

A photograph of an offshore oil rig at sea. The rig is a complex of metal structures, including a large horizontal pipe and various platforms. The name 'NORRE B' and 'ATOIL' is visible on a yellow panel. The rig is set against a clear blue sky and a blue ocean with white-capped waves. The overall scene is industrial and maritime.

FIGUERS FOR 2016

ANNUAL ACCOUNTS SDFI

COMPLIANCE REPORT FOR THE SDFI ACCOUNTS

OBJECTIVE

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

CONFIRMATION

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

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

ASSESSMENT OF SIGNIFICANT FACTORS

APPROPRIATION AND CAPITAL ACCOUNTS

According to the supplementary letter of assignment dated 23 December 2016, the SDFI's appropriation for investments³ is NOK 28 billion and for operating income⁴ NOK 63.5 billion. The appropriation for interest on the state's capital⁵ is NOK 3.9 billion. Operating income in accordance with the cash basis is affected first

and foremost by the price of oil and gas and the volume of the SDFI's production sold. Statoil is responsible for marketing and sale of the SDFI's products under standing instructions for marketing and sale.

THE GENERAL LEDGER ACCOUNTS REPORT

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

THE SDFI ACCOUNTS BASED ON THE ACCOUNTING ACT

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

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

³ Ch./item 2440.30

⁴ Ch./item 5440.24

⁵ Ch./item 5440.80

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

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

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

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

production, in addition to the fact that there have been no major development decisions in 2016.

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

ADDITIONAL INFORMATION

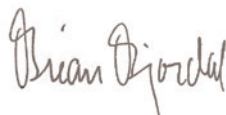
The Office of the Auditor General (OAG) is the external auditor, and approves the annual accounts for the SDFI. The OAG's report is expected to be ready during the second quarter of 2017. On completing its annual audit, the OAG issues a final audit letter (report) which summarises the conclusion of its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

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

Stavanger, 3 March 2017



Gunn Wærsted
Chair



Brian Bjordal
Deputy chair



Per Arvid Schøyen
Director



Per-Olaf Hustad
Director



Trude J H Fjeldstad
Director



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Grethe K Moen
President and CEO

ACCOUNTS ON CASH BASIS, SDFI

Note on accounting principles for the accounts on a cash basis

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

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

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

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

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

REPORTING OF THE APPROPRIATION ACCOUNTS

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

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

REPORTING TO THE GENERAL LEDGER ACCOUNTS

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

ACCOUNTS ON CASH BASIS, SDFI

Appropriation accounts

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

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

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

Capital accounts

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

Holdings reported to the capital accounts (31 Dec)

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

Comment on change in open account from 2015 to 2016

The change is mainly due to higher advance payments and reduced working capital in the licenses.

ACCOUNTS ON CASH BASIS, SDFI

Appropriation accounts

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

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

Not relevant for the SDFI, which receives estimated appropriations.

ACCOUNTS ON CASH BASIS, SDFI

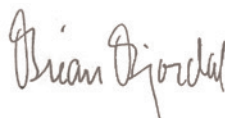
Capital accounts – specified

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

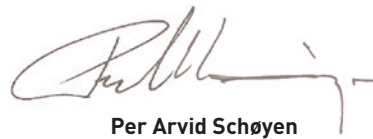
Stavanger, 3 March 2017



Gunn Wærsted
Chair



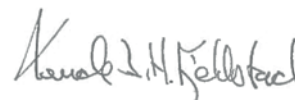
Brian Bjordal
Deputy chair



Per Arvid Schøyen
Director



Per-Olaf Hustad
Director



Trude J H Fjeldstad
Director



Ove Skretting
Director elected by employees



Heidi Iren Nes
Director elected by employees



Grethe K Moen
President and CEO

ACCOUNTS ON CASH BASIS, SDFI

General ledger accounts report

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

ACCOUNTS ON CASH BASIS, SDFI

General ledger accounts report

Overview of open accounts with the Treasury

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

*)

O/U call - prepayments calculated net of JV cash call and billing

AP nonop - accounts payable from JV billing

AR nonop - accounts receivable from JV billing

Inventory nonop - inventory from JV billing

Prep exp nonop - prepayments from JV billing

Working cap - nonop - primarily accruals from JV billing

VAT - balance of VAT payments

Agio - rounding-off related to currency translation (agio/disagio)

Comment on change in open account from 2015 to 2016:

The change primarily reflects changes in provisions and prepayments in the licences.

