short- and long-term perspectives.

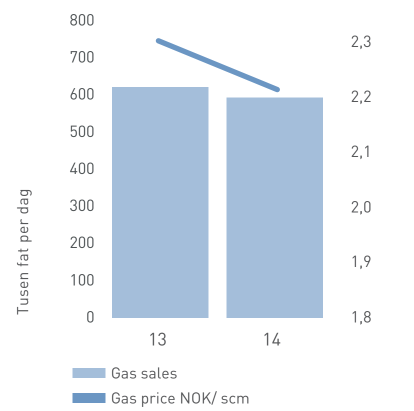
Petoro continued to direct the industry's attention during 2014 towards the need for efficiency enhancements and cost reductions, particularly in the drilling and well service area. As the dominant operator in the SDFI portfolio, Statoil achieved good results with a number of individual wells during the year.

Increasing attention was paid by Petoro in 2014 to the need for improved efficiency in development, operation and maintenance as well. The company has worked to ensure that

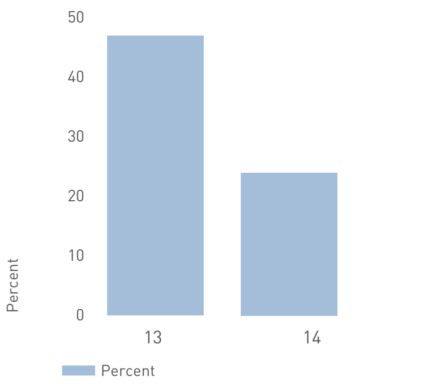
OIL PRODUCTION/PRICE



GAS SALES/PRICE



RESERVE REPLACEMENT RATE



the measures adopted are sustainable in both short and long terms, and involve a genuine enhancement in efficiency rather than simply a reduction in activity. The aim is to secure the profitability of investment in mature fields and new developments. Petoro saw in 2014 that the trend towards rising field costs had reversed. Restructuring efforts by the operators also contributed to some reduction in operational modifications. Operator improvement measures are expected to yield greater effects in the longer term.

Only one PDO was submitted to the government in 2014, covering Gullfaks Rimfaksdalen where the SDFI is a participant. The PDO for Flyndre was submitted in 2013 and approved by the government in 2014.

Petoro participated in 20 of the 59 exploration wells completed on the NCS in 2014, and in 10 of the 22 discoveries made.

Reserves showed a net increase of 88 million barrels of oil equivalent (boe) during the year. This figure was low because few decisions were taken in 2014 to invest in new developments and improved recovery measures on existing fields in the SDFI portfolio. Most of the increase reflected a more uniform reporting of reserves for new wells on fields operated by Statoil. Reserves were also downgraded on some fields. A total of 365 million boe was produced in 2014, giving a net reserve replacement rate of 24 per cent. The comparable figure in 2013 was 47 per cent.

RESEARCH AND DEVELOPMENT

The oil companies devote some NOK 3 billion per year to petroleum-related research and development (R&D), and the supplies industry spends about NOK 1 billion. Through its interests in production licences, Petoro contributes to R&D through the SDFI meeting its share of these costs, with the funds managed by the respective operators. This amounts to more than NOK 500 million per annum. Petoro does not initiate its own technology development and research projects.

In addition to the above-mentioned spending come a number of projects financed directly by licences and directed at field-specific qualification. Their costs are recognised as part of the investment budgets in the joint ventures.

Petoro has been a driving force, for example, in the development of subsea compression solutions over more than a decade, with efforts on Åsgard, Ormen Lange, Gullfaks and Snøhvit. Plans call for subsea compression on Åsgard and wet gas compression on Gullfaks to start during the second half of 2015. Petoro made a substantial commitment in 2014 to maturing the early use of advanced recovery methods on Johan Sverdrup.

MARKETING AND SALE OF THE PRODUCTS

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

Petoro has given priority to work on maximising value creation for the gas portfolio. The company is concerned to ensure that available gas is sold in the market at the highest possible price, and that the flexibility of production plants and transport capacity is exploited to optimise deliveries. It has also been concerned with the role of gas in Europe's future energy mix, and has monitored developments in EU energy policy. In addition, Petoro has given priority to evaluating the formula for NGL in order to assess whether the goals in the marketing and sale instruction concerning Statoil's marketing and sale of the government's oil and gas are met.

