petoro

ANNUAL REPORT FOR SDFI AND PETORO 2011

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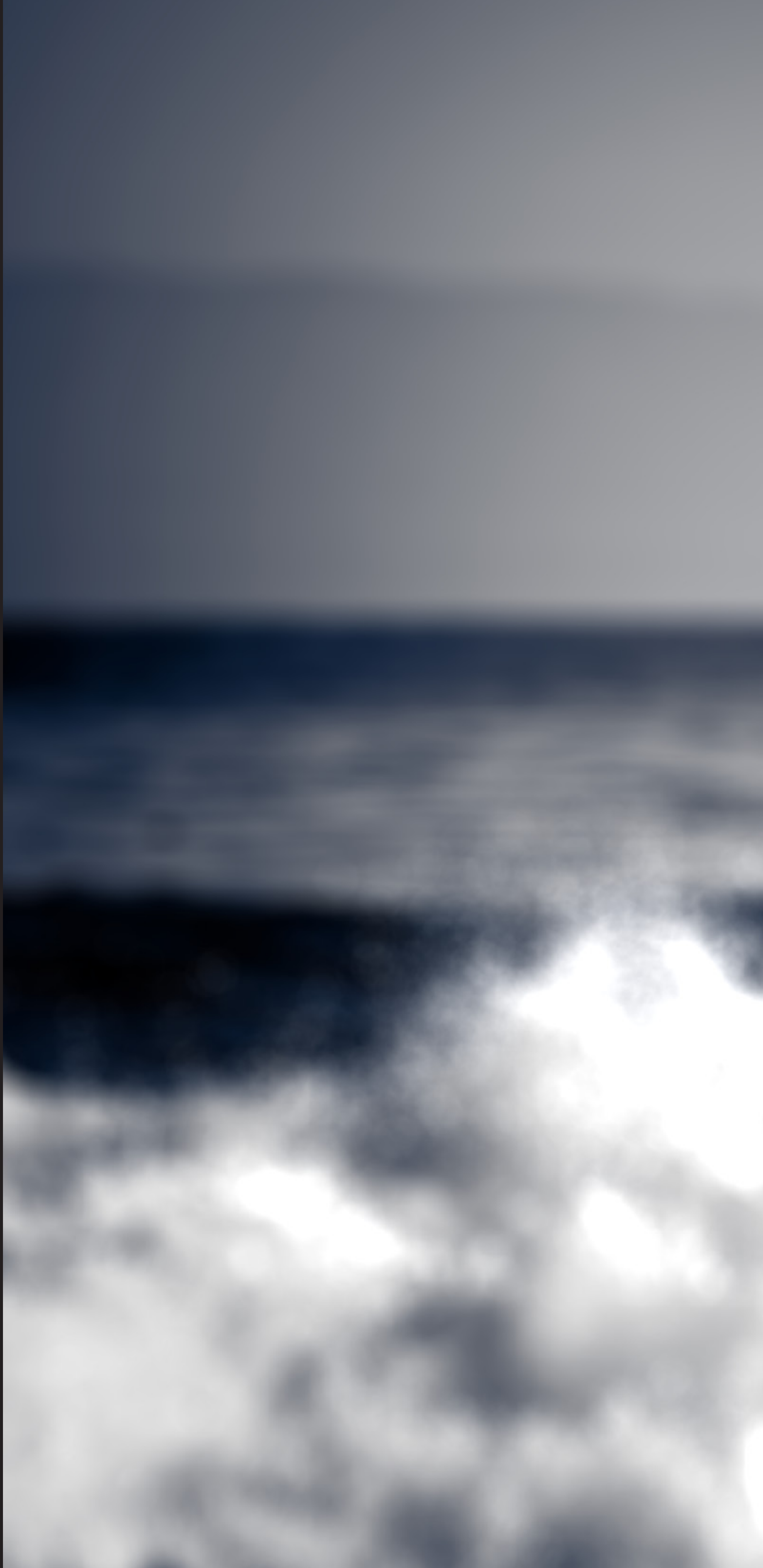
Since its creation in 2001. Petoro has transferred a net cash flow of more than NOK 1 100 billion to the Norwegian government.

The Norwegian government has large holdings in oil and gas licences on Norway's continental shelf (NCS) through the State's Direct Financial Interest (SDFI). These are managed by Petoro AS. The company's most important job is to help ensure the highest possible value creation from the SDFI – value which benefits the whole of Norway.



CONTENTS

PETORO IN BRIEF

PRINCIPAL OBJECTIVE:
to create the highest possible financial value from the state's oil and gas portfolio on the basis of sound business principles.

VISION:
A driving force on the Norwegian continental shelf.

KEY DUTIES:
Management of the government's holdings in the partnerships.

Monitoring Statoil's sale of the petroleum produced from the SDFI. as specified in the sales and marketing instruction.

Financial management. including accounting. for the SDFI.

NEW FINDS AND MATURE FIELDS SECURE THE FUTURE

Petoro was involved during 2011 in the Aldous discovery. which has become part of the Johan Sverdrup find and could prove to be one of the largest fields on the Norwegian continental shelf (NCS). The company is also a participant in the very substantial Skrugard/Havis discovery. which will raise the status of Norway's Barents Sea sector to that of a true oil province. Crude from the new discoveries will help to moderate the anticipated decline in output from around 2020.

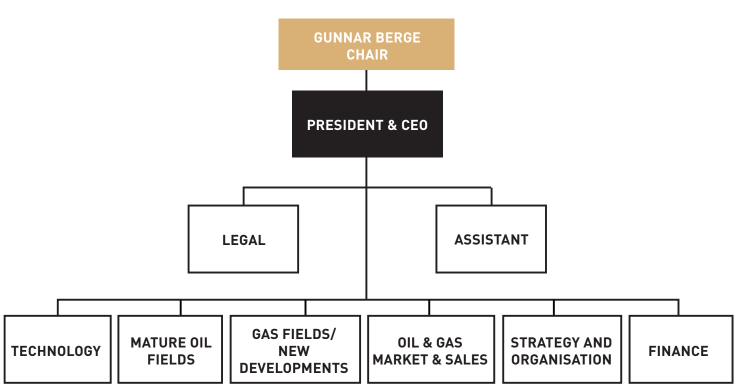
On the other hand. oil production from existing fields on the NCS has fallen by about 50 per cent since the peak year of 2001. while output of gas has risen. In order to moderate the drop in oil production and maintain total output at its current level until 2020. Petoro's principal strategy is to realise the potential in and near the large mature fields.

PETORO MANAGES THE STATE'S OIL AND GAS

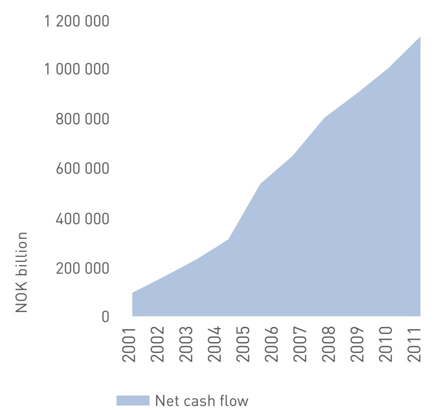
The company will pursue its strategy by virtue of being the licensee for the Norwegian state's large holdings in oil and gas licences on the NCS. Known as the State's Direct Financial Interest (SDFI). this portfolio of oil and gas fields and associated facilities represents about a third of Norway's petroleum reserves.

Petoro was founded on 9 May 2001. after the partial privatisation of Statoil made it necessary to find a new arrangement for the commercial management of the SDFI. The company works on the basis of a mandate from the Storting (parliament). which requires it to manage the state's oil and gas in a commercial manner and to maximise its economic value.

Since its creation. Petoro has transferred a net cash flow of more than NOK 1 100 billion to the government. This contribution represents one of three principal sources of revenue for building up the government pension fund – global. colloquially known as the oil fund.



CASH FLOW TRANSFERRED TO THE GOVERNMENT



INTERESTING JOBS FOR 70 PEOPLE

Petoro has about 70 highly competent staff at its Stavanger offices. which is a small organisation given the size of the SDFI portfolio. This provides the company's employees with big opportunities for professional development through their encounters with senior personnel from other oil companies in licences and other joint ventures. Petoro works closely with Statoil as the operator for a very large proportion of the company's output. but also with the international oil companies and other players on the NCS. with government agencies. with suppliers and with other external centres of expertise.

The main arena for Petoro's operations is the individual production licences and projects. At 31 December 2011. the company was the license for holdings in 146 production licences. which included 32 producing fields. As the manager of Norway's second largest portfolio of licences. Petoro occupies a unique position on the NCS. A substantial contribution from the company will be to identify opportunities for enhanced value creation through collaboration with the other licensees in the production licences.

REVISED STRATEGY FOR MATURE FIELDS. GAS AND NEW DISCOVERIES

Petoro revised its strategy in 2011. but has retained the first and most important component.

• Realise the potential in and close to large mature fields

Petoro has received support for this part of its strategy from the government's petroleum White Paper. Composed by the company's formal owner. the Ministry of Petroleum and Energy. this policy document identified Petoro as an important instrument for maximising the value of and improving recovery from existing fields. Ways of achieving these goals include extending the producing life of priority installation through technology choices. efficient drainage methods and the completion of more wells per year.

The number of production wells on many of the mature fields has halved since 2000. Reversing this trend represents the most important measure for improving recovery from such fields. But it is difficult to implement because drilling facilities on the platforms are aging and rigs are needed for many jobs other than drilling new production wells. Petoro has accordingly proposed that consideration be given to installing separate wellhead platforms in order to achieve a quantum leap in the number of producers. However. such a boost will only be possible for as long as the fields have sufficient output and revenues to justify large investments. Taking such decisions is accordingly time-critical.

• Integrated and timely development of the gas value chain

is the second component in Petoro's strategy. Increased competition and transparency have challenged the strategy and role of the players. Future developments in the global market for natural gas. and particularly in the European gas market. will be important for realising the value potential of the portfolio. Activities related to supporting the value of existing sales contracts. identifying the best sales opportunities for new gas and facilitating greater flexibility in the gas value chain will represent important areas of work for Petoro in the time to come.

Petoro is the largest participant in the Gassled pipeline joint venture. and work there is also expected to be more demanding over the next few years as a result of production developments. the technical integrity of the facilities and a new owner composition.

• Safeguard asset values in new discoveries

Barents Sea South and the Vøring area of the Norwegian Sea stand out as the most important frontier areas in the portfolio. To ensure optimum development. Petoro's efforts in the time to come will concentrate on seeking business opportunities in Barents Sea South. On the basis of the Johan Sverdrup discovery. its commitment in this part of the strategy will also aim to secure an acceptable development of major finds in the North Sea.

IMPORTANT MATURE OIL FIELDS:
Gullfaks. Oseberg. Heidrun. Grane. Snorre. Norne. Draugen. Varg. Ekofisk. Tordis/Vigdis. Visund.

IMPORTANT GAS FIELDS:
Troll. Ormen Lange. Åsgard. Kvitebjørn. Snøhvit. Kristin. Gjøa. Vega.

THREE THOUGHTS FOR THE FUTURE

I am more than happy to join all those who have described the 2011 petroleum year in superlative terms. For Norway. for the industry and for the next generation. fantastic new discoveries extended the national Golden Age ever further towards the next century. For Petoro. our 10th anniversary year was also special. We made our greatest contribution yet to value creation from the government's oil and gas portfolio. the SDFI.

When unanimous enthusiasm reaches a peak. however. giving vent to some other reflections can often be useful. I will accordingly seek to express three thoughts about the future for our industry.

"EXPAND"
is the brightest of my thoughts. Whether I am thinking it for the nation or for us as a participant in the major new oil discoveries. it reflects the way the Johan Sverdrup discovery enlarges perspectives for Norway's petroleum industry. It will create value. contracts and jobs. extend producing life. attract attention. generate enthusiasm. be reflected in opinion polls on attitudes to the industry. and make the sciences a more relevant study choice for more young Norwegians. What could be better than such a new and important oil find in the North Sea?

Perhaps the answer is Skrugard/Havis – a substantial oil discovery which will probably be of great strategic importance for the further development of Norway's far north and for really bringing northern Norway into the oil and gas industry's orbit. At the political level. clarifying the boundary with the Russian continental shelf could of be of similarly epochal strategic significance. A defined boundary permits a commitment to areas which Norway has largely left untouched so far. Agreement with the Russians also allows the country to assert itself more securely and robustly as an Arctic great power. Norwegian oil companies and suppliers should see themselves as key international players in an area which may conceal the biggest share of the world's undiscovered petroleum resources.

"CREATE AND SECURE VALUE"
is my second thought. It has not always been easy to attract attention to the mature and fairly old fields. That was also achieved in 2011. even with Johan Sverdrup uppermost in everyone's mind. The petroleum White Paper provided strong pointers on safeguarding assets in the old giants. Petoro is currently giving priority to work on Snorre. Gullfaks and Heidrun. That is because their remaining reserves and potential for improved recovery add up to roughly the same number of oil barrels as Johan Sverdrup. And. most importantly. the time available for getting these reserves out is limited. Waiting too long would mean that the mature fields lack enough production and revenues to support the necessary investment.

One of the challenges faced by the SDFI portfolio is replacing the high level of production with new reserves. Once again. 2011 was a very good year. A total of 601 million barrels of oil equivalent (boe) were added to reserves – a replacement rate of no less than 160 per cent.

But that does not mean the code for improving recovery from the mature fields has been cracked. Three-quarters of the additional reserves came from decisions to invest in gas compression on

Troll and Åsgard. Such spending has been on the cards more or less from day one. and must not be confused with the considerably more challenging investment in increased oil recovery from the big mature fields. That involves such measures as boosting the pace of production drilling and advanced types of injection to drive out more crude. Such forms of increased recovery accounted for only about 100 of the 601 million boe we added to our reserves last year.

Recovering the last few drops from mature fields will call for even greater attention and even more courageous decisions than producing Johan Sverdrup.

"CONTROL"
is a thought which is more compelling than welcome. With high oil prices. record investment and massive activity on the NCS. caution will be needed to prevent a lack of resources from driving costs sky-high and enhancing the risk of reduced quality.

Dealing with such circumstances makes big demands on managements in both oil companies and contractors/suppliers – and I expect the latter to speak out clearly should capacity approach its limits. At the same time. I believe getting through such a feverish phase while remaining prudent and cost-efficient will give the Norwegian industry a competitive edge and make it better able to weather the next cyclical downturn.

Thinking about capacity should not be confined within Norway's boundaries. Necessary input factors such as engineers. services and fabrication capacity have become far more global. Part of the effort to control costs could derive precisely from the Norwegian industry's involvement in an international business which operates in a global market.
I would think a Europe mired in economic crisis would be more than happy to contribute to the further development of the NCS.

Experience indicates that rational players adapt to market conditions in such a way that activity and costs do not run wild. The most likely outcome is that Norway will safeguard its assets in the time-critical mature fields while simultaneously developing the new discoveries.

If. against expectations. the industry is nevertheless compelled to make choices. they should be to maximise recovery of profitable reserves in the mature fields; the new fields will not go away. We will keep an eye on the development here. and be clear about it should we see a transfer of competence and resources from our most important mature fields to new assignments.