ACCOUNTS BASED ON ACCOUNTING ACT

Income statement pursuant to NGAAP

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

ACCOUNTS BASED ON ACCOUNTING ACT

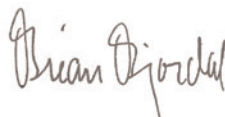
SDFI balance sheet at 31 December

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

Stavanger, 3 March 2017



Gunn Wærsted
Chair



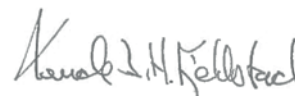
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Grethe K Moen
President and CEO

ACCOUNTS BASED ON ACCOUNTING ACT

SDFI cash flow statement

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

NOTES TO THE ACCOUNTS BASED ON ACCOUNTING

GENERAL

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

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

ACCOUNTING PRINCIPLES FOR THE COMPANY ACCOUNTS

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

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

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

revenue in the income statement.

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

The functional currency is the Norwegian krone.

Revenue recognition principles

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

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

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

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

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

Purchases and sales between fields and/or transport systems

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

Foreign currencies

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

Classification of assets and liabilities

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

Research and development

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

Exploration and development costs

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

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

Tangible fixed assets

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

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

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

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

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

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

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

Intangible assets

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

Impairment

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

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

Maintenance expenses

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

Abandonment and decommissioning expenses

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

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

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

Inventories

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

Accounts receivable -debtors

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

Bank deposits

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

Current liabilities

Current liabilities are recognised at face value.

Taxes

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

Financial instruments

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

Financial instruments are valued according to the lowest value principle, unless stated criteria have been met. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are recorded as income if all the following criteria are met: the instrument is classified as a current asset, is part of a trading portfolio as regards resale, is traded on an exchange, authorised marketplace or similar regulated market abroad, and has diverse ownership and

liquidity. Portfolio valuations are used as a basis where this, based on the financial instruments, is considered to be the most sensible approach, and where the portfolio is balanced in volume and time. Eliminations are carried out where legal rights exist to offset unrealised losses and gains, or where deposits/margins that correspond with the market value of the derivatives have been paid and capitalised. Gains are otherwise recognised upon realisation.

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

Contingent liabilities

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

NOTE 1

ASSET TRANSFERS AND CHANGES

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

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

NOTE 2**SPECIFICATION OF FIXED ASSETS**

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

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

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

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

Financial fixed assets of NOK 362 million include the following:

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

NOTE 3 SPECIFICATION OF OPERATING REVENUE BY AREA

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

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

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

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

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

NOTE 5**SPECIFICATION OF PRODUCTION AND OTHER OPERATING EXPENSES BY AREA**

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

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

NOTE 6**INVENTORIES**

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

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

Not relevant to the accounts on a cash basis.

NOTE 7**INTEREST INCLUDED IN THE SDFI APPROPRIATION ACCOUNTS**

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

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

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

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

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

NOTE 8**NET FINANCIAL ITEMS**

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

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

NOTE 9**CLOSE ASSOCIATES**

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

Statoil is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL from the SDFI to Statoil totalled NOK 49.3 billion (corresponding to 147 million boe) for 2016, compared with NOK 59.4 billion (152 million boe) for 2015.

Statoil markets and sells the government's natural gas at the government's expense and risk, but in Statoil's name and along with its own production. The government receives the market value for these sales. The government sold dry gas directly to Statoil at a value of NOK 369 million in 2016, compared with NOK 550 million in 2015. Statoil is reimbursed by the government for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for resale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 12.6 billion in 2016, compared with NOK 15.1 billion in 2015. Open accounts with Statoil totalled NOK 5.2 billion in favour of the SDFI, converted at the exchange rate on the balance sheet date, compared with NOK 4.2 billion in 2015.