Checks were also made to ensure that the SDFI was getting a rightful share of sales-related costs and revenues. Statoil's principles for charging sales and administrative costs related to marketing and sales were reviewed as well.

WORKING ENVIRONMENT AND EXPERTISE

The company's human resources policy will ensure diversity and equal opportunities, develop expertise, facilitate a good working environment, and prevent discrimination on the grounds of ethnicity, national origin, religion or beliefs.

Personnel in Petoro have long experience from the petroleum industry and a high level of education. The individual employee is crucial to the company's deliveries and success, and the board gives emphasis to ensuring that Petoro offers competitive terms and a stimulating working environment which attracts people with the right expertise and positive attitudes. Opportunities for professional and personal development will help to retain, develop and attract able personnel. Petoro has a defined benefit pension plan for its employees, which is under review in light of the Norwegian pension reform. New guidelines for pay and other remuneration of executives in enterprises and companies owned wholly or partly by the state were introduced by the Ministry of Trade, Industry and Fisheries with effect from 13 February 2015. The company has initiated a review of the guidelines.

Petoro had 67 employees at 31 December 2014, compared with 64 a year earlier. No staff resigned in 2014.

No occupational accidents were recorded among Petoro's personnel during the year.

Women accounted for 39 per cent of the total workforce in 2014, and for 43 and 37 per cent of the company's directors and executive management respectively. Petoro emphasises equality between the genders in terms of opportunities for professional and personal development as well as pay. The company customises working conditions so that people with disabilities can also work for Petoro. Sickness absence came to 2.5 per cent, compared with 1.2 per cent in 2013. Petoro has an inclusive workplace (IA) agreement, and gives weight to close follow-up and dialogue to promote good health and prevent sickness absence.

Collaboration with the company's working environment committee (AMU) and works council (SAMU) lays an important basis for a good working environment in the company. Work in these bodies again functioned well in 2014.

CORPORATE GOVERNANCE

The board gives weight to good governance to ensure that the SDFI 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 the government's financial regulations and in standards for good corporate governance. The board observes those sections of the Norwegian code of practice for corporate governance regarded as relevant to Petoro's business and to the frameworks established by its form of organisation and ownership.

The management system is tailored to Petoro's distinctiveness, and has been further developed in line with organisational changes during the year. See the separate section in the annual report for further details.

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

Measures which ensure that Petoro discharges its CSR include ethical guidelines, openness on money flows and anti-corruption work, the HSE declaration, and an HR policy which ensures diversity and equal opportunities. Petoro reports annual cash flows related to the SDFI portfolio to the extractive industries transparency initiative. The board provides a more detailed presentation of the exercise of CSR in a separate section of the annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The board conducted an assessment of the risk picture in 2014 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 frameworks established for it.

Two internal audit projects implemented in 2014 evaluated Petoro's processes for financial management (SDFI) and external IT security (Petoro) respectively. The results were summed up in reports to the board which describe the checks undertaken, the findings made and the measures proposed and implemented. Petoro's internal audit function is outsourced to Deloitte, which also undertakes the internal financial audit for the SDFI.

WORK OF THE BOARD

The board held 10 meetings in 2014. It has established a meeting and work plan with the emphasis on the consideration of strategy, goals, budgets and interim results. The board is concerned with overall value creation from the total portfolio, and with ensuring that the state receives its rightful share and does not get charged a larger proportion of costs than is warranted. Balanced scorecards are a key instrument used by the board in following up the company's results, and it measures the results achieved against established commercial and organisational goals.

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

Conflicts of interest are a fixed item on the agenda at board meetings, and directors with such a conflict withdraw from the board's consideration of the relevant issue. The board conducts an annual evaluation of its own work. That also includes a review of the company's guidelines on business ethics and CSR, and the instructions for the board.