In any event. with another year behind us and with a net cash flow of another 128 billion kroner fed into the government from the SDFI. Norway has every reason not only to celebrate 2011 as one of the great years in its petroleum history but also to look ahead to many exciting decades.

KJELL PEDERSEN
President and CEO. Petoro AS

KEY FIGURES 2011

Net income for the portfolio in 2011 came to NOK 133.7 billion. compared with NOK 105.4 billion the year before. Total operating revenue was NOK 188.8 billion. compared with NOK 159.3 billion in 2010. This yielded a cash flow to the government of NOK 128.1 billion as against NOK 103.6 billion the year before. Total production averaged 1 016 000 barrels of oil equivalent per day (boe/d). which was six per cent lower than the 2010 figure of 1 080 000 boe/d.

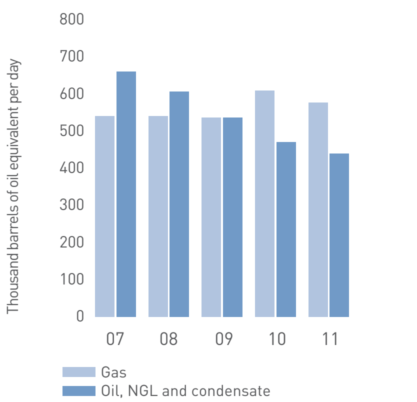
FINANCIAL DATA (in NOK million)

	2011	2010	2009	2008	2007
Operating revenue	**188 820**	159 270	154 186	214 585	167 724
Operating income	**134 959**	107 225	103 964	157 843	114 493
Net income for the year	**133 721**	105 379	100 662	159 906	112 641
Cash flow from operating activities	**149 205**	123 210	120 050	175 548	132 203
Cash flow applied to investment activities	**21 437**	18 443	23 592	19 948	19 871
Net cash flow	**128 083**	103 572	96 992	155 420	112 281

OPERATIONAL DATA

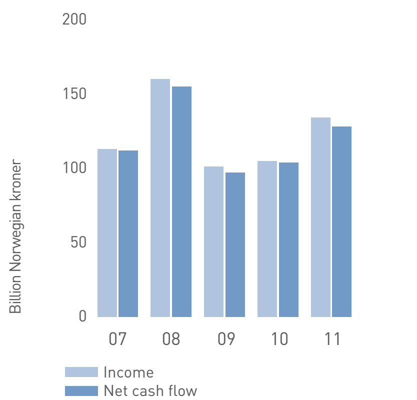
	2011	2010	2009	2008	2007
Production oil. NGL and condensate (1 000 barrels per day)	**440**	470	537	607	661
Production dry gas (million scm per day)	**92**	97	85	86	86
Oil. NGL and dry gas production (1 000 boe per day)	**1 016**	1 080	1 074	1 148	1 202
Remaining reserves (million boe)	**6 759**	6 538	6 786	7 354	7 736
Reserve replacement rate (three-year average in per cent)	**49**	1	-3	18	28
Reserves added (million boe)	**601**	187	-176	36	105
Oil price (USD per barrel)	**114.00**	79.38	60.53	97.99	71.44
Oil price (NOK per barrel)	**632**	482	380	528	418
Gas price (NOK per scm)	**2.15**	1.76	1.95	2.40	1.63

PRODUCTION



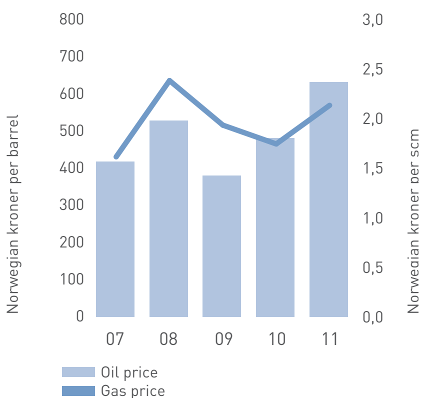
Total production from the SDFI portfolio was lower than in 2010. The output of liquids (oil. NGL and condensate) declined by seven per cent compared with the year before. while gas production fell by five per cent. Measured in oil equivalent. gas output was higher than liquids production in 2011.

INCOME AND CASH FLOW



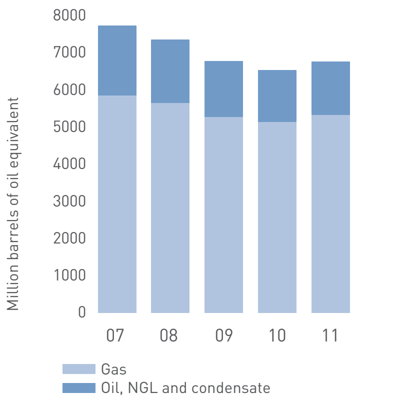
Net income for 2011 was NOK 133.7 billion. up by 27 per cent from the year before because of higher oil and gas prices. Lower production helped to reduce income to some extent. Overall oil and gas sales averaged 1 083 000 boe/d. compared with 1 159 000 boe/d in 2010. Cash flow. transferred in its entirety to the government. was NOK 128 billion. up by more than NOK 25 billion from the year before.

OIL AND GAS PRICES



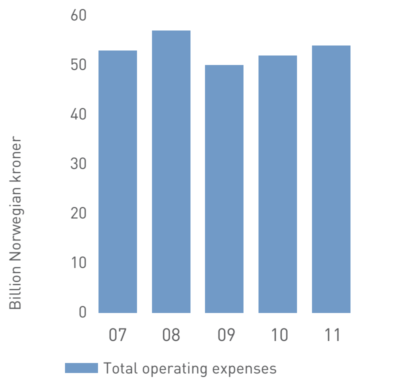
The price of oil from the SDFI portfolio averaged NOK 632 per barrel in 2011. compared with NOK 482 the year before. In US dollars. the average was USD 114 per barrel – 44 per cent higher than in 2010. Gas fetched an average price of NOK 2.15 per scm in 2011. compared with NOK 1.76 the year before.

REMAINING RESERVES



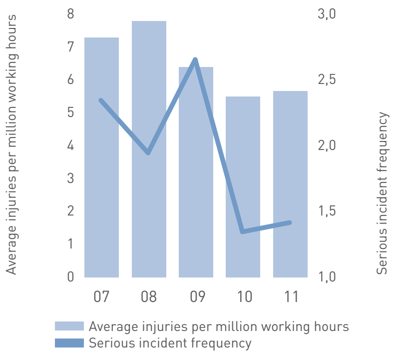
The portfolio's estimated remaining oil. condensate. NGL and gas reserves totalled 6.76 billion boe at 31 December. up by 221 million boe from the year before. Production in 2011 corresponded to 371 million boe. but this was offset by new volumes from projects sanctioned during the year. such as compressors three and four on Troll. Åsgard subsea compression and several projects with standardised solutions for small marginal fields which allow fast-track development.

EXPENSES



Total operating expenses were up three per cent from 2010 because of larger gas purchases which increased costs. as well as higher depreciation. The cost of operating fields. pipelines and land-based plants was on a par with 2010. Exploration activity was rather higher than the year before.

SAFETY



Petoro's main parameter for monitoring HSE developments in the SDFI portfolio is the serious incident frequency (SIF). which measures the number of such events per million working hours. At 1.5. the SIF for 2011 was on a par with the year before. The number of personal injuries per million working hours came to 5.7. slightly higher than in 2010.

From Aldous
Photo: Anette Westgaard / Statoil

HIGHLIGHTS 2011

LARGE AND IMPORTANT DISCOVERIES
Substantial discoveries were made during 2011. with hydrocarbons proven in 10 wells amounting to a total recoverable volume of 320-550 million boe. The biggest and most important find was Johan Sverdrup in the North Sea. but Skrugard/ Havis in Barents Sea and four wells on Gullfaks also contributed volumes. Given the substantial discoveries made in 2011. the company's commitment to new business opportunities will be reoriented towards securing value from new discoveries.

BIG INCREASE IN RESERVES
Petoro's reserves were increased by a net 601 million boe in 2011. the biggest expansion since 2003 when the development of Ormen Lange was sanctioned. This rise reflected first and foremost the decision to invest in two new compressors on Troll and subsea compression on Åsgard. The decision by the Troll licence on a long-term four-rig strategy and the sanctioning of solutions for fast-track development of several small fields also helped to boost reserves.

SWAP WITH FAROE PETROLEUM
Petoro entered into a large swap deal with Faroe Petroleum Norge AS in 2011. whereby it took over Faroe's 30 per cent holding in the Maria discovery in the Norwegian Sea. In exchange. Faroe received interests in several small producing fields. This transaction give Petoro a stake in a discovery which could contribute to increased production in the future.

DRILLING AND WELLS IN MATURE AREAS
Petoro carried out its own work in 2011 to secure better reservoir understanding as a basis for forthcoming decisions in mature areas and the work of facilitating the drilling of more wells per annum and ensuring the profitability of ever smaller drilling targets – in other words. wells expected to yield lower volumes.

The company sees a need to increase drilling capacity on the large mature fields. and has won approval for studying wellhead platforms as an alternative to subsea developments in the long-term plans for Gullfaks and Snorre. Such installations could be an important measure in circumstances with large remaining reserves and many potential wells. They could unleash new opportunities for the profitability of small drilling targets and complex wells by accelerating production. as well as making well interventions considerably cheaper.

WHITE PAPER FOR THE FUTURE

The Norwegian government presented White Paper no 28 (2010-2011) on the petroleum sector in June under the heading of "an industry for the future". This document was well received by the industry and by most politicians. Key topics in the White Paper included safeguarding value creation from mature fields and improved recovery. That represents the most important component in Petoro's strategy. The government also identified the company as a key instrument for achieving profitable measures which can ensure that reserves are recovered and subsequently increase the recovery factor.

In line with this view. the government announced in June that it would strengthen Petoro's ability to conduct independent analyses. come up with alternative proposals and quality-assure work by the operators on certain selected strategic issues. This was followed up in the draft budget for 2012 through a gross rise of NOK 17 million in the appropriation for Petoro. which represents an increase of 6.5 per cent from 2011.

MARKET TRENDS

Energy markets in 2011 were characterised by turbulence in the Middle East and north Africa and by debt problems in Europe and the USA. This caused substantial volatility in oil prices through the year. They balanced between uncertainties over relatively low reserve capacity on the supply side and an uncertain outlook for world economic trends where demand was concerned.

The price of Brent Blend fluctuated between USD 93 and USD 126 per barrel. Global expansion in 2011 was driven by high levels of growth in China and India. and most of the future increase in the world economy is expected to occur in such countries as China. India. Indonesia and Brazil. Structural changes in gas markets have reduced prices for gas compared with oil and put pressure on gas prices in Norway's long-term sales contracts.

Energy has become one of the most important areas of EU policy in recent years. More than 60 per cent of the gas and over 80 per cent of the oil consumed by the Union are imported. The EU has three primary energy policy goals: obtaining secure. sustainable and competitive supplies. Norway is described as a very important partner in this picture.

GOOD HSE RESULTS. BUT DROPPED OBJECTS STILL A CHALLENGE

Health. safety and environmental results for facilities in the SDFI portfolio were on a par with 2010. No fatalities or incidents with a major accident potential occurred in the portfolio. Dropped objects and incidents related to mechanical handling continue to dominate the accident statistics.

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Petoro's reserves were increased by a net 601 million boe in 2011. the biggest expansion since 2003
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Drilling in Skrugard field in the Barents Sea
Photo: Harald Pettersen / Statoil

SAFETY

ANNUAL REPORT 2011

SAFETY IN 2011

Results for health. safety and the environment on facilities in the SDFI portfolio were on a par with 2010. The serious incident frequency (SIF) per million working hours was 1.5. No fatalities occurred during 2011. nor were any incidents recorded with a major accident potential. Dropped objects and incidents related to mechanical handling continued to dominate the statistics.

Petoro's main parameter for following up health. safety and the environment in the SDFI portfolio is expressed by the SIF. This measurement parameter is intended to ensure that attention is given to the risk of incidents which can cause major accidents. The company also follows up the personal injury frequency (PIF) per million working hours. A total of 50 incidents were recorded as serious. or an average of 2.8 per installation included in the 2011 statistics. The PIF came to 5.7. which was slightly higher than in 2010.

Despite a continued challenge presented by incidents related to dropped objects. a reduction in their number was recorded in the 2009-11 period – from 192 in 2009 to 104 for the NCS as a whole. That reflects measures adopted by the industry.

Petoro aims to be a proactive partner in efforts to reduce the scale of personal injuries and undesirable incidents on the NCS. Petoro gave priority in its HSE work during 2011 to establishing a common approach in the licences to identifying major accident risk. and to identifying and following up compensatory measures. This will initially be implemented in the Oseberg joint venture. with an action team drawn from ExxonMobil. ConocoPhillips. Total and Petoro.

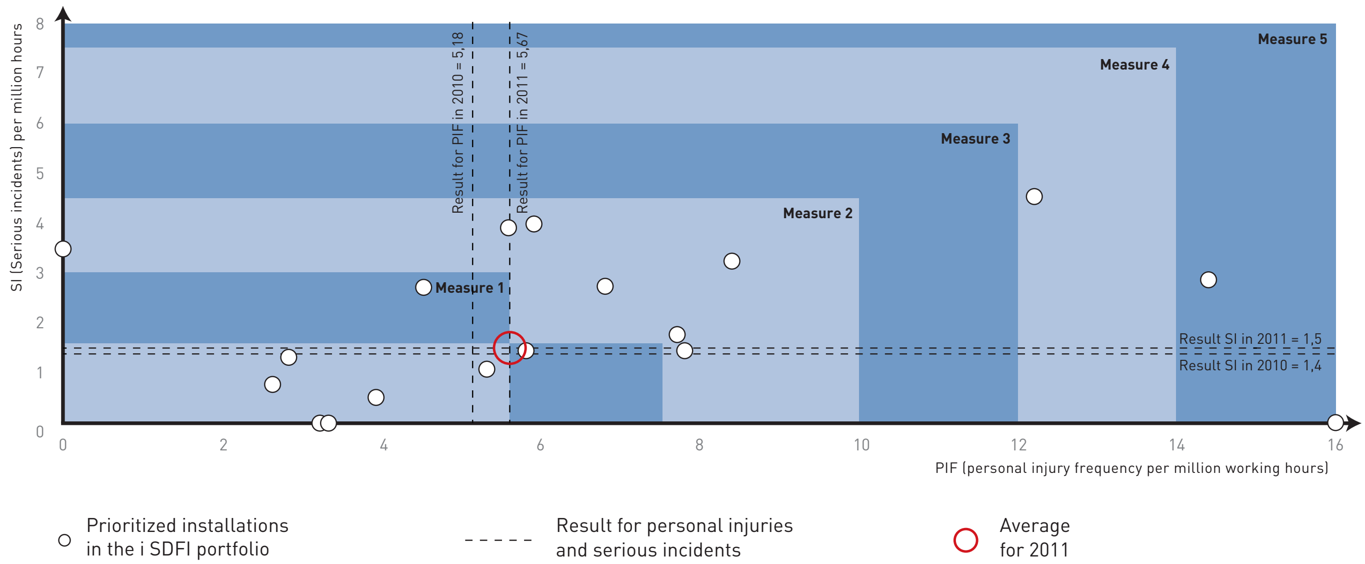
The company participated in HSE management inspections during 2011 on selected fields and installations. including Snorre and the Kollsnes plant. The company works with the operators and the industry as a whole to achieve a reduction in personal injuries and serious incidents.

