



GOALS ACHIEVED AND RESULTS

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GOALS ACHIEVED AND RESULTS

Reference is made to the business plan for Petoro AS and the letter of assignment to Petoro AS for 2014.

The targets set in the letter of assignment and Petoro's performance in relation to these are presented below.

OPERATIONAL TARGETS

Petoro will establish operational targets with the aim of maintaining a high level of production in 2014.

In addition to ordinary licence follow-up, where the operator and partners set production targets and the operator is challenged over nonconformity management and compensatory measures, Petoro's commitment was directed particularly at measures to increase drilling efficiency. This represented an important instrument for ensuring that the planned drilling programme was implemented in 2014 and for maintaining high regularity. Petoro was a driving force in seeking to enhance the probability that Statoil's internal Step improvement programme would achieve results as early as 2014 through increased management involvement in the partnerships. Targets, measures and results achieved are now reported and discussed on a regular basis in licence committees.

Petoro has made a special commitment to following up field costs – in other words, that part of operating expenses which largely relates to offshore operation and maintenance. The company does this particularly to ensure that cutbacks in activity resulting from operator improvement efforts are not made at the expense of long-term regularity. This is supported by an analysis of the UKCS carried out to learn relevant lessons for the NCS.

Production averaged one million boe per day in 2014.

Petoro will establish operational targets aimed at increasing the maturation of

reserves through measures to improve recovery from mature fields and to develop new discoveries.

The SDFI portfolio at 31 December comprised 34 producing fields. In addition, Valemon came on stream in early January. A number of measures to improve recovery have been identified for these fields, along with several possible development projects with the potential to increase reserves.

The industry has experienced a sharp rise in costs over the past decade, and agreement exists among the companies that this trend cannot be sustained. That drove a commitment in 2014 to cutting costs. During 2013-14, large oil companies shifted their business goals from volume growth towards financial parameters such as cash flow and dividend. That has led to stricter priorities for investment funds and increased requirements for profitability in new projects. As a result, projects intended to contribute to maturing reserves have been halted, deferred or narrowed in scope. This has reduced opportunities for making future additions to reserves and production.

Petoro's commitment to realising the reserve potential in mature fields has aimed at identifying and establishing the likelihood of meeting the total remaining requirement for wells, increasing the pace of drilling in order to drill all profitable wells within the economic lifetime of the fields, and reducing well costs so that more wells become profitable. Directed at a selection of fields, these efforts are described in more detail under the coverage of mature fields in the section on priority targets and

activities.

Where Johan Sverdrup is concerned, the commitment has focused on maturing and making provision for the use of water-based injection techniques for enhanced oil recovery (EOR) from an early stage in the field's producing life. See also the coverage of Johan Sverdrup in the section on priority targets and activities.

The SDFI portfolio comprised 6 145 million boe in estimated remaining reserves of oil, condensate, NGL and gas at 31 December. Net reserves rose by 88 million boe in 2014. This low figure reflected few decisions on investing in new developments and improved recovery measures on existing SDFI fields during the year. Most of the increase arose from more uniform reporting of reserves for new wells on fields operated by Statoil. At the same time, reserves were downgraded on some fields. A total of 365 million boe were produced in 2014, which gave a net reserve replacement rate of 24 per cent compared with 47 per cent the year before. That accords well with production figures from the Norwegian Petroleum Directorate (NPD).

Exploration activity was high on the NCS during 2014. A total of 59 exploration wells were completed, the same number as the year before. At 14 compared with 10 in 2013, exploration wells in the Barents Sea set a record. Drilling activity in this part of the NCS yielded oil discoveries and successful appraisals, but exploration results in recent years have not supported the original optimistic estimates, and finding profitable development solutions represents a challenge.

Petoro participated in 20 of the 59 exploration wells completed in 2014. A total of 22 new discoveries were made – eight in the Barents Sea, five in the Norwegian Sea and nine in the North Sea. Petoro participated in 10 of these.

Petoro will establish operational targets with regard to keeping costs at the lowest possible level.

Petoro worked in 2014 for a substantial (at least 50 per cent) reduction in well costs because many of the remaining drilling targets are characterised by limited recoverable reserves. Its own analyses of the reasons for cost increases, the need to set radical targets and the identification of specific measures provided the basis for an active commitment at external conferences, in bilateral dialogue at management level with oil companies and suppliers, and for a proactive commitment in the licence arena to ensure greater management involvement in the partnership. Fundamental to this work was Petoro's documentation that the industry itself bore much of the blame for the sharp rise in the costs and that this trend was not attributable to HSE.