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

Petoro's board comprises Gunn Wærsted as chair, Hilde Myrberg as deputy chair, Per Arvid Schøyen, Nils-Henrik M von der Fehr and Per-Olaf Hustad as shareholder-elected directors, and Marit Ersdal and Lars Kristian Bjørheim as directors elected by and from among the employees. Wærsted succeeded Gunnar Berge as chair in June 2014.

PETORO AS AND THE GROUP

SHARE CAPITAL AND SHAREHOLDER

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

The company's share capital at 31 December 2014 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government. Petoro's business office is in Stavanger.

PETORO ICELAND AS

Petoro Iceland's purpose is to participate in petroleum operations on that part of the Icelandic continental shelf which falls within the joint Icelandic-Norwegian collaboration area. The company was established in December 2012 as a wholly owned subsidiary of Petoro AS. Through a branch registered in Iceland, it is a licensee and participant in production licences where the Norwegian government decides to participate. The appropriation to Petoro Iceland for 2014 was NOK 16 million. Its share capital at 31 December 2014 comprised NOK 2 million, divided between 2 000 shares. Petoro Iceland participated with 25 per cent interests in three production licences during 2014. One of the joint ventures resolved to relinquish its licence after completing the first phase of the work programme, so that Petoro Iceland had a 25 per cent participatory interest in two production licences at 4 January 2015. The company has no employees and has entered into a management agreement with Petoro.

NET INCOME AND ALLOCATIONS

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

Funds for operating Petoro AS and Petoro

Iceland AS are provided by the government, which is directly liable for the commitments accepted by the companies.

The consolidated accounts embrace the parent company and Petoro Iceland AS. Amounts related to internal transactions are eliminated in the consolidated accounts.

NOK 311 million was appropriated for ordinary operation of Petoro AS in 2014. In addition, NOK 35.5 million in extra appropriated funds were applied to meeting the cost of unitisation work for the Johan Sverdrup field.

Operating expenses in 2014 were NOK 291.7 million for the parent company and NOK 301.5 million for the group. They related primarily to payroll and administration expenses and to the purchase of external services. The company prioritised spending substantial resources and study funds on mature fields and the work with Johan Sverdrup.

The net loss came to NOK 6 million for the parent company and NOK 5.95 million for the group. The board proposes that this loss be covered from other equity. Remaining other equity at 31 December 2014 was thereby NOK 6.7 million for the parent company. The group's reserves of NOK 8.9 million comprise other equity in the parent company, NOK 2 million in grants from the Norwegian government relating to Petoro Iceland and accumulated results in the subsidiary.

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

The board has devoted attention to the company's resource position, and has followed up the organisational changes and efficiency improvements implemented to ensure that Petoro is as well equipped as possible for tackling the challenges and opportunities involved in managing the SDFI portfolio within available resources.

PROSPECTS

The international debate on measures to deal with climate change raises questions about the role of fossil fuels in tomorrow's global energy mix, and the increased attention being paid to the environment and the climate could be significant for oil and gas demand in the future. This year's climate summit in Paris could establish important parameters for fossil fuel demand in the future.

Global economic developments are expected to contribute to moderate growth in demand for oil. At the same time, the supply position has become more robust, with a substantial increase in production by non-Opec players and particularly from shale oil in the USA. Combined with the fact that Opec has refrained from taking new measures to reduce its output, this development has resulted in low oil prices and great uncertainty over future price trends.

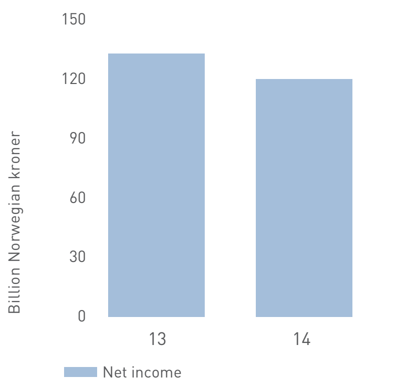
Competition from coal and renewable energy, together with weak economic progress, has reduced European demand for gas. The EU's new energy and climate policy targets for 2030 confirm its long-term climate policy ambitions, with reduced greenhouse gas emissions, a higher proportion of renewable energy and increased energy efficiency as key elements. Measures to realise these goals are expected to contribute to a further weakening in European gas demand. However, global gas demand is expected to continue growing. Decisions on developing new LNG capacity and the agreement over big Russian gas deliveries to China will substantially expand global gas supply in the years to come. World gas prices are influenced to a great extent by oil price trends, and considerable uncertainty exists about future price developments.

