

An aerial view of an offshore oil rig, the ASKEPOTT, with a red hull and white superstructure. The rig is supported by a steel jacket structure in the ocean. The name 'ASKEPOTT' and 'STÅNANGER' are visible on the side of the rig. A large white number '3' is overlaid in the top right corner.

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ACTIVITIES AND RESULTS IN 2018

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Reference is made to the letter of assignment to Petoro AS for 2018, and to the business plan for Petoro AS. The targets set in the letter of assignment and Petoro's performance in relation to these are presented below.

SAFEGUARDING THE STATE'S DIRECT PARTICIPATING INTERESTS

Petoro shall be an active partner that helps maximise the value of the SDFI portfolio through comprehensive assessments. The work shall be focused on areas and tasks where the company, based on the portfolio and in interaction with other players on the Norwegian Continental Shelf, can contribute to increased value creation, considering the state's overall financial interests. Petoro shall contribute to efficient and profitable development and operations, as well as the safety of people and the environment.

OPERATIONAL TARGETS

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

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

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

Gas production in 2018 was 113 million Sm³ per day. This was a record-high level, marginally higher than in 2017. Liquids production amounted to 372 thousand boe per day, 7 per cent lower than in 2017. The cause of the drop in liquids production is primarily natural production decline and an increased number of planned shutdowns. A higher number of wells and increased production efficiency have not compensated for this in 2018, as has been the case in previous years. There has also been a lack of new field start-ups contributing to increased production.

In addition to ordinary licence follow-

up, where the operator and partners set production targets and the operator is challenged on nonconformity management and mitigating measures, Petoro's efforts were particularly aimed at measures to complete new wells and implement planned drilling programmes. These are important tools to increase production from the SDFI portfolio.

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

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

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

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

Petoro is also following the development in production expenses. After a number of years of falling production expenses, the costs increased again in 2018.

Adjusted for provision for the judgement in the lawsuit concerning Troll, costs increased by 7 per cent. The increase is mainly due to higher prices for power and CO₂ quotas, as well generally higher costs for fields in operation.

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

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

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

Management parameters: Serious incidents and CO₂ emissions. Explanation and development over time.

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

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

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

Over the course of 2018 there has been increased activity in Petoro's portfolio linked to electrification measures that can contribute to substantial reductions in greenhouse gas emissions from the SDFI portfolio, also for the mature fields. Project development is under way on multiple fields such as Troll, Snorre and Gullfaks with a view toward decisions in a few years. If the projects are realised, this will contribute to a reduction in CO₂ emissions of close to 2 million tonnes per year on the Norwegian shelf, equivalent to 0.8 million tonnes per year for SDFI. The first investment decision is expected in 2019 and is linked to a floating wind farm in the Tampen area, which will partially electrify Snorre and Gullfaks.

Petoro prepares the "Annual External Environment Report" each year, which is published subsequent to the annual report. The most recent report from 2017 states that CO₂ emissions per produced unit from the SDFI portfolio declined from 8.2 kg/o.e. to 8.0 kg/o.e. from 2016 to 2017. This is 9 per cent lower than the average for the Norwegian shelf. The drop from 2016 to 2017 was primarily caused by a relative increase in gas production in relation to liquids in the SDFI portfolio. CO₂ emissions from the SDFI portfolio in 2017 totalled 3.2 million tonnes and represented about 25% of overall CO₂ emissions on the Norwegian shelf.

PRIORITY TARGETS AND ACTIVITIES IN 2018

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

Petoro will contribute to realising projects for further field development and improved recovery from mature fields such as Troll, Oseberg, Heidrun, Snorre and Ormen Lange.

Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

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

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

On Heidrun, Petoro has conducted dedicated simulation studies in 2018 aimed at optimising the drainage strategy and contributing in the identification of new drilling targets. These efforts have supported the work on Heidrun redevelopment and the decided field lifetime extension, which

can realise substantial values through the project Heidrun North phase 2. Petoro's efforts over several years have been important for development of the field and results, which illustrates the value of diversity among licensees as regards arriving at good, comprehensive solutions.

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

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

Petoro will contribute to the identification of new well targets in mature fields, as well as efficient utilisation of rig and drilling capacity.

Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

There will be a significant long-term need for drilling new wells to realise the value potential in mature fields. Subsea wells account for about 60 per cent of SDFI production. As opposed to the positive development in drilling pace for new wells from fixed facilities in recent years, the updated forecasts show that there is a need to increase the number of new subsea wells on mature fields in the years to come. In order to increase the portfolio of subsea wells in the SDFI portfolio and supplement the operator's efforts, Petoro has worked in 2018 to mature proposals for new drilling

targets on select fields with significant subsea infrastructure, such as Oseberg and Gullfaks. This work also contributes toward efficient utilisation of rig capacity.

Petoro will contribute to robust and comprehensive development of projects such as Sverdrup and Castberg.

Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

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

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

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

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

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

"Petoro will monitor the marketing and sale of the state's petroleum, with attention being paid to the market situation as well as to issues of great significance in terms of value or as matters of principle."

Management parameters: Describe which initiatives and activities have been carried out and which considerations form the basis for the company's priorities. What results have been achieved through the activities and what impact have they had as regards value.

"Petoro will contribute to good follow-up systems to monitor the marketing and sale of the state's petroleum pursuant to the marketing and sale instruction".

Management parameters: Follow up to ensure that Equinor presents necessary documentation of its compliance with the responsibility under the marketing and sale instruction. Good internal routines for exercising the supervisory role.

Pursuant to the assignment letter Petoro has as part of their risk based monitoring prioritized the market situation, issues of great significance in value terms and matters of principle as well as Equinors monitoring and management system. The market is continuously changing, and Petoro has focused on obtaining full market value. Petoro has specifically addressed issues both within oil and gas of great significance in value terms and matters of principle. When it comes to Equinors monitoring and management system Petoro has focused how Equinor

documents and follows up SDFI's rightful share of sales-related costs and revenues.

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

FINANCIAL MANAGEMENT

"Petoro will;

- **ensure sound financial management and control of SDFI pursuant to Regulations on Financial Management in Central Government and instructions for financial management of the SDFI**
- **prepare and follow up budgets and forecasts, conduct accountancy and perform periodic variance analyses and reporting on the SDFI's financial standing and development."**

In 2018, Petoro has ensured sound financial management and control of the SDFI in line with the Regulations on Financial Management in Central Government and instructions for financial management of the SDFI.

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

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

EFFICIENT OPERATIONS

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

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

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

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

In order to seize the opportunities for efficiency and increased production, Petoro has been an active driving force for introducing digitalisation in plans in

the joint ventures. The company has also helped put digitalisation and the need to share data on the industry agenda.

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