ACROSS AREAS AND LICENCES

Health and safety are a line responsibility. which is followed up in the management committees of the licences. To disseminate experience and share expertise between Petoro's own staff. safety and health are in focus at regular management-level meetings and in the company's business areas. The executive management also holds regular bilateral meetings with the biggest operators where HSE is a key topic. Petoro's HSE manager is a driving force in cross-licence work on following up results and measures. Statistics from the various installations clarify good and less positive results. and make it possible to identify lessons which can be transferred to other installations and licences. These results lay the basis for Petoro's decisions on follow-up and action. As in previous years. the company participated during 2011 in a number of inspections on fields and installations as part of its compliance responsibility and role as a visible and demanding partner with a focus on safety work. Results for HSE work on facilities in the SDFI portfolio were on a par with 2010. No serious accidents were recorded. but the PIF was slightly higher than the year before.

SERIOUS INCIDENTS AND PERSONAL INJURY FREQUENCY

The colour gradation represents Petoro's pattern of response to the rising seriousness of personal injuries and serious incidents.



Measure 1: Challenge in licences • Consider meeting at field/area level
Measure 2: Meeting at field/area level • Assess operator measures and implementation • Consider doing own analysis

Measure 3: Perform own analysis • Call field manager after each SI • Consider meeting at management level • Consider requesting partner inspection
Measure 4: Hold meeting at management level • Initiate and execute partner inspection • Consider meeting at company level
Measure 5: Hold meeting at company level • Consider meeting with Petroleum Safety Authority Norway

PETORO´S MANAGEMENT AND BOARD

DIRECTORS´REPORT 2011

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CORPORATE GOVERNANCE

Petoro's management of substantial assets on behalf of the Norwegian government calls for good corporate governance which fulfils the expectations of its stakeholders and society at large. The portfolio of the State's Direct Financial Interest (SDFI) embraces a third of Norway's oil and gas reserves. Total production is expected to remain at an annual average of roughly one million barrels of oil equivalent per day (boe/d) until 2020.

Petoro's principal objective is to create the highest possible financial value from the state's portfolio on the basis of sound business principles. The board gives weight to good corporate governance in order to ensure that the portfolio is managed in a way which maximises financial value creation. and creates the basis for confidence in the company by the owner. the employees. the oil industry and other stakeholders as well as the rest of the community.

The company's governance system builds on the Norwegian code of practice for corporate governance to the extent that the code's recommendations are relevant to Petoro's business and the framework established by the company's form of organisation and ownership. Tailored to the nature of the business. the governance system satisfies the requirements for corporate governance specified in the government's financial regulations. That includes taking account of corporate social responsibility (CSR) pursuant to White Paper no 13 (2010-11) on active ownership – Norwegian state ownership in a global economy. and of Petoro's responsibilities and obligations as a licensee. These include health. safety and the environment on the Norwegian continental shelf (NCS).

Petoro has a values base which is integrated in its business activities. The purpose of these values is to provide the company and its employees with a shared basis for attitudes and actions in Petoro.

THE COMPANY'S VALUES ARE AS FOLLOWS.

• Vigorous
We seize opportunities for value creation. we establish our own positions. take the initiative and clarify expectations. and we deliver.

• Responsible
We take an active approach to health. safety and the environment. we care. and we perform in a solid and professional manner with a high level of integrity.

• Inclusive
We value the expertise and experience of others. and recognise each other's contribution. We are open and inquiring. and collaborate internally and externally to create results.

• Bold
We think innovatively. and are adaptable in order to achieve results. We dare to try and learn from our mistakes. We challenge established truths.

SOCIAL RESPONSIBILITY

The company has guidelines on business ethics which govern its commercial operations and employee behaviour. These guidelines are publicly available. and all employees sign an annual confirmation that they have studied and accepted them. Rules on business ethics also form part of the company's standard contracts with suppliers.

Forming part of the company's discharge of its CSR. the ethical guidelines cover such aspects as the duty of confidentiality. possible conflicts of interest and issues related to the receipt of gifts and services. Requirements are set for ethical behaviour in relation to compliance with legal provisions. statutory regulations or guidelines.

Petoro constantly receives information which is not publicly available and which is subject to a duty of confidentiality. As part of its CSR. information systems and data are secured against unauthorised access. Instructions have also been developed in Petoro for handling information which clearly ranks as "inside information" within the meaning of the Securities Trading Act.

Openness on money flows and anti-corruption work. As an important anti-corruption measure. employees are not permitted to receive remuneration from others.

Petoro reports money flows related to the SDFI portfolio on an annual basis to the extractive industries transparency initiative (EITI). Details of the remuneration of directors and senior executives are provided in a separate note to the accounts for Petoro AS.

HSE declaration. Through its HSE declaration. Petoro has a common goal of creating a good physical and mental working environment for all employees. The board encourages the company's employees to raise ethical issues and to report any breaches of the regulations they encounter. The internal audit function is an independent whistleblowing channel with the right and duty to report on to the board. No cases of whistleblowing were recorded in 2011.

Equal opportunities. Women accounted for 36 per cent of the total workforce in 2011. compared with 33 per cent the year before. and for 42 and 25 per cent of the company's directors and executive management respectively.

Petoro gives weight to equality between the genders in terms of opportunities for professional and personal development. pay and promotion. The company facilitates a flexible customising of working hours. When determining pay and in pay negotiations. Petoro is conscious that men and women must be treated equally. No systematic or significant differences exist between male and female pay in the company.

Diversity. Petoro has recruited a number of employees with differing cultural and ethnic backgrounds. The company offers language facilitation to new recruits. and Norwegian lessons were provided during 2011 when a requirement was identified.

Natural environment. The NCS has a good record for environmental impacts compared with other petroleum provinces. Further improvement is nevertheless the goal. Petoro is concerned to ensure that power from shore is assessed for new field developments and major conversions. and that a decision is based on technically feasible solutions at an acceptable abatement cost. The company has followed up this subject in the projects on compressors three and four for Troll and on developing Hild. Both will be supplied with electricity through submarine cables from Kollsnes. and thereby help to reduce carbon emissions from the increase in production. Power from shore is also a key issue in the assessment of capacity expansion on Snøhvit. One condition for increased use of power from shore is sufficient capacity in the electricity grid on land.

The company contributes to creating environmentally conscious attitudes among all its employees. Waste sorting was adopted in 2011. and incentives were established to increase use of public and environment-friendly transport. Emphasis is given to efficient ICT solutions and good communication systems. with opportunities to replace physical meetings with videoconferencing.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of its external annual report on the natural environment. based on figures obtained from the operators. No significant emissions to the air or discharges to the sea occurred from the SDFI portfolio during 2011.

THE BUSINESS

Petoro is a limited company owned by the Norwegian state. Its main duties are specified in chapter 11 of the Petroleum Activities Act and the company's articles of association. and defined in more detail by the Ministry of Petroleum and Energy in the annual letter of award.

The purpose of the company is. on behalf of the state and at the expense and risk of the state. to hold the responsibility for and to attend to the commercial aspects related to the state's direct involvement in petroleum activities on the Norwegian continental shelf. and business associated herewith.

Petoro's principal objective is to create the highest possible financial value from the state's oil and gas portfolio on the basis of sound business principles.

THE COMPANY HAS THREE MAIN DUTIES:

- management of the state's participatory interests in the joint ventures where the state has such interests at any given time
- monitoring Statoil's marketing and sale of the petroleum produced from the state's direct participatory
- interests. pursuant to the marketing and sale instruction issued to Statoil
- financial management. including preparation of budgets and
- keeping of accounts. of the state's direct participatory interests.

Petoro's operations are subject to the Norwegian Act on Limited Companies and the Norwegian Petroleum Activities Act. and to the government's financial regulations – including the rules on appropriations and accounting. Its activities are governed by the Ministry of Petroleum and Energy's instruction for financial management of the SDFI and the annual letter of award. In addition. the company's articles of association. strategy. values and guidelines on business ethics. including its principles for CSR. provide guidance for the conduct of Petoro's business.

The company's vision is to be a driving force on the Norwegian continental shelf.

Petoro's strategy is focused on the value potential of the portfolio and where Petoro has the greatest ability to exercise influence. The strategy falls into three parts and is weighted particularly towards an active role in mature fields – both because of their value in the portfolio and because of the limited attention paid to them by other licensees in these fields. The strategic components are:

- realise the potential in and close to large mature fields
- integrated and timely development of the gas value chain
- safeguard asset values in new discoveries.

The organisation is designed to support the new strategy and drive its realisation forward.

The company is the licensee – with the same rights and obligations as the other licensees – for holdings in 146 production licences and 13 joint ventures and companies for pipelines and terminals. The SDFI participates in 32 producing fields. of which the 10 largest account for about 80 per cent of the portfolio's value. Petoro is an active partner which. through overall assessments and a purposeful commitment. contributes to maximising the value of the portfolio. This work is oriented towards areas and assignments in which the company. on the basis of the portfolio and in collaboration with other players on the NCS. can best contribute to achieving value creation. Petoro is concerned to achieve good governance in the joint ventures. and cooperates with its partners on further development of good performance-management processes in selected licences.

Through article 11 in Petoro's articles of association and the marketing and sale instruction issued to Statoil. the government has made Petoro responsible for monitoring that Statoil performs its duties in accordance with the instruction. As the majority shareholder in Statoil and the sole owner of Petoro. the government exercises a common ownership strategy through the marketing and sale instruction approved by the general meeting of Statoil.

A duty of confidentiality applies to information Petoro has received during its monitoring of Statoil's marketing and sales and in its work on the budget and accounts relating to the marketing and sale of the state's petroleum. The company's ethical guidelines emphasise that the recipient of such confidential information must use it only for its intended purpose. and must not trade in Statoil's securities for as long as the information is not publicly known.

The company also has internal instructions for dealing with inside information received by Petoro. These apply to the company's directors. employees. auditor. advisers or others in a relationship with the company who receive information expressly defined as "inside information" within the meaning of the Securities Trading Act. A special system has also been established for approving external directorships held by employees.

Petoro presents separate accounts for SDFI portfolio transactions. which form part of the government's accounts and are audited by the Auditor General of Norway. Cash flows generated from the portfolio are transferred to the government's own accounts with the Bank of Norway. Petoro also reports cash flows from petroleum activities on the NCS to the government in accordance with the regulation implementing the extractive industries transparency initiative (Eiti) in Norway. which came into force on 1 July 2009.

Petoro has a share capital of NOK 10 million. The limited company's own operating expenses are covered by annual appropriations over the central government budget. which are presented as operating revenues in the accounts of the limited company.

GENERAL MEETING

The Ministry of Petroleum and Energy. in the person of the minister. represents the government as sole owner and serves as the company's general meeting and highest authority. The annual general meeting is held before the end of June each year. It considers matters prescribed by Norwegian law. such as amendments to the articles of association and approval of the annual accounts. The Petroleum Activities Act lays down guidelines for issues to be considered by the company's general meeting. The general meeting elects the board of directors. with the exception of the worker directors. and the company's external auditor.

BOARD OF DIRECTORS AND ITS WORK

Petoro's board comprises seven directors. of whom five are elected by the general meeting. Two are elected by and from among the company's employees. Three of the directors are women. Directors are elected for two-year terms. They have no commercial agreements or other financial relations with the company apart from the directors' fees established by the general meeting and contracts of employment for the worker directors.

The board has overall responsibility for the management of Petoro. including ensuring that appropriate management and control systems are in place. and for exercising supervision of the day-to-day conduct of the company's business. The work of the board is based on rules of procedure which describe its responsibilities and mode of working. The board met 12 times in 2011.

As an appendix to the instructions for its work. the board has adopted supplementary provisions for matters to be considered by it. An annual schedule of meetings has been established for the work of the board. with the emphasis on considering strategies. budgets and interim results. The board utilises a balanced scorecard system as a key instrument for monitoring results. This embraces financial/operational. organisational and relational aspects. The performance management model also covers both short- and long-term goals. quantitative as well as qualitative. and is well adapted to the company's challenges.

The board considers major investment decisions within the portfolio. follow-up and consideration of activities in the licences. and monitoring of gas sales – including an assessment of the overall risk picture. The board has chosen to organise its work related to compensation through a sub-committee. No other committees have been established by the board. In the event of conflicts of interest. the practice has been for the director concerned to abstain from consideration of the matter by the board.

An annual self-assessment is conducted by the board. embracing an evaluation of its own work and mode of working and of its collaboration with the company's management.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management in Petoro supports the company's strategy and goals. The board undertakes an annual review of the company's most important risk areas and its internal control process. In this review. the board gives weight to the risks and opportunities which Petoro itself can influence through its own measures within the frameworks available to it. The most important operational risks are followed up in the management committees for the priority fields/joint ventures. Petoro works continuously on maturing and developing risk management in line with principles for integrated management and the development of the company's risk picture. These principles build on the internationally recognised Coso/ERM framework for internal control. and on the company's internal expertise.

Identification and management of risk and risk exposure form part of Petoro's business processes. The company works with risk management to handle conditions which could affect its ability to reach specified targets and to implement chosen strategies. as well as those which could affect its ability to submit accurate accounts. Risk management is an important tool for reducing uncertainty in Petoro's strategy and performance-monitoring processes. and for creating understanding of the risk picture across the business.

The internal control function at Petoro is charged with ensuring that the business is conducted in accordance with the established governance model and that requirements specified by the government are observed. This function forms an integrated element in Petoro's management processes. and is responsible for ensuring that integrity and completeness are assessed for all management information and that management systems are effective.

The framework for internal control has been formulated to provide a reasonable level of assurance that goals will be met in the following areas:

- purposeful and cost-effective operation
- reliable reporting of accounts
- compliance with applicable law and statutory regulations.

Petoro's internal audit function is provided by an external audit company. which audits the internal control systems in accordance with its instructions and an annual plan approved by the board.

Guidelines have been adopted by Petoro to facilitate internal reporting of conditions in the business which are open to criticism. Whistleblowers who want to preserve their anonymity or who do not wish for other reasons to raise the matter with their superior can notify the internal auditor.

REMUNERATION OF THE BOARD AND SENIOR EMPLOYEES

The general meeting determines the remuneration of directors. The board determines the remuneration of the president and CEO. The chief executive determines the remuneration of the other members of the company's senior management. Guidelines have been specified by the board for the remuneration of senior executives in Petoro pursuant to the frameworks specified in the guidelines for state ownership – attitude to executive pay. Details of the actual remuneration paid in 2011 to directors and the executive management are provided in the notes to the annual accounts.

INFORMATION AND COMMUNICATION

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

Information is published via the company's website. press releases and in the interim and annual reporting of its results. Petoro's annual report is prepared in March/April. It provides a broad description of its operations. the directors' report and the annual accounts. as well as coverage of health and safety and the impact of the business on the natural environment and other wider social considerations.