Where operation and maintenance were concerned, Petoro was a driving force in seeking to enhance the probability that Statoil's internal Step improvement programme would achieve results as early as 2014 through increased management involvement in the partnerships. The company also carried out its own analysis with a view to learning from the UKCS to ensure that short-term cuts in maintenance and modification activities are not implemented at the expense of long-term cost developments.

Petoro will establish operational targets aimed at protecting safety and environmental considerations in the petroleum sector.

The improvement in HSE results is

continuing. No incidents with a major accident potential occurred in 2014. Nor were there large individual discharges at sea or on land. The serious injury frequency has shown a positive trend for several years. It came to 0.7 in 2014, compared with 0.9 the year before. The personal injury frequency has also shown a positive trend, and was 3.8 compared with 4.4 in 2013.

Big restructuring and change processes in the industry affect the risk picture, and Petoro has become more vigilant in following up HSE and technical integrity in the licences.

An initiative was taken by Petoro, ConocoPhillips, ExxonMobil and Total in 2010 to improve licensee involvement in safety work. These efforts resulted during 2014 in guidelines for handling major accident risk at licence level. The outcome has been increased involvement by licensees in work on 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. The company also took part in several management inspections for HSE on selected fields and installations during the year.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate section on the environment. The figures are taken from reporting by the operators to Norwegian Oil and Gas and will be incorporated in the annual report at a later date, as soon as they become available.

PRIORITY TARGETS AND ACTIVITIES

Priority targets and activities in 2014 have involved improving recovery from mature fields, ensuring long-term field development solutions for discoveries due to be brought on stream, and promoting coherent development of the far north.

Mature fields: investing in improved recovery

The Ministry of Petroleum and Energy considers it very important that Petoro continues its work on realising the reserve base and supplementary resources in the mature fields. Petoro's commitment will be directed at improving recovery from priority installations by choosing solutions for long-term field development, drilling more wells, and drilling more efficiently. Petoro will work to reduce the uncertainty in the reserve and resource base by mapping the remaining resource potential. Petoro will concentrate its efforts particularly on Snorre, Heidrun and Oseberg.

Petoro's commitment related to the mature fields aims to improve recovery from priority fields by choosing good solutions for long-term field development, drilling more wells per year, and drilling more efficiently. The company works to clarify the reserve and resource base by mapping the remaining resource potential, and by identifying associated well targets so that field development decisions can be taken on the basis of realistic long-term plans in the licences. Efforts in the priority fields were as follows.

Snorre

Petoro has long been a driving force for a new platform on Snorre, and believes that this represents the best way of realising the 100 well targets identified on this field. Based on the new Snorre C platform concept chosen in November 2013, the company has worked to establish a best estimate for reserves and a cost-effective platform design ahead of decision gate 2 (DG2). Attention in 2014 was primarily concentrated on Petoro's own simulations with updated reservoir models to assess the effects of gas imports and well placement. This work has revealed additional volumes for Snorre C, helping to reduce uncertainty in establishing the volume base for DG2.

Where the platform is concerned, results from the operator's studies revealed

an undesirable weight increase. Petoro initiated its own studies in 2014 to develop specific measures which it believes are important for reducing the weight and thereby cost of a new installation.

DG2 has been deferred several times, and was scheduled in February 2015 for the fourth quarter of 2016. An investment decision is now planned in 2017, with production starting in 2022. The postponement was prompted by unsatisfactory profitability in the project, and work is now under way on thorough changes to the platform solution. The choice of concept remains unchanged. Petoro has been concerned that the project is time critical. Delays to the schedule for such a development could pose a risk of losing reserves because of the limited remaining technical life of existing installations. Future work will look more closely at measures which could counter this.

Heidrun

Through its own sub-surface work on Heidrun during 2014, Petoro identified an increased reserve base and a number of new well targets, which contributed to a decision by the partnership to continue a binding process towards a decision on a Heidrun future development project. Conceptual studies will address the whole field's resource potential, with a choice of concept due to be made in late 2016.