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

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

NOTE 10**ACCOUNTS RECEIVABLE**

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

NOTE 11**INVESTMENTS IN ASSOCIATED COMPANIES**

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

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

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

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

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

NOTE 12**SHUT-DOWN/DECOMMISSIONING**

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

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

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

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

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

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

NOTE 13**OTHER LONG-TERM LIABILITIES**

Other long-term liabilities pursuant to the NGAAP comprise:

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

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

Repayment of previously paid-up profit shares in licences with net profit agreements is included in long-term liabilities and amounts to NOK 4 972 million.

Other long-term liabilities total NOK 921 million, of which NOK 303 million falls due within five years from the balance sheet date.

Not relevant to the accounts on a cash basis.

NOTE 14**OTHER CURRENT LIABILITIES**

Other current liabilities pursuant to the NGAAP falling due in 2017 consist mainly of:

- provisions for accrued unpaid costs at December, adjusted for cash calls in December
- other provisions for accrued unpaid costs not included in the accounts received from operators

Not relevant to the accounts on a cash basis.

NOTE 15**FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

Price risk

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

Currency risk

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

Interest risk

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

Credit risk

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

Liquidity risk

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

NOTE 16**LEASES/CONTRACTUAL LIABILITIES**

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

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

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

Other liabilities

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

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

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

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

Not relevant to the accounts on a cash basis.

NOTE 17**OTHER LIABILITIES**

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

Not relevant to the accounts on a cash basis.

NOTE 18**SIGNIFICANT ESTIMATES**

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

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

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

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

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

Not relevant to the accounts on a cash basis.

NOTE 19**EQUITY**

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

Not relevant to the accounts on a cash basis.

NOTE 20**AUDITORS**

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

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

NOTE 21**EXPECTED REMAINING OIL AND GAS RESERVES – UNAUDITED**

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

* Oil includes NGL and condensate.

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

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

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

NOTE 22**RESEARCH AND DEVELOPMENT**

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

NOTE 23**SDFI OVERVIEW OF INTERESTS**

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

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

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

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

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

Net profit licences*

027
027 B
027 C
028
028 B
028 C
028 S
029
029 B
029 C
033
033 B

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

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

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

PIPELINES AND ONSHORE FACILITIES

Oil pipeline	At 31 Dec 2016 Participating interest (%)	At 31 Dec 2015 Participating interest (%)	Konsesjonsperiode
Oseberg Transport System (OTS)	48.38379	48.38379	2031
Troll Oil Pipeline I + II	55.76808	55.76808	2023
Grane Oil Pipeline	42.06310	42.06310	2030
Kvitebjørn Oil Pipeline	30.00000	30.00000	2020
Norpipe Oil AS (interest)	5.00000	5.00000	2028
Oil - Onshore facilities			
Mongstad Terminal DA	35.0000	35.0000	-

Gas infrastructure

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

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

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

* Production licences where the SDFI is not a licensee, but is entitled to a share of possible profit.

** The licence has submitted an application for license extension

*** The interest in Gassled including Norsesea Gas is 46.69754 per cent.



STATENS DIREKTE ØKONOMISKE
ENGASJEMENT SDØE
Org. nr.: 980977269



Riksrevisjonens beretning

Til Statens direkte økonomiske engasjement

Uttalelse om revisjonen av årsregnskapet

Konklusjon

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

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

Grunnlag for konklusjonen

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

Øvrig informasjon i årsrapporten

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

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

Vi har ingenting å rapportere i så henseende.

Styret og overordnet departements ansvar for årsregnskapet

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

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

Riksrevisjonens oppgaver og plikter

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

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

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

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

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

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

Uttalelse om øvrige forhold

Konklusjon knyttet til administrative regelverk for økonomistyring

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

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

Oslo; 23.03.2017

Etter fullmakt

Tora Struve Jarlsby
ekspedisjonssjef

Lars Christian Møller
avdelingsdirektør