The sharp growth in costs for the oil and gas industry in recent years, reinforced by capital constraints and increased requirements for profitability, have prompted operator companies to implement extensive measures for reducing costs and investment. The board has noted an increasing acceptance of restructuring in the industry, and expects current improvement measures – combined with market developments – to result in an adjustment of cost levels on the NCS as well.

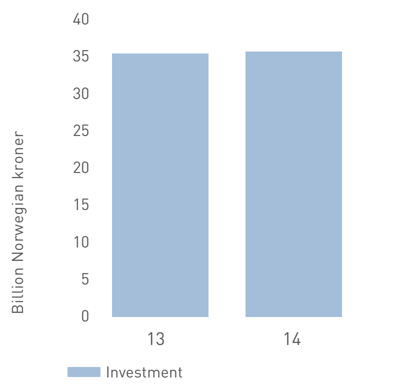
Johan Sverdrup is one of the five largest oil fields on the NCS. It will be one of Norway's most important industrial projects over the next 50 years and generate substantial revenues and employment. This field will help to maintain a relatively high level of activity on the NCS during both the development stage and the production phase.

However, uncertainty about new development projects on the NCS is growing as a result of the priorities being set by the oil companies for capital utilisation. Relatively high development costs mean that investment in mature fields and small discoveries will be particularly vulnerable. Combined with reduced exploration activity, this increases the challenge of replacing the decline in SDFI production with new output.

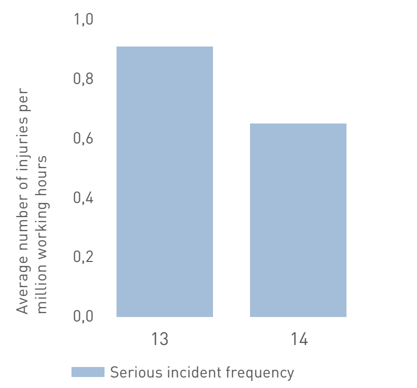
NET INCOME



INVESTMENT



SERIOUS INCIDENT FREQUENCY



Continued activity in the far north will continue to be affected by the fact that this is very much a frontier area and lacks existing oil infrastructure. Relatively small discoveries located in a large region mean high development costs. Realising new discoveries calls for technology development and the ability of licences to cooperate in achieving area-wide synergies. Exploration activity based on the 23rd licensing round in the Barents Sea will be crucial for the pace of future progress in the far north.

Overall oil and gas production from the SDFI portfolio is expected to decline over the next few years, while the proportion of gas in this output will rise. It is uncertain whether total production in 2020 could be back to the 2014 level even after Johan Sverdrup comes on stream. Forecasts for the latter field indicate that it will account for over 30 per cent of the SDFI's oil output in 2025, with the most significant proportion coming from the mature fields.

The board expects that portfolio transactions between players on the NCS could influence opportunities to realise new production.

An increase in the attention given to the environment and the climate will be significant for the industry's commitment and choice of solutions for improved recovery and new field developments.

Petoro will face a number of decisions of great strategic and value-related significance for the SDFI in the time to come. These relate, for example, to the Snorre 2040 project, Johan Castberg and phase two of the Johan Sverdrup development.

The company's opportunities to create the greatest possible value for the SDFI portfolio will remain conditional on its capacity for purposeful commitment in following up the licences, combined with opportunities for flexibility in changing priorities.

Stavanger, 6 March 2015

Gunn Wærsted Chair	**Hilde Myrberg** Deputy chair	**Nils-Henrik M. von der Fehr** Director	**Per Arvid Schøyen** Director
Per-Olaf Hustad Director	**Lars Kristian Bjørheim** Director*	**Marit Ersdal** Director*	**Grethe K. Moen** President and CEO

*Elected by the employees