Petoro will continue its own work in 2015 to achieve adequate quality in its sub-surface models, drainage studies and producing life studies for existing subsea facilities, and to mature robust future well solutions.

Oseberg

Under pressure from Petoro, the Oseberg future development project was established in 2011, and divided into three phases because of the big areal spread of the remaining resources. Petoro carried out its own work during

2014 on assessing the resource base, well requirements and development concept for the southern part of the field. Supplementary volumes were identified, but the increase in reserves was insufficient to justify a new process platform. The western section of Oseberg has been defined as phase one, and the project passed DG1 for a start to concept development in June 2014. Two concepts have been assessed, involving subsea facilities and an unstaffed wellhead platform respectively. The latter, which represents Petoro's preferred solution, was chosen by the partnership in early 2015.

Petoro has also been the prime mover in establishing a revitalisation project for Oseberg East in order to boost the field's recovery factor. Specific solutions have been submitted to the licence, and a decision to approve the start of concept development will be taken in the first quarter of 2015.

Development of new fields

Petoro will contribute to the choice of long-term field development concepts for discoveries where development is planned. Petoro will work, among other things, on good reservoir descriptions and early use of improved recovery technology.

Based on lessons learnt from existing fields, Petoro has chosen to concentrate attention on flexible development solutions which allow future opportunities to be grasped, and on making provision for a long profitable producing life, quick and effective use of technological opportunities for improved recovery, reservoir descriptions and subsea processing.

Petoro devoted particular resources to following up Johan Sverdrup.

Johan Sverdrup

Petoro will safeguard the SDFI's commercial interests in the unitisation negotiations, as well as conducting quality assurance of

the decision base for phase one of the field development and ensuring its robustness ahead of the investment decision and the submission of the plan for development and operation (PDO).

The commitment to Johan Sverdrup in 2014 related to promoting an integrated approach to the development, both in phase one and for future stages. Made in February 2014, the choice of concept for phase one accorded with Petoro's views. The company's commitment to developing the field has been directed particularly at solutions which ensure maximum long-term value creation, including a single field centre, robust power capacity and robust procurement strategies for phase-one contracts, as well as making provision for measures which can improve recovery. Petoro has conducted its own extensive analyses of the potential for enhanced oil recovery (EOR), and presented a business case for this. The EOR potential and other promising measures for improved recovery are expected to be studied in the time ahead as an integrated part of work on phase two up to the choice of concept in 2016. That accords with Petoro's strategy of protecting future opportunities when field development decisions are taken.

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.

During the year, Petoro continued its extensive work related to the unitisation negotiation for Johan Sverdrup with the objective of securing a rightful share of the value in this large field. The supplementary appropriation for that purpose was increased in 2014, tailored to the applicable plans for the Johan Sverdrup project, and extensive unitisation discussions continued throughout the year.

A PDO was submitted on 13 February 2015, together with a negotiated

unitisation agreement for final approval by the government.

Far north – promoting coherent development

Petoro will follow up the SDFI portfolio in Barents Sea South, with particular emphasis on fields and discoveries such as Snøhvit, Johan Castberg and the Hoop area.

Output from the Snøhvit facilities set a new record in 2014, and production efficiency reached some 84 per cent. That was substantially higher than in earlier years, encouraging expectations that the measures taken on Snøhvit to improve robustness have had an effect.

Petoro worked on a choice of concept for Johan Castberg throughout 2014. The company was concerned to ensure that each of the various development concepts is optimised while also having its robustness enhanced to meet profitability challenges and uncertainties in both short and long terms. Petoro identified its own competitive development solution, and worked for this to be studied and optimised on a par with the other proposals.

Exploration in the Barents Sea set a record during 2014, with a total of 14 exploration wells drilled. The SDFI was a participant in eight of these. Results for the SDFI were disappointing, with only one commercial discovery made – Drivis in PL532, which also contains Johan Castberg. This find will be developed as an integrated part of the Johan Castberg project. A possible commercial discovery, Hanssen, was made in PL537 – which also contains the Wisting find from 2013. Further drilling and appraisal are planned there in 2015.

The biggest disappointments of 2014 were the Apollo and Atlantis wells in PL615 in the Hoop area. The first of these proved dry while the second yielded only a small gas discovery. Two exploration wells were drilled around Johan Castberg

in addition to Drivis, but both found only small amounts of gas for which no commercial development concept exists at present.