AUDITOR

The Auditor General is the external auditor for the SDFI portfolio pursuant to the Auditor General Act. It checks that the company's management of the portfolio accords with the decisions and assumptions of the Storting (parliament). and audits the annual accounts for the SDFI portfolio. On the basis of this work. the Auditor General submits its report in a final auditor's letter.

In addition. the board has appointed Deloitte as an external audit company to serve as the internal auditor for the SDFI. The internal auditor conducts a financial audit of the portfolio's accounts and submits an auditor's report pursuant to Norwegian auditing standards and cash accounting principles. including RS 800 on the auditor's comments concerning special-purpose audits. The contract with the external auditor company covers both financial auditing of the SDFI and Petoro's internal auditor function. In addition. the company's function for notification of irregularities (whistleblowing) is handled by the internal auditor.

Erga Revisjon AS has been selected by the general meeting as the external auditor for Petoro AS.

BOARD OF DIRECTORS OF PETORO

From the left: Line Geheb. Mari Thjømøe. Gunnar Berge. Hilde Myrberg. Erik Aarrestad. Per A. Schøyen and Nils-Henrik M. von der Fehr

GUNNAR BERGE [1940]
Chair
Years of election/re-election: 2007/2013
Other directorships: University of Stavanger. Western Norway Regional Health Authority. Norwegian Oil Museum.
Education: Technical college. 1957-58. Trade union college. 1966. and various courses. Skilled plate worker.
Career: Director-general. Norwegian Petroleum Directorate. 1997-2007. minister of local government. 1992-96. minister of finance. 1986-89. member of the Storting (parliament) for Rogaland. delegate to the UN general assembly. a number of important posts in the Norwegian Labour Party. including parliamentary leader and key committee posts in the Storting and party organisation. industrial worker in the 1950s and 1960s.

HILDE MYRBERG [1957]
Deputy chair
Years of election/re-election: 2006/2013
Occupation: Vice president. Orkla ASA.
Other directorships: Director. Salvesen & Thams AS and REC ASA. director CGGVeritas SA
Education: Law degree. MBA from Insead.
Career: Head. market sector. Hydro Oil & Energy. 2002-06. and otherwise held a number of posts in Hydro. including business development for Hydro Energy. head of marketing activities in the power area. corporate legal executive and board secretary.

MARI THJØMØE [1962]
Director
Years of election/re-election: 2007/2013
Other directorships: SinOceanic Shipping ASA. Bank2 ASA. Seilsport Maritimt Forlag AS. Argentum Fonds-investering AS. Sevan Marine ASA and Thjømøekranen AS.
Education: MBE. Norwegian School of Management. 1987. authorised financial analyst. Norwegian School of Economics and Business Administration. 1992. London Business School.
Career: Self-employed. CFO/acting CEO. Norwegian Property ASA. 2009-2010. executive vice president. KLP. 2005-2008. senior vice president. Statoil. 2000-2005. with Norsk Hydro ASA 1988-2000. Directorships with Oslo Børs VPS Holding. Oslo Børs. Oslo Clearing. Norgani Hotels AS. KLP Eiendom. KLP Skadeforsikring. Aksje Norge foundation and Norwegian Investor Relations Association.

PER A. SCHØYEN [1947]
Director
Years of election/re-election: 2007/2013
Occupation: Partner. Kluge Advokatfirma DA. Stavanger
Education: Law degree. various management programmes.
Career: Partner at Kluge since 2005. With Esso/ Exxon-Mobil 1977-2004. head of corporate affairs from 1989. other positions in Norway and abroad. Also deputy judge and assistant police attorney.

NILS-HENRIK M. VON DER FEHR [1960]
Director
Years of election/re-election: 2005/2013
Occupation: Professor of community economics. University of Oslo.
Education: Economics degree.
Career: Has held a number of academic posts at the University of Oslo. and also lectured at the Universities of Heidelberg and Oxford. In addition. he has held a number of public and private posts. including member/ chair of several official committees.

ERIK AARRESTAD [1962]
Director – elected by the employees
Years of election/re-election: 2010/2012
Occupation: Senior adviser. marketing department. Petoro AS.
Education: MSc economics. University of Oslo.
Career: Broad experience from the Norwegian Petroleum Directorate. Statoil and Petoro.

LINE GEHEB [1963]
Director – elected by the employees
Years of election/re-election: 2010/2012
Occupation: Senior adviser. marketing department. Petoro AS.
Education: MSc engineering. Norwegian University of Science and Technology.
Career: Broad experience from a number of different posts at the Shell group in Norway and the Netherlands covering exploration and production. refining and natural gas marketing. With Petoro since 2008. Has also held a number of directorships.

EXECUTIVE MANAGEMENT

KJELL PEDERSEN [1952]
President and CEO
Education: MSc petroleum technology. Norwegian Institute of Technology (NTH).
Career: Has had a long international career. holding a number of leading posts both upstream and downstream in Exxon and ExxonMobil. President and CEO of Petoro since 2001.

OLAV BOYE SIVERTSEN [1951]
Vice president legal affairs
Education: Law degree from the University of Oslo.
Career: Has earlier held posts as legal affairs officer at ExxonMobil. head of the legal affairs department for Mobil Norway. and in posts at the Ministry of Petroleum and Energy. the Ministry of Labour and Local Government and the Norwegian Petroleum Directorate. Also has international experience from Mobil's US business.

GRETHE KRISTIN MOEN [1960]
Vice president mature oil fields
Education: MSc chemical engineering. Norwegian University of Science and Technology.
Career: Long experience from Norwegian and international petroleum operations. Has held a number of management posts in the production. technology and commercial areas at Statoil and Shell. Her most recent post at the latter was head of the E&P business in Norway and of HSE in Europe.

LAURITS HAGA [1954]
Vice president marketing and sales
Education: Economics degree.
Career: Long experience from the Norwegian and international oil and gas business. Held a number of management posts with Mobil and was head of the gas division in ExxonMobil Norway before joining Petoro.

ROY RUSÅ [1956]
Vice president technology
Education: BSc petroleum. Rogaland Regional College.
Career: Long experience of the Norwegian oil and gas business from Statoil and Baker Hughes Inteq. Previously headed Petoro's projects and strategy department.

MARION SVIHUS [1956]
Chief financial officer
Education: MSc in business economics. Norwegian School of Economics and Business Administration. Bergen.
Career: Long experience from Statoil. where she held a number of senior management position in the fields of economics. analysis. finance and strategy. Also eight years of experience from the banking and financial sector.

TOR RASMUS SKJÆRPE [1950]
Vice president strategy and organisation
Education: MSc engineering. Norwegian Institute of Technology (NTH).
Career: Long experience of Norwegian oil and gas operations. most recently as head of Petoro's licence management department and before joining Petoro as head of Norsk Hydro's operations in the Tampen area of the North Sea.

JAN ROSNES [1965]
Vice president gas fields/ new developments
Education: MSc petroleum engineering. Stavanger University College.
Career: Broad experience from project and strategy work with Shell in Norway and the UK and with Statoil. among others. At Petoro. has been vice president for projects and strategy and for technology and ICT.

DIRECTORS' REPORT 2011

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

Net income for the portfolio in 2011[1] came to NOK 133.7 billion. compared with NOK 105.4 billion the year before. Total operating revenue was NOK 188.8 billion. compared with NOK 159.3 billion in 2010. This yielded a cash flow to the government of NOK 128.1 billion as against NOK 103.6 billion the year before. Total production averaged 1 016 000 barrels of oil equivalent per day (boe/d). which was six per cent lower than the 2010 figure of 1 080 000 boe/d. The net reserve addition of 601 million boe was the highest since the decision to develop Ormen Lange in 2003.

INCOME. REVENUES. COSTS AND RESERVES

The net income of NOK 133.7 billion was up by 27 per cent from 2010. This substantial rise reflected higher oil and gas prices. but that effect was offset to some extent by lower production and higher costs. Overall oil and gas sales for the year averaged 1 083 000 boe/d. compared with 1 159 000 boe/d in 2010.[2] Further maturation of the portfolio meant that oil production in 2011 declined by 6.5 per cent from the year before. Gas output fell by five per cent from 2010.

Income before financial items came to NOK 135 billion. Net financial expenses of NOK 1.2 billion consisted mainly of calculated interest expenses on future removal liabilities for the SDFI.

Revenue for the year from dry gas sales totalled NOK 81.7 billion as against NOK 68 billion in 2010. Total gas sold fell by five per cent from 2010 to 37.4 billion standard cubic metres (scm). including sales of third-party volumes. That corresponds to 645 000 boe/d.[3] Troll accounted for 36 per cent of total gas revenue. The average gas price for the year was NOK 2.15 per scm. up 22 per cent from 2010.

Total revenue for the year from oil and natural gas liquids (NGL) was NOK 95.4 billion. compared with NOK 81 billion the year before.

The sales volume totalled 160 million boe. or a daily average of 438 000 boe. The average oil price obtained for the year was NOK 632 per barrel. up by 31 per cent from 2010. In US dollars. the oil price averaged USD 114 per barrel. compared with USD 79 the year before.

Other revenues. which primarily comprise tariff earnings from Gassled. amounted to NOK 11.8 billion in 2011. That represented a rise of 15 per cent from the year before. reflecting a 7.358 percentage point increase in the SDFI's interest in Gassled during 2011 – as agreed when the latter was established – to 45.793 per cent.

Investment in 2011 came to NOK 21.5 billion. up by 15 per cent from 2010. The biggest spending in 2011 related to a high level of drilling activity on Troll. Gullfaks and Oseberg. the mid-north development on Ormen Lange and the development of a subsea compression facility on Åsgard. Investment was reduced by NOK 3.8 billion in connection with the swap agreement with Faroe Petroleum Norge AS. In addition come capitalised exploration costs. which brought total investment for 2011 to NOK 19.1 billion.

The cost of operating fields. pipelines and land-based facilities was NOK 15.5 billion. on a par with 2010. Exploration-related costs amounted to NOK 2.3 billion. of which NOK 1.3 billion was capitalised as investment related to possible and confirmed discoveries. and NOK 1 billion was expensed as exploration costs for dry wells. Correspondingly. exploration expenses totalled NOK 2 billion in 2010. of which NOK 1.2 billion was expensed. A total of 14 exploration wells were completed during 2011. two more than the year before. Hydrocarbons totalling a recoverable volume for the SDFI of 320-550 million boe were proven in 10 wells. compared with some 30 million boe in 2010. The largest and most important discovery was Johan Sverdrup in production licence 265. but the Skrugard find in PL 532 also contributed substantial new volumes.

1 All figures are based on the accounts compiled in accordance with the Norwegian Accounting Act.

2 Sales of entitlement oil. NGL and gas in 2010 totalled 1 015 000 boe/d compared with 1 088 000 boe/d the year before.

3 One billion scm of gas equals one million scm oe. which corresponds to about 17 200 boe per day (17.2 kboed).

At 31 December 2011. the portfolio's expected remaining oil. condensate. NGL and gas reserves comprised 6 759 million boe – up by 221 million boe from the year before. Petoro reports the portfolio's expected reserves on the basis of categories 1-3 in the classification system used by the Norwegian Petroleum Directorate (NPD).

New reserves totalling 663 million boe were added to the SDFI in 2011. At the same time. reserves were downgraded for certain fields. making the net increase 601 million boe. This is the highest figure for new reserves since 2003. when the Ormen Lange development was sanctioned. The biggest contribution came from the decision to invest in compressors three and four for Troll. Substantial volumes were also contributed by subsea compression on Åsgard and by decisions on several projects involving standardised solutions for small commercially marginal fields which ensure fast-track development. The net reserve replacement rate for 2011 was 160 per cent. compared with 37 per cent the year before. and the average replacement rate for the portfolio over the past three years came to 49 per cent. The corresponding rate for 2008-10 was one per cent.

BOOK ASSETS AND EQUITY

The book value of assets totalled NOK 226 billion at 31 December 2011. These assets mainly comprise operating facilities related to field installations. pipelines and land-based plants. as well as current debtors.

Equity at 31 December amounted to NOK 152 billion. Long-term liabilities totalled NOK 60.4 billion. of which NOK 57.9 billion related primarily to future removal liabilities. These liabilities are calculated in accordance with an established industry standard based on existing technology. Great uncertainty exists both over the removal estimates and over the timing of removals. Current liabilities. which comprise provision for costs incurred but not paid. were NOK 13.6 billion at 31 December.

Petoro served at 31 December as the licensee for the government's interests in 146 production licences and 13 joint ventures covering pipelines and terminals. including the interests in Mongstad Terminal DA and Vestprosess DA. It also managed the shares in Norsea Gas AS and Norpipe Oil AS. The number of holdings in production licences has increased by 74 per cent since the company was established.

STRATEGY FOR PETORO

The company's strategy falls into three parts. and is directed particularly at activities on mature oil fields. That is because these fields represent large assets in the portfolio. because taking decisions to secure these assets is time-critical. and because Petoro believes that they fail to receive the necessary attention from other licence partners.

Realise the potential in and close to large mature fields. Petoro's commitment to realising the potential in large mature fields is directed at extending the producing life of priority installations through the choice of technical solutions. efficient drainage methods and the completion of more wells per year. Its efforts will help to achieve a time-critical change in the way the fields are operated in coming years. The company will also work for integrated area solutions by prioritising selected installations for use as field centres. and achieve a timely phasing-in of discoveries.

Integrated and timely development of the gas value chain. As the largest participant in Gassled. Petoro plays a key role in the gas infrastructure. This role is expected to become more demanding. since production developments and the technical integrity of the facilities will require significant measures related to Gassled's processing plants in coming years. This has become even more challenging in view of the changed owner composition.

Developments in the European gas market have weakened the basis of the traditional business model for gas marketing and sales. Increased competition and transparency have challenged the strategy and role of the players. What happens in the global and European markets for natural gas in the future. and an understanding of these developments. will be crucial for realising the value potential of the SDFI's gas portfolio. Establishing a robust marketing and sales strategy for SDFI gas together with Statoil is a priority job. In accordance with the marketing and sales instruction. Statoil sells the government's petroleum together with its own petroleum and takes all decisions related to marketing and sales. The goal is to achieve the highest possible value for the petroleum belonging to Statoil and the government.

Safeguard asset values in new discoveries. Barents Sea South and Vøring stand out as the most important frontier areas in the portfolio. To ensure optimum development of the portfolio. Petoro's efforts in the time to come will concentrate on seeking business opportunities in Barents Sea South. On the basis of the Johan Sverdrup discovery. its commitment in this part of the strategy will also be to secure an acceptable development of and division of licensee interests in major North Sea finds.

PETORO'S CONTRIBUTION TO ADDED VALUE

In addition to safeguarding asset values. the board regards creating added value for the SDFI as an important job for the company. Results of the company's work are reflected in a wide range of activities which will contribute to substantial added value both in the immediate future and in the long run. An example of an important issue in 2011 was the work devoted to negotiating and implementing the licence swap agreement with Faroe Petroleum. Substantial efforts were also made to secure a decision on Åsgard subsea compression. including the outcome of negotiations on sharing the cost of this project between Åsgard and Mikkel. and on achieving a decision to utilise four rigs on Troll. Petoro also contributed to value added through further development on Draugen. including decisions on new wells and subsea pumping. Other examples include the efforts by Petoro which led to the incorporation of Visund South in Visund. updating the drainage strategy and extending the drilling period on Heidrun. and decisions on selected fast-track developments. The company participated in eight of these projects.