Monitoring Statoil's marketing and sale of the government's petroleum

Pursuant to its defined main purposes, Petoro will monitor Statoil's marketing and sales of the petroleum produced from the state's direct participatory interests, in accordance with Statoil's marketing and sale instruction. The target is the highest possible overall value from petroleum belonging to the government and Statoil, and a rightful division of revenues and costs.

As part of its monitoring of Statoil's marketing and sales, Petoro will show particular concern for the following issues in 2014.

- *Monitor the marketing and sale of the government's petroleum, with attention being paid to strategy, risk and business development as well as issues of great significance in terms of value or as matters of principle.*
- *Assess whether the new formula for NGL fulfils the goals which prompted the changes in 2011. As part of this evaluation, Petoro will undertake an overall review of all NGL sales in 2012 and 2013 to identify possible deviations between the formula price and the sales value realised for the government's NGL.*

Petoro has been given the job of monitoring that Statoil conducts the marketing and sale of the government's petroleum together with its own in accordance with the marketing and sale instruction issued to the company. The target is to ensure the highest possible overall value for petroleum belonging to the government and Statoil, and a rightful division of revenues and costs.

Priority has been given by Petoro to work related to maximising value in the gas portfolio. The company seeks to ensure that the available gas is sold in the market at the highest possible price, and that flexibility in the production facilities

and transport capacity is exploited to optimise marketing and sales. Petoro has also been concerned with the role of gas in Europe's future energy mix, and has followed developments in EU energy policy.

Petoro has had a dialogue with Statoil on the latter's organisational and commercial adjustments to new market conditions for gas and oil. Follow-up of problems related to market developments was a key topic in 2014. The decision was taken, for example, to postpone some gas production in order to increase the value of the gas. Work was also done to illuminate issues related to renegotiation of long-term gas sales contracts and petroleum sales to Statoil's own facilities. Petoro also studied the relationship between the SDFI portfolio and Statoil's international operations, but without finally settling the issues.

A study has also been initiated by Petoro to identify the possible need for adjustments to the formula for NGL in order to meet the targets in the marketing and sale instruction.

Checks were conducted of the rightful division of income and costs related to marketing and sales. Statoil's principles for charging sales and administrative expenses were also reviewed in relation to changes made to the company's organisation of the marketing and sale activity.

Statoil and Petoro have had a dialogue on the structure for exercising the supervisory role, and have initiated activities for making the necessary adjustments and establishing an effective and appropriate monitoring.

RESOURCE ACCOUNTS 2014

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

Resource classes 1-8		Remaining recoverable resources		
		Oil, NGL and condensate mill scm	Gas bn scm	Oil equivalent mill scm
RC 1-3	Reserves	209.5	767.4	977.0
RC 4	In the planning phase	131.6	21.8	153.5
RC 5	Recovery likely but not clarified	37.6	59.4	97.0
RC 6	Recovery not very likely	9.3	3.9	13.2
RC 7	New discoveries not evaluated	86.4	48.5	135.0
RC 8	Prospects	19.7	24.8	44.5
Total		494.3	925.9	1420.1

Field	Original recoverable reserves			Remaining reserves		
	Oil and NGL* mill scm	Gas bn scm	Oil equivalent mill scm	Oil and NGL* mill scm	Gas bn scm	Oil equivalent mill scm
Atla	0.08	0.37	0.44	(0.01)	0.25	0.25
Draugen	72.39	0.83	73.22	5.39	0.04	5.43
Ekofisk	29.06	8.11	37.17	5.18	0.90	6.09
Eldfisk	7.07	2.15	9.22	1.46	0.17	1.64
Embla	0.70	0.30	1.00	0.12	0.10	0.22
Gimle	0.86	0.35	1.21	0.12	0.17	0.29
Gjøa	8.36	10.46	18.82	4.52	6.94	11.46
Grane	41.22	(1.92)	39.30	12.81	(1.92)	10.89
Gullfaks	113.96	6.92	120.88	4.34	-0.01	4.33
Gullfaks Sør	25.45	24.96	50.42	8.95	13.35	22.29
Heidrun	108.41	27.34	135.74	22.62	17.89	40.51
Heimdal	1.31	9.05	10.35	0.00	0.00	(0.01)
H-Nord	0.08	0.00	0.08	0.06	0.00	(7.21)
Huldra	1.73	5.54	7.27	0.00	(0.01)	7.25
Jette	0.30	0.00	0.30	0.20	0.00	0.20