BUSINESS AREAS IN THE SDFI PORTFOLIO

Changes were made to the company's organisation with effect from February 2011 to ensure that the way its work is organised supports the new strategy and drives its realisation forward.

The **mature oil fields department** is responsible for developing the portfolio of mature oil fields and associated new discoveries. while the **gas fields/new developments** department deals with the gas fields and new developments as well as coordination of the company's exploration commitment. In cooperation with the marketing department. it will ensure a focus on the gas value chain and on maximising the value of the portfolio's gas resources. The **marketing department** is responsible for activities related to the oil and gas market and for following up the marketing and sales instruction.

The **mature oil fields** portfolio comprises 20 producing fields. with Gullfaks. Snorre. Heidrun. Oseberg. Grane. Draugen and Norne as the largest and most important. Snorre. Gullfaks and Heidrun have priority in the company's long-term efforts to secure changes on mature fields.

Total production from mature oil fields in 2011 averaged 291 000 boe/d. The output of liquids from the mature oil field portfolio fell by an annual average of 12 per cent over the past six years. The big mature fields are in a phase where production will continue to decline unless this trend is countered by additional volumes in the form of improved recovery and new discoveries. Liquids output from the fields in this business area amounted to 243 000 boe/d in 2011. Adjusted for the return of volume related to the Heidrun redetermination. production declined by 11 per cent from 2010. Challenges with high pressure and well integrity were faced on Gullfaks. and production was substantially lower than the year before. Problems with a number of risers on Snorre and Visund also caused output reductions.

Expenses for operating mature oil fields and facilities came to NOK 7.8 billion. down by seven per cent from 2010 when account is taken of the Heidrun redetermination. An important reason was that injection gas is no longer purchased for Grane.

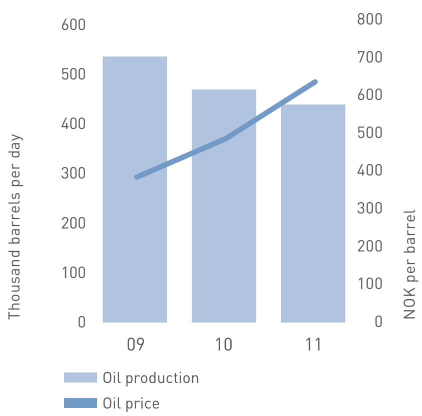
Drilling planned wells on the large mature fields has been difficult. An important reason is that the drilling facilities are used to a great extent for downhole work to maintain existing wells. A total of 19 production and injection wells were completed in 2011. Analyses by Petoro show that two-three times the annual number of producers drilled in recent years will be required if the many remaining drilling targets in the mature fields are to be produced within the producing life of the installations.

Substantial reserves still remain in the existing fields. and work is under way on analysing various solutions which could ensure an optimum and more long-term development of Snorre. Gullfaks and Heidrun. The joint ventures are due to take many major investment decisions in coming years. which will contribute to improved recovery and extended producing life. Petoro worked in 2011 to ensure better reservoir understanding as the basis for the forthcoming decisions. to facilitate drilling more wells per year and to ensure the profitability of drilling targets. Increased drilling capacity is needed on the large mature fields. and the company has won approval for studying wellhead platforms as an alternative to subsea developments in the long-term plans for Gullfaks and Snorre.

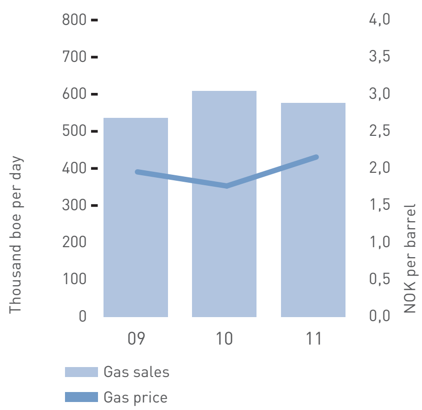
Investment in the mature oil field portfolio totalled NOK 9.3 billion in 2011. up by 25 per cent from the year before when account is taken of the Heidrun redetermination. The increase relates particularly to new developments and major modifications.

The reserve addition for the fields in this portfolio amounted to 135 million boe.
The biggest contributions related to the decisions on investing in seven small developments. Six of these form part of Statoil's portfolio of fast-track projects. with three expected to be

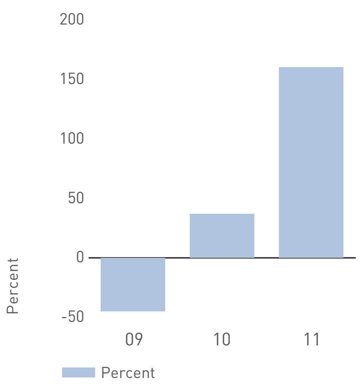
OIL PRODUCTION/PRICE



GAS SALES/PRICE



RESERVE REPLACEMENT RATE



on stream as early as 2012. Decisions were also taken on wells and subsea pumping for Draugen. and on a new drainage strategy and an extended drilling period on Heidrun. The swap agreement with Faroe Petroleum meant that four producing fields were removed from the portfolio and thereby helped to reduce reserves for mature fields. but will contribute additional reserves from Maria for gas fields/new developments in the longer term.

Discoveries are still being made near the large fields. Four exploration wells on Gullfaks yielded finds. Three of these were completed in 2011. with the last completed in early January 2012.

Gas fields/new developments embraces 12 producing fields. and is dominated by Troll. Ormen Lange. Åsgard and Kvitebjørn also produced substantial volumes of gas in 2011. Total output from the gas fields in 2011 averaged 726 000 boe/d. about one per cent higher than the year before. Production of liquids came to 197 000 boe/d. while gas sales amounted to 30.7 billion scm or an average of 529 000 boe/d. Expenses for operating fields and facilities in the business area came to NOK 6.9 billion. up by three per cent from 2010.

Petoro's commitment in 2011 was concentrated on the continued development of Troll. Åsgard. Ormen Lange and Snøhvit. development of Hild and work aimed at developing the major new Johan Sverdrup discovery in the North Sea. Investment came to NOK 12 billion. up by NOK 1 billion from the year before. Spending on development and production drilling accounted for about NOK 10 billion of the total.

Petoro worked to implement the strategy of making continuous use of four rigs on Troll and investing in compressors three and four. to be phased in at a point which provides the necessary flexibility for improved gas recovery. The company's commitment helped to ensure the adoption of subsea compression on Åsgard. and work was pursued on maturing a future subsea compression solution for Ormen Lange. A priority on Snøhvit was to develop the resource base and ensure increased capacity at Melkøya. either through an additional process train for liquefied natural gas (LNG) or a new gas pipeline. Petoro conducted studies of the sub-surface which support increased reserves in the Snøhvit area. A plan for development and operation of Hild was submitted to the government in January 2012.

The reserve addition for the gas fields was very high in 2011. at 466 million boe in all. The largest contributions were the decisions on compressors three and four for Troll and subsea compression on the Midgard reservoir in the Åsgard licence.

A total of 11 exploration and appraisal wells were completed in the gas fields/new developments business area during 2011. An additional well was under way at 31 December. A total of seven wells proved hydrocarbons. including five commercial discoveries. The biggest was Johan Sverdrup. but Skrugard and Havis – completed in January 2012 – in the Barents Sea also represented substantial discoveries. Johan Sverdrup extends over several production licences held by different joint ventures. Petoro is working to ensure good commercial solutions which safeguard the state's interests.

Petoro is the largest participant in the Gassled joint venture. which embraces gas infrastructure and terminals on or associated with the NCS. Day-to-day operation is handled by Gassco. Substantial changes occurred in

Gassled's ownership structure during 2011 because several large oil companies. which ship considerable volumes of gas through the system. sold their holdings to financial investors. Petoro's holding was increased with effect from 1 January 2011 to 45.793 per cent. as agreed when Gassled was established. Priorities for Petoro in the time to come will be to ensure good corporate governance in Gassled and to establish good relations with the new owners and shippers. The SDFI received an income of NOK 11 million from Gassled during 2011. while investment and operating costs came to NOK 988 million and NOK 2.2 billion respectively. Regularity at Gassled's export points to the markets was 99.17 per cent. compared with 98.78 per cent in 2010.

MARKETING AND SALE OF THE PRODUCTS

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

After a period of relative stability in energy markets during 2010. volatility returned in 2011. Unrest in the Middle East and north Africa as well as debt problems in Europe and the USA led to substantial fluctuations in product prices during the year. The Brent Blend oil price varied between USD 93 and USD 126 per barrel. and achieved an average price of USD 114. Oil price changes in Norwegian kroner were somewhat higher because the USD exchange rate strengthened during the year from NOK 5.76 per USD to NOK 5.93.

Part of the gas sold to Europe is priced in accordance with market quotations which reflect the balance between supply and demand.

The average gas price for the SDFI portfolio in 2011 was NOK 2.15 per scm. compared with NOK 1.76 the year before. About 80 per cent of the SDFI's gas production was sold under long-term contracts at 1 January. with the rest sold in the spot market. Gas prices in the long-term contracts are primarily calculated in relation to the price of oil products and quotations in the gas market.

The rise in oil prices and continued plentiful supplies of gas in the market during 2011 again helped to maintain a significant differential between oil-indexed contract prices and spot prices for gas. This position led to pressure on the level of prices in the long-term contracts.

Petoro will work to ensure maximum value creation for the gas portfolio. including realisation of the value potential in the long-term sales contracts. The company is concerned to ensure that available gas is sold in the market at the highest possible price. and that the flexibility of the production plants and transport capacity is exploited to optimise deliveries.

Petoro also monitored and assured itself that petroleum sales to Statoil's own facilities are made at their market-based value. In addition. checks were made to ensure that the SDFI was being charged an equitable share of costs and received its equitable share of revenues.

HEALTH. SAFETY AND THE ENVIRONMENT (HSE)

The serious incident frequency (SIF) per million working hours was 1.5. on a par with 2010. A total of 50 incidents were registered as serious. or an average of 2.8 incidents per installation included in the statistics. No fatalities were suffered in 2011 and. in line with the assessments of the Petroleum Safety Authority Norway (PSA). no incidents were recorded with the potential to become major accidents. Dropped objects and incidents related to mechanical handling continued to dominate the statistics. Nevertheless. a reduction in the number of dropped objects was registered in the 2009-11 period – from 192 in 2009 to 104 in 2011 for the NCS in total. This is a result of measures adopted by the industry.

Petoro gave priority in its HSE work during 2011 to establishing a common approach in the licences to identifying major accident risk. and for identifying and following up compensatory measures. This will initially be implemented in the Oseberg joint venture. with an action team drawn from ExxonMobil. ConocoPhillips. Total and Petoro.

The personal injury frequency came to 5.7. a slight increase from 2010.

Petoro participated in HSE management inspections during 2011 on selected fields and installations. including Snorre and the Kollsnes plant. The company works with the operators and the industry as a whole to achieve a reduction in personal injuries and serious incidents.

No large oil spills were registered from fields in the portfolio during 2011.

ATTRACTIVE WORKING ENVIRONMENT AND EXPERTISE

The individual Petoro employee is crucial to the company's delivery and success. and the board gives emphasis to ensuring that the company offers a stimulating working environment which attracts people with the right expertise and positive attitudes. Helping each employee to achieve the professional and personal development needed to attain the company's goals and secure good utilisation of its overall expertise is a management responsibility.

Opportunities for professional and personal development will help to retain. develop and attract good personnel. Learning and expertise development goals with associated plans are drawn up each year at company and individual level. The company took action in 2011 to strengthen its expertise on mature fields and in the gas value chain. A two-pronged development programme was also launched to strengthen relational competence. The aim is to enhance Petoro's ability to succeed with its goals and strategies.

Petoro's human resources policy aims to ensure diversity and equal opportunities. competence development and good work on HSE.

Petoro had 67 employees at 31 December 2011. compared with 69 a year earlier. Three staff left during 2011. The company has sought to strengthen its organisation through new recruitment in recent years. particularly of people with technical expertise. higher education and relevant experience. The labour market for such expertise is tight. and recruitment processes are time-consuming. Petoro expects to increase its staff to 70 during 2012.

Sickness absence came to 1.9 per cent. compared with 3.7 per cent in 2010. This represents a very positive result. and the reduction from 2010 reflects lower long-term sick leave. Petoro has an inclusive workplace (IA) agreement. and gives weight to close follow-up of and dialogue with employees on sick leave. as well as making arrangements to ensure that such absences are as short as possible.

Collaboration with the company's working environment committee (AMU) and works council (Samu) lays an important basis for achieving a good working environment in the company. Work in these bodies again functioned well in 2011.

SOCIAL RESPONSIBILITY

Petoro's management of substantial assets on behalf of the Norwegian government calls for good corporate governance which fulfils the expectations of its stakeholders and society at large. The company's operations are related to the NCS and have international exposure. The board would emphasise that Petoro's corporate social responsibility (CSR) forms an integral part of its activities and strategies. This is reflected in part through the company's values. Measures which ensure that Petoro discharges its CSR include the following.

Ethical guidelines: The company has drawn up guidelines on business ethics. which are publicly available. Their purpose is to clarify principles which govern the company's commercial operations and employee behaviour. The ethical guidelines are reviewed once a year with all the employees in the company. All employees in 2011 signed the company's ethical guidelines. which cover such considerations as the duty of confidentiality. possible conflicts of interest and issues related to the receipt of gifts and services. Petoro has established data and information and communication technology (ICT) security requirements for its operations. Its information systems and data are secured against unauthorised access. The consequences of breaching Petoro's guidelines on business ethics are covered in a separate section.

Openness on money flows and anti-corruption work. Petoro does not accept corruption or other malpractice. As an important anti-corruption measure. employees are not permitted to receive remuneration from others. Petoro reports money flows related to the SDFI portfolio on an annual basis to the extractive industries transparency initiative (EITI). Details of the remuneration of directors and senior executives are provided in a separate note to the accounts for Petoro AS.

HSE declaration. Through its HSE declaration. Petoro has a common goal of creating a good physical and mental working environment for all employees. The board encourages the company's employees to raise ethical issues and to report any breaches of the regulations they encounter. The internal audit function is an independent whistleblowing channel with the right and duty to report on to the board. No cases of whistleblowing were recorded in 2011.

Equal opportunities. Women accounted for 36 per cent of the total workforce in 2011. compared with 33 per cent the year before. and for 42 and 25 per cent of the company's directors and executive management respectively. Petoro gives weight to equality between the genders in terms of opportunities for professional and personal development. pay and promotion. The company facilitates a flexible customising of working hours. When determining pay and in pay negotiations. Petoro is conscious that men and women must be treated equally. No systematic or significant differences exist between male and female pay in the company.

Diversity. Petoro has recruited a number of employees with differing cultural and ethnic backgrounds. The company offers language facilitation to new recruits. and Norwegian lessons were provided during 2011 when a requirement was identified.