Field	Original recoverable reserves			Remaining reserves		
	Oil and NGL*	Gas	Oil equivalent	Oil and NGL*	Gas	Oil equivalent
	mill scm	bn scm	mill scm	mill scm	bn scm	mill scm
Kristin	7.05	5.64	12.69	1.32	1.48	2.80
Kvitebjørn	14.64	26.61	41.25	4.40	10.26	14.66
Martin Linge	3.60	5.84	9.44	3.60	5.84	9.44
Norne	50.49	6.12	56.61	1.87	2.44	4.31
Ormen Lange	6.62	103.51	110.13	2.77	52.18	54.94
Oseberg	139.87	37.93	177.80	10.65	23.47	34.12
Oseberg Sør	24.51	6.67	31.18	8.28	4.24	12.52
Oseberg Øst	8.71	0.13	8.84	2.16	0.03	2.19
Rev	0.25	0.79	1.04	0.01	0.04	0.04
Skirne	0.68	3.07	3.75	0.12	0.09	0.22
Skuld	1.42	0.11	1.53	1.00	0.05	1.05
Snorre	80.56	1.99	82.55	18.96	0.10	19.06
Snøhvit	12.09	65.62	77.71	9.67	56.58	66.25
Statfjord Nord	13.43	0.67	14.10	1.91	(0.02)	1.89
Statfjord Øst	12.28	1.21	13.49	0.54	0.02	0.57
Svalin	2.22	0.00	2.22	1.92	0.00	1.92
Sygna	3.33	0.00	3.33	0.34	0.00	0.34
Togi	0.00	12.15	12.15	0.00	0.00	0.00
Tor Unit	0.98	0.42	1.40	0.01	0.01	0.02
Tordis	20.28	1.41	21.68	2.53	0.12	2.65
Troll Unit	184.86	790.19	975.05	39.76	521.67	561.44
Tune	1.48	7.48	8.96	(0.03)	(0.25)	(0.28)
Urd	1.76	0.10	1.86	0.35	0.04	0.40
Valemon	2.10	7.02	9.12	2.10	7.02	9.12
Varg	4.99	0.22	5.21	0.22	0.17	0.39
Vega	4.61	4.38	8.99	3.24	3.21	6.45
Veslefrikk	21.62	2.07	23.69	1.03	1.06	2.10
Vigdis	21.92	0.59	22.52	4.69	0.08	4.77
Visund	14.37	16.56	30.93	6.41	13.98	20.39
Visund Sør	1.50	2.56	4.06	1.16	2.35	3.51
Yttergryta	0.20	0.41	0.62	0.05	(0.02)	0.03
Åsgard	68.23	74.05	142.28	12.75	23.28	36.03
Total	1141.62	1279.98	2421.61	209.55	767.41	976.95

* Including condensate

Resource class 4	Recoverable reserves		
	Oil, NGL and condensate mill scm	Gas bn scm	Oil equivalent mill scm
Asterix	0.06	3.56	3.62
Draugen	0.38	0.00	0.38
Drivis	1.63	0.00	1.63
Erlend	0.36	0.28	0.63
Gullfaks	1.67	0.09	1.76
Gullfaks Sør	1.49	2.32	3.81
Hasselmus	0.04	0.04	0.08
Heidrun	9.39	1.18	10.56
Johan Castberg	15.36	0.00	15.36
Johan Sverdrup	72.24	2.23	74.47
Kristin	0.44	0.28	0.72
Kvitebjørn	0.46	1.20	1.66
Maria	8.37	0.71	9.08
Norne	0.46	0.43	0.89
Ormen Lange	0.13	2.60	2.73
Oseberg	2.24	2.09	4.33
Oseberg Sør	0.06	0.00	0.06
Snorre	10.01	0.00	10.01
Snøhvit	0.34	1.96	2.30
Statfjord Øst	0.28	0.03	0.31
Tott East	0.05	1.11	1.16
Troll Brent	0.13	0.00	0.13
Troll Olje	4.73	0.00	4.73
Urd	0.17	0.00	0.17
Varg	0.19	0.00	0.19
Åsgard	0.97	1.73	2.71
Total	131.63	21.83	153.46