Natural environment. The NCS has a good record for environmental impacts compared with other petroleum provinces. Further improvement is nevertheless the goal. Petoro is concerned to ensure that power from shore is assessed for new field developments and major conversions. and that a decision is based on technically feasible solutions at an acceptable abatement cost. The company has followed up this subject in the projects on compressors three and four for Troll and on developing Hild. Both will be supplied with electricity through submarine cables from Kollsnes. and thereby help to reduce carbon emissions from the increase in production. Power from shore is also a key issue in the assessment of capacity expansion on Snøhvit. One condition for increased use of power from shore is sufficient capacity in the electricity grid on land.

The company contributes to creating environmentally conscious attitudes among all its employees. Waste sorting was adopted in 2011. and incentives were established to increase use of public and environment-friendly transport. The company gives emphasis to efficient ICT solutions and good communication systems. with opportunities to replace physical meetings with videoconferencing.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of its external annual report on the natural environment. based on figures obtained from the operators. No significant emissions to the air or discharges to the sea occurred from the SDFI portfolio during 2011.

RESEARCH AND DEVELOPMENT

The oil companies devote some NOK 3 billion per year to petroleum-related research and development (R&D). and the supplies industry about NOK 1 billion. Through its interests in production licences. Petoro contributes to R&D by meeting its share of these costs in accordance with its participatory interest in the production licences. where the funds are managed by the respective operators. This amounts to more than NOK 500 million per annum.

Qualifying new technological solutions for field application represents a major challenge for the oil industry. including on the NCS. Many initiatives on the borderline between technology development and qualification are accordingly financed directly through projects and in day-to-day operation. The costs are carried on the investment budgets of the joint ventures – through development or well drilling. for example. Petoro has worked for a number of years to secure faster adoption of technological opportunities. Its commitment in 2011 focused particularly on the company's own specialist work and active efforts to achieve a decision on a pilot project for advanced water injection on Heidrun. to develop the decision base for the final investment decision concerning subsea compression on Åsgard. and to follow up the subsea compression option on Ormen Lange. The decision on subsea compression on Åsgard was the result of five years of purposeful technological development in the Åsgard and Ormen Lange joint ventures.

CORPORATE GOVERNANCE

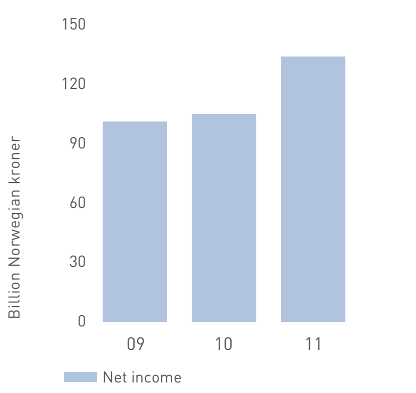
The board gives weight to good governance to ensure that the SDFI portfolio is managed in a way which maximises long-term value creation. That includes following up CSR as specified in White Paper no 13 (2010-2011) on active ownership – Norwegian state ownership in a global economy. The company's management system is based on the Norwegian code of practice for corporate governance to the extent that the code's recommendations are relevant to Petoro's business and the frameworks established by the company's form of organisation and ownership. Further developed and implemented in 2010-11. the management system contributes to maximising value creation for the state by concentrating attention at all times on the attainment of targets by the company and on the risk picture.

Petoro seeks a corporate culture characterised by commitment and vigour within a good internal control regime. Its values base and ethics are embedded in its values and guidelines on business ethics.

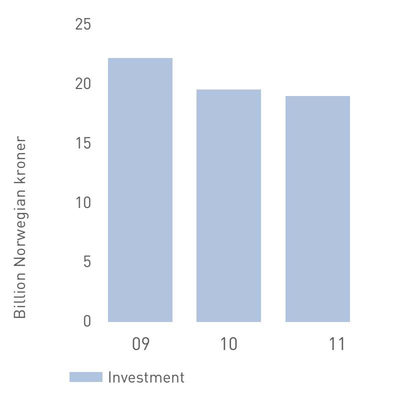
WORK OF THE BOARD

The board held 12 meetings in 2011. An annual meeting and work plan has been established for the board. with the emphasis on the consideration of strategy. goals. budgets and interim results. The board is concerned with overall value creation from the total portfolio. and with ensuring that the state receives its rightful share and does not get charged a larger proportion of costs than is warranted. A key instrument used by the board to monitor performance is measuring against established goals (balanced

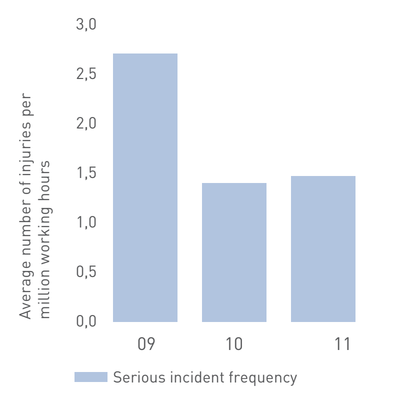
NET INCOME



INVESTMENT



SERIOUS INCIDENT FREQUENCY



scorecards).

The board considers major investment decisions in the portfolio as well as following up and considering the commercial business. including monitoring Statoil's duties under the marketing and sales instruction. It also monitors the company's overall risk picture. The board ensures that control systems have been established and that the business is conducted in compliance with the company's values base and guidelines on business ethics.

Instructions issued by the board for its own work and that of the chief executive include ensuring the discharge of CSR in line with the company's duties and mandate. The board has chosen to organise preparatory work related to compensation arrangements in a sub-committee. Conflicts of interest are a fixed item on the agenda at board meetings. and directors with such a conflict withdraw from the board's consideration of the relevant issue. The board conducts an annual evaluation of its own work.

Each director and the board as a collective body seek to strengthen their expertise in various ways. These include participation in courses and conferences and generally following developments in the area. The board also conducts a study trip during the year. either in Norway or in a country relevant to Petoro as the manager of the state's petroleum interests.

Petoro's board comprises Gunnar Berge as chair. Hilde Myrberg as deputy chair. Mari Thjømøe. Per Arvid Schøyen and Nils-Henrik M von der Fehr as the other shareholder-elected directors. and Line Geheb and Erik Aarrestad as directors elected by and from among the employees.

RISK MANAGEMENT AND INTERNAL CONTROL

The board conducted an assessment of the risk picture in 2011 on the basis of the approved strategy. and set targets for the coming year. Compensatory measures were identified for the biggest risks Petoro has an opportunity to influence through the frameworks available to it. The most important identified risks relate to the failure of operators and partners to give priority to long-term development of the large mature fields. a lack of profitable solutions for securing sufficient wells. and the inability of the company to win approval in the licences for its commitment to Snorre. Gullfaks and Heidrun. A risk also exists that the SDFI's post-unitisation interest in the new Johan Sverdrup discovery will fail to reflect Petoro's view on the division of the assets. The biggest risk in the marketing and sales area involves substantial erosion in value as a result of price revisions. renegotiations and structural changes in the gas market.

Operational risk is mainly managed at field level within the various business areas and within the joint ventures. Principles for risk management in Petoro build on the internationally recognised Coso/ERM framework for internal control. and on in-house expertise.

PROSPECTS

Considerable changes are taking place on the NCS. and the future of the SDFI portfolio depends on developing the mature oil fields and dealing with the gas market. and on access to new exploration acreage. The bulk of remaining reserves on the NCS still lie in existing fields. even after the welcome major discoveries in 2011. That underlines the significance of these producers. and it is accordingly important that the joint ventures for the big mature fields are able to realise this potential.

Increased reserves and new technology have extended the producing life of several large mature fields. but oil output is still declining significantly every year. At the same time. so few production wells are being drilled that it could be difficult to achieve planned recovery before the fields must be shut in. A substantial commitment is accordingly needed from both companies and government to achieve the necessary changes on mature fields. The board would emphasise the importance of Petoro strengthening its efforts to ensure that the operators and other partners give priority to reserves in as well as work on and investment in the mature fields on the NCS.

Statoil is still the dominant player on the NCS and operates about 80 per cent of production from the SDFI portfolio. This means that the choices made by this company have great significance for the further development of the NCS and the SDFI.

Although substantial discoveries were made in 2011 with the potential for stand-alone production. developments on the NCS are expected to be characterised by many small discoveries combined with declining production from mature fields. Exploiting tested technology and standardised solutions will be important in achieving profitable development of these small finds. The board takes the view that Petoro will continue to play an important role in finding good solutions for these challenges.

Furthermore. the board is concerned about the substantial added value offered by efficient operation of fields on the NCS. It is important that Petoro contributes to achieving the goal of efficient and profitable operation by following up spending on selected producing fields which face major cost challenges.

Petoro has ambitious goals for its role as a partner and manager of the SDFI portfolio on the NCS. It aims to contribute to enhanced value creation and gives priority to work on the areas when the value potential and its ability to exert influence are greatest. The company achieves this through purposeful use of the funds allocated to it for independent studies and assessments. and to support and challenge the operators. Where commercial matters are concerned. Petoro must safeguard the government's interests in competition with the priorities of other companies. It fulfils this role within the appropriations provided through a purposeful build-up of its own expertise and capacity. and by setting good priorities. It is very important that the company succeeds in retaining and attracting an appropriate level of expertise in an overheated market.

Environmental challenges on the NCS and what these will mean for the development of the portfolio are a matter of concern for the board. Great uncertainty exists over which climate policy instruments will be applied to the petroleum sector and the consequences these will have for the SDFI portfolio.

The board expects oil prices to be relatively high but volatile during 2012. Prices are balanced between uncertainty on the supply side related to relatively low reserve capacity and persistent unrest in the Middle East. and uncertainty over demand because of world economic trends. Output from the SDFI's portfolio is not expected to increase in coming years. but the shift from oil to gas will continue.

Structural market changes and increased supplies from the USA have reduced price levels for gas relative to those for oil. The economic position in Europe is expected to reduce demand for gas in this market compared with earlier estimates. Great uncertainty also prevails about the supply of LNG to Europe. because this depends on demand in Asia. Viewed overall. the outlook for the balance between supply and demand for gas in Europe is very uncertain. In addition. considerable uncertainty prevails about the longer-term role of gas in tomorrow's European energy picture as a result of current processes within EU energy and climate policies.

PETORO AS – SHARE CAPITAL AND SHAREHOLDER

The company's share capital at 31 December 2011 was NOK 10 million. divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government. Petoro's business office is in Stavanger.

PETORO AS – NET INCOME AND ALLOCATIONS

Administration of the portfolio by Petoro is subject to the accounting regulations for the government. The company maintains separate accounts for all transactions relating to the participatory interests. so that revenue and expenses for the portfolio are kept apart from operation of the company. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. The company prepares separate annual accounts for the SDFI. with an overview of the participatory interests managed by Petoro and associated resource accounting. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act and

Norwegian generally-accepted accounting principles (NGAAP). All amounts cited in this directors' report are based on NGAAP.

Petoro's operating revenue takes the form of a contribution from the government. which is directly liable for the commitments accepted by the company under contract or in other forms. The government contribution for 2011 was NOK 264 million. compared with NOK 260 million the year before. Since this sum includes VAT. disposable revenue was NOK 211.2 million as against NOK 208 million in 2010. Recorded income. including financial income. for 2011 was NOK 221.6 million. compared with NOK 216.6 million the year before.

Operating expenses were NOK 228 million for the year. compared with NOK 216.5 million in 2010. These expenses related primarily to payroll and administration expenses and to the purchase of external services. The purchase of leading-edge expertise relating to supervision of production licences in the SDFI portfolio accounts for a substantial proportion of the company's operating expenses. The company carried out in-depth studies of the Gullfaks. Heidrun and Snorre fields in 2011. Costs for studies and leading-edge expertise were somewhat lower than in 2010. in part because of difficulties in securing consultants in the market.

The board devoted attention in 2011 to the company's overall resource position. Further use of resources directed at mature fields and critical activities will be given priority. but kept within available disposal funds.

The net loss after net financial income came to NOK 7 million. The board proposes that this loss be covered from other equity. The company's equity position is good. and it has little exposure to financial risk. Its non-restricted equity totalled NOK 15.9 million at 31 December after coverage of the net loss.

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

Stavanger. 22 february 2012

Gunnar Berge
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M. von der Fehr
Director

Per Arvid Schøyen
Director

Mari Thjømøe
Director

Erik Aarrestad
Director*

Line Geheb
Director*

Kjell Pedersen
President and CEO

* Elected by the employees

FIGURES FOR 2011

ACCOUNTS SDFI AND PETORO AS

CONTENTS

SDFI APPROPRIATION ACCOUNTS

All figures in round NOK	**2011**
Investment	21 436 793 585.62
Total expenses	**21 436 793 585.62**
Operating revenue	-183 982 106 118.78
Operating expenses	32 764 717 419.26
Exploration and field development expenses	2 005 313 522.89
Depreciation	16 861 847 023.45
Interest	6 529 838 162.68
Operating income	**-125 820 389 990.50**
Depreciation	-16 861 847 023.45
Interest on fixed capital	-6 540 510 406.00
Interest on intermediate accounts	10 672 243.32
Total revenue	**-149 212 075 176.63**
Cash flow (net revenue from the SDFI)	**-127 775 281 591.01**

SDFI CAPITAL ACCOUNTS

All figures in round NOK	NOK	NOK	NOK
Open account government 31 Dec 11			372 091 750.58
Fixed assets before write-down		158 494 067 931.96	
Write-down		-269 773 798.60	
Fixed asset account		158 224 294 133.36	158 224 294 133.36
Total			**158 596 385 883.94**
Open account government 1 Jan 11		-680 224 333.24	
Total expenses	21 436 793 585.62		
Total revenue	-149 212 075 176.63		
Cash flow	-127 775 281 591.01	-127 775 281 591.01	
Net transfer to the government		128 083 414 173.67	
Open account government at 31 Dec 11		**-372 091 750.58**	**-372 091 750.58**
Fixed assets 1 Jan 11		-153 919 121 369.79	
Investments for the year		-21 436 793 585.62	
Depreciation for the year		16 861 847 023.45	
Write-down		269 773 798.60	
Fixed assets 31 Dec 11		-158 224 294 133.36	-158 224 294 133.36
Total			**-158 596 385 883.94**

Stavanger. 22 February 2012

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Director

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Director

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Director*

Line Geheb
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President and CEO

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SDFI INCOME STATEMENT

All figures in NOK million	NOTES	2011	2010	2009
OPERATING REVENUE				
Operating revenue	3. 4. 8. 10	**188 820**	159 270	154 186
Total operating revenue		**188 820**	**159 270**	**154 186**
OPERATING EXPENSES				
Exploration expenses		**988**	1 192	1 084
Depreciation. amortisation and write-down	2	**20 051**	18 056	18 970
Other operating expenses	5. 8. 9	**32 821**	32 797	30 167
Total operating expenses		**53 860**	**52 045**	**50 222**
Operating income		**134 959**	**107 225**	**103 964**
FINANCIAL ITEMS				
Financial income		**6 045**	6 003	4 642
Financial expenses	11	**7 284**	7 849	7 944
Net financial items	**7**	**-1 239**	**-1 846**	**-3 302**
Net income for the year	**18**	**133 721**	**105 379**	**100 662**

SDFI BALANCE SHEET AT 31 DECEMBER

All figures in NOK million	NOTES	2011	2010	2009
Intangible fixed assets	2	**864**	800	742
Tangible fixed assets	1. 2. 17. 21	**194 702**	179 953	172 304
Financial fixed assets	2. 10	**1 746**	1 382	908
Fixed assets		**197 312**	**182 136**	**173 954**
Stocks		**2 812**	2 074	1 270
Trade debtors	8. 9	**25 752**	23 102	16 700
Bank deposits		**83**	81	127
Current assets		**28 647**	**25 257**	**18 097**
TOTAL ASSETS		**225 959**	**207 392**	**192 051**
Equity at 1 January		**146 456**	144 649	141 781
Paid from/(to) government during the year		**-128 083**	-103 572	-96 992
Net income		**133 721**	105 379	100 662
Translation differences*		**-64**	0	-802
Equity	**18**	**152 029**	**146 456**	**144 649**
Long-term removal liabilities	11. 17	**57 906**	45 186	37 313
Other long-term liabilities	12	**2 449**	1 827	1 724
Long-term liabilities		**60 355**	**47 012**	**39 037**
Trade creditors		**3 049**	1 920	1 493
Other current liabilities	8. 13. 14	**10 526**	12 003	6 872
Current liabilities		**13 575**	**13 924**	**8 364**
TOTAL EQUITY AND LIABILITIES		**225 959**	**207 392**	**192 051**

* Relating to the reversal of earlier equity adjustments in connection with the swap agreement with Faroe Petroleum Norge AS. and to translation difference and winding-up of Etanor DA in connection with its transfer to Gassled.

Stavanger. 22 February 2012

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Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M. von der Fehr
Director

Per Arvid Schøyen
Director

Mari Thjømøe
Director

Erik Aarrestad
Director*

Line Geheb
Director*

Kjell Pedersen
President and CEO

* Elected by the employees

SDFI CASH FLOW STATEMENT

All figures in NOK million	2011	2010	2009
CASH FLOW FROM OPERATIONAL ACTIVITIES			
Cash receipts from operations	**183 881**	157 311	156 123
Cash disbursements to operations	**-34 742**	-34 060	-36 074
Net interest payments	**-66**	-41	1
Cash flow from operational activities	**149 205**	**123 210**	**120 050**
PRO AND CONTRA FROM GOVERNMENT SALE			
Investments	**-21 437**	-18 443	-23 592
Cash flow from investment activities	**-21 437**	**-18 443**	**-23 592**
FINANCING ACTIVITIES			
Change in working capital in the licences	**621**	-1 740	20
Change in under/over calls in the licences	**-303**	498	487
Net transfer to the government	**-128 083**	-103 572	-96 992
Cash flow from financing activities	**-127 766**	**-104 814**	**-96 485**
Increase in bank deposits of partnerships with shared liability	**3**	-46	-27

SDFI NOTES (NORWEGIAN ACCOUNTING ACT)

GENERAL

Petoro's object. on behalf of the government and at the government's expense and risk. is to be responsible for and manage the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum operations on the Norwegian continental shelf (NCS) and associated activities. The company's overall goal is to maximise the total financial value of the portfolio on a commercial basis.

Petoro served at 31 December 2011 as the licensee on behalf of the SDFI for interests in 146 production licences and 13 joint ventures for pipelines and terminals. The company also managed the government's commercial interests in Mongstad Terminal DA and Vestprosess DA. as well as the shares in Norsea Gas AS and Norpipe Oil AS. Petoro has the same rights and obligations as other licensees. and manages the SDFI on the NCS on a commercial basis. The company maintains separate accounts for all transactions relating to its participatory interests. so that revenue and costs from production licences and joint ventures are kept separate from the operation of the company. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. Petoro prepares separate annual accounts for the SDFI. with an overview of the participatory interests managed by the company and associated resource accounting.

Administration of the portfolio is subject to the accounting regulations for the 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 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 excludes depreciation. Adjustments are also made for accruals of income and expenses on a cash basis. with a corresponding adjustment to debtors and creditors in the balance sheet. Realised currency loss/gain related to operating expenses and income is classified on the cash basis as operating expenses and income. The accounts based on the Accounting Act show realised currency loss/gain as financial expenses/income. and these items are accordingly not included in the operating profit.

ACCOUNTING PRINCIPLES

The SDFI's interests in limited companies and partnerships with shared liability relating to the production of petroleum are normally included under the respective items in the income statement and balance sheet in accordance with the proportionate consolidation method for the SDFI's share of income. expenses. assets and liabilities. The same applies to undivided interests in oil and gas operations. including pipeline transport. which are not organised as companies.

Dividend from the shares in Norsea Gas AS and Norpipe Oil AS is recorded as a financial item. In addition. revenue and expenses from production licences with net profit agreements (relates to licences awarded in the second licensing round) are recorded as other income using the net method for each licence.

The SDFI's participation in Statoil Natural Gas LLC (SNG) is treated as an investment in an associate and recorded in accordance with the equity method. This means that 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/expense in the income statement.

The functional currency is the Norwegian krone.

Principles for revenue recognition

The company 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 pipelines and land-based production plants is recorded when the service is rendered.

Gas swap and borrowing agreements where settlement takes the form of returning volumes are accrued as a general rule 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/borrowed 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 due 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 and sales between fields and/or transport systems

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

Foreign currencies

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

Classification of assets and liabilities

Assets intended for ownership or use over a longer period are classified as fixed assets. Other assets are classified as current assets. Debtors due within one year are classified as current assets. Similar criteria are applied for classifying current and long-term liabilities.

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

Exploration and development costs
Petoro employs the successful-efforts method to record exploration and development costs for oil and gas operations by the SDFI in the SDFI accounts. This means that expenses related to geological and geophysical surveying are expensed. However. expenses related to exploration drilling are capitalised in anticipation of evaluation. Such expenses are expensed should the evaluation show that the discovery is not commercial. Considerable time can elapse between the drilling of a well and a final development decision. Capitalised exploration 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 in production licences or those where progress is insufficient are expensed.

Expenses relating to development. including wells. field installations and production facilities. 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 a deduction for planned 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 company (financial leasing) are capitalised under tangible fixed assets and the associated lease commitment is recognised as a commitment under long-term interest-bearing debt at the net present value of the leasing charges. The fixed asset is subject to planned depreciation. and the commitment is reduced by the leasing charge paid 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 relationship between volume sold during the period and reserves at the beginning 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 downwards by a factor calculated as the relationship between the Norwegian Petroleum Directorate's sum of low reserves in production and the sum of basis reserves in production for oil and gas reserves respectively. This reserve adjustment totalled 69.1 per cent of expected remaining oil reserves in 2011. while the corresponding figure for gas fields was 81.9 per cent. The reserve estimates are revised annually. and possible changes affect only further depreciation expenses.

Ordinary depreciation for land-based plants and transport systems as well as for riser platforms used by several fields is calculated on a straight-line basis over the remaining licence period at 31 December.

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

Intangible fixed assets
Intangible fixed assets are carried at their fair value at the time of acquisition. They are amortised over the expected contract period or their expected economic lifetime. and possible write-downs are deducted.

Write-downs
Each time the accounts are made up. assets are reviewed for indications of a fall in value. Oil and gas fields or installations are normally treated as separate units for assessing write-downs. 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 write-down 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 renewals which significantly extend the economic life of the tangible fixed assets are capitalised.

Abandonment and removal 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 liabilities for removal and clear-up 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 liability is capitalised as part of the acquisition cost of wells and installations. and depreciated together with this. Changes to estimated cessation and removal 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 removal liability is based on the interest rate for Norwegian government bonds with the same maturity as the removal liability.

A change in the liability relating to its time value – the effect of the removal time having come one year closer – is recorded as a financial expense.

Stocks
Stocks of spare parts and operating materials are valued at the lower of acquisition cost in accordance with the Fifo principle or net realisable value. Spare parts of insignificant value for use in connection with the operation of oil or gas fields are expensed at the time of acquisition. Spare parts of significant value are recorded as stock at the time of acquisition and expensed when

they are used in operations. Petoro accepts the assessments made by operators regarding which materials should be capitalised and which expensed.

Debtors
Trade debtors and other debtors are carried at face value less a provision for expected loss. This provision is based on an individual assessment of each debtor.

Bank deposits
Bank deposits include cash. bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase. Cash flows from oil and gas sales are transferred to the government on a daily basis. Booked bank deposits accordingly include the SDFI's share of bank deposits in partnerships with shared liability in which the SDFI has an interest.

Current liabilities
Current liabilities are valued at their face value.

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

Financial instruments
Since the SDFI is included in the government's overall risk management. only limited use is made of financial instruments.

Such instruments are valued at their market value on the balance sheet date. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are recorded as income if all the following criteria are fulfilled: the instrument is classified as a current asset. is part of a trading portfolio with a view to onward sale. is traded on an exchange. an authorised marketplace or similar regulated market outside Norway. and has a good ownership spread and liquidity. Valuations are based on a portfolio assessment where this is regarded as the most sensible approach given the nature of the financial instruments. and where the portfolio is balanced in volume and time. Eliminations are carried out where legal rights exist to set off unrealised loses and gains. or where deposit/ margins which correspond with the market value of the derivatives have been paid and capitalised.

The valuation rules for fixed assets are applied to financial instruments not classified as current assets.

Contingent liabilities
Probable and quantifiable losses are expensed.

NOTE 1 ASSET TRANSFERS AND CHANGES

Seventeen production licences with SDFI participation were awarded in 2011. Participatory interests in seven of these licences were formally awarded by the Ministry of Petroleum and Energy on 19 January 2011 in connection with the awards in predefined areas (APA) for 2010. Seven licences were awarded with effect from 13 May 2011 in the 21st licensing round. which embraced frontier areas of the NCS. In addition. three licences were carved out of existing licences. Nine licences were relinquished in 2011.

Petoro and Faroe Petroleum Norge AS entered into a swap agreement in 2011 concerning the Njord. Jotun. Ringhorne East and Brage Sognefjord fields and the 475BS and 475CS (Maria) licences. The effective date of this agreement was 1 January 2011. with the transaction date for accounting purposes set at 1 December 2011. The transaction is recorded in the accounts at fair value after tax and entails an accounting book gain of NOK 181 million.

Petoro's participatory interest in Gassled increased by 7.358 percentage points with effect from 1 January 2011. In that connection. the participatory interests in Zeepipe Terminal DA and Dunkerque Terminal JV were also adjusted to 22.4384 and 29.7652 per cent respectively. Following a redetermination. the interest in the Heidrun Unit has been revised in the accounts from 58.1644 to 57.40288 per cent. This accords with the precautionary principle. since the decision is disputed. The disagreement concerns two civil suits. one of which is subject to the decision of the Ministry of Petroleum and Energy.

NOTE 2 SPECIFICATION OF FIXED ASSETS

All figures in NOK million	Historical cost at 1 Jan 11	Accumulated depreciation 1 Jan 11	Addition 2011	Write-down 2011	Disposal 2011	Transfers 2011	Depreciation 2011	Book value at 31 Dec 11
Fields under development	394	0	748	0	-60	132	0	1 214
Fields in operation	373 480	-229 058	31 452	0	-403	355	-18 361	157 465
Pipelines and terminals	59 209	-27 164	1 329	12	-12	0	-1 659	31 715
Capitalised exploration expenses	3 092	0	2 250	0	-546	-487	0	4 309
Total tangible fixed assets	**436 176**	**-256 223**	**35 779**	**12**	**-1 022**	0	**-20 020**	**194 702**
Intangible assets	852	-52	108	0	0	0	-44	864
Financial fixed assets	1 382	0	363	0	0	0	0	1 746
Total fixed assets (NGAAP)	**438 410**	**-256 275**	**36 250**	**12**	**-1 022**	**0**	**-20 064**	**197 312**
Translation to cash basis	-51 909	23 693	-14 813	-282	1 022	0	3 202	-39 088
Total fixed assets on cash basis	**386 501**	**-232 582**	**21 437**	**-270**	**0**	**0**	**-16 862**	**158 224**

Fixed assets for the Snøhvit field include a capitalised long-term financial charter for three ships used for LNG transport from the field. These vessels will be depreciated over 20 years. which is the duration of the charter.

Intangible assets of NOK 864 million relate mainly to rights in the gas storage facility at Aldbrough. which began commercial operation in 2009. The whole facility with all storage caverns is due to be ready for operation by the summer of 2012. This will provide a combined capacity for the SDFI and Statoil of 110 million scm. of which the SDFI's share is 48.3 per cent. The amount invested will be depreciated on a straight-line basis over the estimated 25-year economic life. Investment in further development of the Etzel gas store and a small amount for Åsgard Transport are also included.

Financial fixed assets of NOK 1 746 million include the following.
- Capacity rights for regasification of LNG at the Cove Point terminal in the USA. with an associated agreement on the sale of LNG from Snøhvit to Statoil Natural Gas LLC (SNG) in the USA. reclassified with effect from 2009 as a financial fixed asset.
- This activity is assessed as an investment in an associate and recorded in accordance with the equity method. See also note 10.
- Shareholdings in Norsea Gas AS. with a book value of NOK 3.98 million. and in Norpipe Oil AS.

NOTE 3 SPECIFICATION OF OPERATING REVENUE BY AREA

All figures in NOK million	2011	2010	2009
Mature oil fields	**59 494**	58 352	54 584
Gas fields/new developments*	**121 481**	95 576	94 067
Other infrastructure	**2 566**	2 275	2 369
Net profit agreements	**951**	876	770
Other revenue	**9 080**	6 566	6 975
Elimination internal sales	**-4 752**	-4 375	-4 579
Total operating revenue	**188 820**	**159 270**	**154 186**

* Includes Gassled.

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	2011	2010	2009
Crude oil. NGL and condensate	**95 375**	81 019	73 676
Gas	**81 683**	67 964	70 284
Transport and processing revenue	**10 178**	8 989	9 557
Other revenue	**633**	422	-102
Net profit agreements	**951**	876	770
Total operating revenue	**188 820**	**159 270**	**154 186**

All crude oil. NGL and condensate from the SDFI are sold to Statoil. and all gas is sold by Statoil at the SDFI's expense and risk. Virtually all the gas is sold to customers in Europe. and the two largest customers purchase about 30 per cent of the annual volumes under long-term contracts.

NOTE 5 SPECIFICATION OF OTHER OPERATING EXPENSES BY AREA

All figures in NOK million	2011	2010	2009
Mature oil fields	**10 618**	12 139	11 386
Gas fields/new developments*	**16 854**	17 046	16 957
Other infrastructure	**937**	256	741
Other operating expenses	**9 164**	7 731	5 662
Elimination internal purchases	**-4 752**	-4 375	-4 579
Total other operating expenses	**32 821**	**32 797**	**30 167**

* Includes Gassled.

Other operating expenses primarily comprise the cost of purchasing gas for onward sale.

NOTE 6 INTEREST

Interest on the government's fixed capital is recorded in the accounts compiled on a cash basis. The amount of interest is calculated as specified in Proposition no 1 Appendix no 7 (1993-94) to the Storting (the Finance Bill) and in item 5.6 in the 2011 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy.

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

The accounts compiled on a cash basis include an open account with the government for the difference between recording by chapter/item in the appropriation accounts and liquidity movements.

Interest on the open account with the government is calculated as specified in item 5.7 in the 2011 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy. The interest rate applied is the rate earned by the government's current account with the Bank of Norway. and interest is calculated on the average monthly balance in the open account with the government.

NOTE 7 NET FINANCIAL ITEMS

All figures in NOK million	**2011**	**2010**	**2009**
Interest	**101**	4	20
Other financial revenue	**432**	101	42
Currency gain	**5 512**	5 898	4 580
Currency loss	**-5 287**	-6 123	-6 430
Interest costs	**-171**	-151	-99
Interest on removal liability	**-1 826**	-1 575	-1 414
Net financial items	**-1 239**	**-1 846**	**-3 302**

NOTE 8 CLOSE ASSOCIATES

The government. 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.

Statoil is the buyer of the government's oil. condensate and NGL. Sales of oil. condensate and NGL to Statoil totalled NOK 95.5 billion (corresponding to 161 million boe) for 2011 and NOK 81 billion (175 million boe) for 2010.

Statoil markets and sells the government's natural gas at the government's expense and risk. but in Statoil's name and together with its own production. The government receives the market value for these sales. The government sold dry gas directly to Statoil to a value of NOK 441 million in 2011. compared with NOK 363 million in 2010. 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 onward sale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 18.8 billion in 2011 and NOK 18.2 billion in 2010. In addition came costs associated with the activity in the USA. Open accounts with Statoil totalled NOK 10.7 billion in favour of the SDFI. converted at the exchange rate prevailing at 31 December.

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.

NOTE 9 TRADE DEBTORS

Following an assessment of possible losses on debtors from trading in the UK. no provision has been made in the 2011 accounts. nor were any losses confirmed during the year.

Trade debtors and other debtors are otherwise recorded at face value.

NOTE 10 INVESTMENT IN ASSOCIATE

The SDFI's participation in Statoil Natural Gas LLC (SNG) in the USA has been treated with effect from 1 January 2009 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 as an investment in intangible fixed assets at an original acquisition cost of NOK 798 million. This activity has been treated in earlier years as a joint venture and recorded in accordance with the proportional consolidation method.

SNG has its business office at Stamford in the USA 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 business 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. Pursuant to the marketing and sale instruction. the SDFI participates in SNG with regard to activities related to the sale of the government's LNG from Snøhvit. Nothing indicates that a new test for write-down is required.

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

All figures in NOK million	2011	2010	2009
Opening balance financial fixed assets (adjusted share)	**1 382**	908	1 003
Net profit credited before write-down	**363**	291	88
Write-up/(down)		183	-183
Closing balance financial fixed assets	**1 746**	**1 382**	**908**

NOTE 11 ABANDONMENT/REMOVAL

The liability comprises future abandonment and removal of oil and gas installations. Norwegian government legal 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 removal liability.

The liability is calculated on the basis of estimates from the respective operators. Great uncertainty relates to a number of factors underlying the removal estimate. including assumptions for removal and estimating methods. technology and the removal date. The last of these is expected largely to fall one-two years after the cessation of production. See note 21.

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 removal 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 removal costs has been increased by NOK 1.5 billion as a result of changes to future estimated costs from operators and alterations to cessation dates. This rise primarily reflects higher estimates for plugging and abandoning wells. Estimates for removal expenses include operating costs for rigs and other vessels required for such complex operations. A reduction in the discount rate increases the liability by NOK 10.8 billion.

All figures NOK million	2011	2010	2009
Liability at 1 Jan	**45 186**	37 313	36 554
New liabilities/disposals	**-756**	775	95
Actual removal	**-576**	-107	-150
Changes to estimates	**1 462**	5 269	1 804
Changes to discount rates	**10 847**	360	-2 403
Interest expense	**1 743**	1 575	1 414
Liability at 31 Dec	**57 906**	**45 186**	**37 313**

NOTE 12 OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprise:
- debt related to financial leasing of three LNG carriers delivered in 2006
- debt relating to the final settlement of commercial arrangements concerning the move to company-based gas sales.

Three financial leasing contracts were entered into in 2006 on the delivery of three ships for transporting 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 1 356 million. Of this. NOK 126 million falls due for payment in 2012. NOK 530 million in the subsequent four years. and the residual NOK 727 million after 2015.

Other long-term liabilities total NOK 1 093 million. of which NOK 894 million falls due longer than five years from the balance sheet date.

NOTE 13 OTHER CURRENT LIABILITIES

Other current liabilities falling due in 2012 mainly comprise:
- provisions for unpaid costs accrued by licence operators in the accounts at November
- 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
- current share of long-term liabilities.

NOTE 14 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 all crude oil and NGL is sold to Statoil. Instruments used to hedge gas sales relate to forwards and futures. At 31 December 2011. the market value of the financial instruments was NOK 1 701 million in assets and NOK 548 million in liabilities. The comparable figures at the end of 2010 were NOK 365 million and NOK 2 509 million respectively. The figures include the market value of unlisted instruments. In addition. the market value of built-in derivatives in 2011 was NOK 1 988 million in assets and NOK 17 million in liabilities. Long-term derivative contracts with end-user customers in continental Europe are included in the figures above. The unrealised gain for the trading portfolio was substantially higher than the unrealised loss at 31 December 2011. Following a portfolio assessment. no provision has been made in the accounts.

Price risk
The SDFI is exposed to fluctuations in oil and gas prices in the world market. Statoil purchases all oil. NGL and condensate from the SDFI at market-based prices. SDFI revenue from gas sales to end users reflects market value. Based on the arrangement relating to the marketing and sales instruction together with the SDFI's participation in the government's overall risk management. the SDFI's strategy is to make only limited use of financial instruments (derivatives) to counteract fluctuations in profit and loss owing to variations in commodity prices.

Currency risk
The most significant part of the SDFI's revenue from the sale of oil and gas is billed in USD. EUR or GBP. Part of its operating expenses and investments is 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 make use of currency hedging in relation to future sales of the SDFI's petroleum. and its exposure in the balance sheet at 31 December 2011 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 sales instruction. financial instruments for the SDFI's operations are purchased from other parties with sound credit ratings. Financial instruments are only established with large banks or financial institutions at levels of exposure approved in advance. The SDFI's credit-related risk during consecutive transactions is accordingly regarded as insignificant.

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 15 LEASES/CONTRACTUAL LIABILITIES

All figures in NOK million	Leases	Transport capacity and other liabilities
2012	7 500	1 781
2013	6 052	1 641
2014	4 043	1 559
2015	3 318	1 536
2016	2 427	1 456
Beyond	8 794	13 123

Leases represent operation-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 USA. 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. Petoro was committed at 31 December 2011 to participate in 15 wells with an expected cost to the SDFI of NOK 1.2 billion. Of this. NOK 488 million is expected to fall due in 2012.

The company has also accepted contractual liabilities relating to the development of new fields. represented by field development costs. These obligations total NOK 10.5 billion for 2011 and NOK 14.2 billion for subsequent periods. a total of NOK 24.7 billion. The SDFI is also committed through approved licence budgets to operating and investment expenses for 2012 which will be at the same level as the 2011 figure. The above-mentioned liabilities for 2012 are included in this total.

In connection with the sale of the SDFI's oil and gas. Statoil has issued a limited number of warranties to vendors and owners of transport infrastructure relating to operations in the USA. the UK and continental Europe. Warranties issued in connection with trading operations are provided as security for the financial settlement.

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.

NOTE 16 OTHER LIABILITIES

The SDFI could be affected by possible legal actions and disputes as a participant in production licences. fields. pipelines and land-based plants. and in the joint sale of the SDFI's gas together with Statoil. The SDFI is involved in current disputes relating to issues in joint ventures in which Petoro is a licensee. 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.

NOTE 17 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 reserves. removal of installations. exploration expenses and financial instruments could have the largest significance.

Recoverable reserves include volumes of crude oil. NGL (including condensate) and dry gas as reported in resource classes 1-3 in the NPD's classification system. Only reserves for which the licensees' plan for development and operation (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 form the basis for depreciation expenses have 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 fall in value. The assessment of whether an asset must be written down builds to a great extent on judgements and assumptions about the future.

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 removal and financial instruments.

NOTE 18 EQUITY

All figures in NOK million	2011	2010	2009
Equity at 1 Jan	**146 456**	144 649	141 781
Net income for the year	**133 721**	105 379	100 662
Cash transfers to the government	**-128 083**	-103 572	-96 992
Items recorded directly against equity	**-64**		-684
Translation differences			-118
Equity at 31 Dec	**152 029**	**146 456**	**144 649**

Equity at 1 January includes a capital contribution of NOK 9.1 billion paid to Statoil on 1 January 1985 for the participatory interests acquired by the SDFI from Statoil. It otherwise includes accumulated income reduced by net cash transfers to the government.

Items recorded directly against equity in 2009 relate to the winding-up of Etanor DA on its transfer to Gassled.

NOTE 19 AUDITORS

In accordance with the Act on the Auditing of Governmental Accounts of 7 May 2004. the Office of the Auditor General is the external auditor for the SDFI. The Auditor General issues a final audit letter (report) concerning the SDFI accounts and budget. which is first published after the government accounts have been submitted and when the Auditor General's annual report. Document no 1. is submitted to the Storting (parliament).

In addition. Deloitte AS 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. Deloitte submits its audit report to the board in accordance with Norwegian auditing standards. Deloitte's fee is expensed in the Petoro accounts.

NOTE 20 EXPECTED REMAINING OIL AND GAS RESERVES

	2011		**2010**		**2009**	
Oil* in mill bbl. Gas in bn scm	**Oil**	**Gas**	**Oil**	**Gas**	**Oil**	**Gas**
Expected reserves at 1 Jan	1397	817	1511	839	1703	898
Corrections for earlier years**		-1	-2	-6		
Change in estimates	43	-3	-4	3	-83	-34
Extensions and discoveries	74	7	16	8		
Improved recovery	86	61	48	9	87	5
Purchase of reserves						
Sale of reserves	-10	-1				
Production	-161	-33	-172	-35	-196	-31
Expected reserves at 31 Dec	1429	847	1397	817	1511	839

* Oil includes NGL and condensate.
** Correction in 2011 as a result of reconciliation with official production figures from the NPD.

The SDFI added 663 million boe in new reserves during 2011. The biggest contributions came from the decision to expand gas capacity on Troll by installing compressors three and four. Downgrades were also made on certain fields. so that the net reserve addition was 601 million boe. Interests in four fields (Brage. Jotun. Njord and Ringhorne East) totalling 15 million boe were sold during 2011.

At 31 December 2011. the portfolio's expected remaining oil. condensate. NGL and gas reserves totalled 6 759 million boe. This represented an increase of 221 million boe from the end of 2010. Petoro reports the portfolio's expected reserves in accordance with the NPD's classification system and on the basis of resource classes 1-3.

The net reserve replacement rate for 2011 was thereby 160 per cent. compared with 37 per cent the year before. The average reserve replacement rate for the portfolio over the past three years was 49 per cent. The corresponding figure for the 2008-10 period was one per cent.

NOTE 21 SDFI OVERVIEW OF INTERESTS

Production licence	At 31 Dec 11 Interest (%)	At 31 Dec 10 Interest (%)
018	5.0000	5.0000
018 B	5.0000	5.0000
018 C	5.0000	5.0000
018 DS	5.0000	-
028 C	30.0000	30.0000
034	40.0000	40.0000
036 BS	20.0000	20.0000
037	30.0000	30.0000
037 B	30.0000	30.0000
037 E	30.0000	30.0000
038	30.0000	30.0000
038 C	30.0000	30.0000
038 D	30.0000	30.0000
040	30.0000	30.0000
043	30.0000	30.0000
043 BS	30.0000	30.0000
050	30.0000	30.0000
050 B	30.0000	30.0000
050 C	30.0000	30.0000
050 D	30.0000	30.0000
050 DS	30.0000	30.0000
051	31.4000	31.4000
052	37.0000	37.0000
052 B	37.0000	37.0000
052 C	-	37.0000
053	33.6000	33.6000
053 B	-	25.4000
054	40.8000	40.8000
055	-	13.4000
055 B	-	13.4000
055 C	33.6000	33.6000
057	30.0000	30.0000
062	19.9500	19.9500
064	30.0000	30.0000
074	19.9500	19.9500
074 B	19.9500	19.9500
077	30.0000	30.0000
078	30.0000	30.0000
079	33.6000	33.6000
085	62.9187	62.9187
085 B	62.9187	62.9187

Production licence	At 31 Dec 11 Interest (%)	At 31 Dec 10 Interest (%)
085 C	56.0000	56.0000
089	30.0000	30.0000
093	47.8800	47.8800
093 B	47.8800	47.8800
094	14.9500	14.9500
094 B	35.6900	35.6900
095	59.0000	59.0000
097	30.0000	30.0000
099	30.0000	30.0000
100	30.0000	30.0000
102	30.0000	30.0000
102 C	30.0000	30.0000
103 B	-	30.0000
104	33.6000	33.6000
107	-	7.5000
107 B	7.5000	7.5000
107 C	-	7.5000
107 D	7.5000	-
110	30.0000	30.0000
110 B	30.0000	30.0000
110 C	30.0000	30.0000
120	16.9355	16.9355
120 B	16.9355	16.9355
124	27.0900	27.0900
128	24.5455	24.5455
128 B	54.0000	54.0000
132	-	7.5000
134	13.5500	13.5500
152	30.0000	30.0000
153	30.0000	30.0000
153 B	30.0000	30.0000
158	47.8800	35.4400
169	30.0000	30.0000
169 B1	37.5000	37.5000
169 B2	30.0000	30.0000
169 C	30.0000	30.0000
169 D	30.0000	30.0000
171 B	33.6000	33.6000
176	47.8800	47.8800
185	-	13.4000
190	40.0000	40.0000
193	30.0000	30.0000
193 B	30.0000	30.0000

Production licence	At 31 Dec 11 Interest (%)	At 31 Dec 10 Interest (%)
193 C	30.0000	-
195	35.0000	35.0000
195 B	35.0000	35.0000
199	27.0000	27.0000
208	30.0000	30.0000
209	35.0000	35.0000
237	35.6900	35.6900
248	40.0000	40.0000
248 B	40.0000	40.0000
250	45.0000	45.0000
255	30.0000	30.0000
256	-	20.0000
263C	19.9500	19.9500
264	30.0000	30.0000
265	30.0000	30.0000
275	5.0000	5.0000
277	30.0000	30.0000
277 B	30.0000	30.0000
283	20.0000	20.0000
309	33.6000	33.6000
309 B	33.6000	-
309 C	33.6000	-
318	20.0000	20.0000
318 B	20.0000	20.0000
318 C	20.0000	20.0000
327	20.0000	20.0000
327 B	20.0000	20.0000
328	-	20.0000
331	-	20.0000
331 C	-	20.0000
348	-	7.5000
374 S	20.0000	20.0000
393	20.0000	20.0000
393 B	20.0000	20.0000
394	-	15.0000
395	20.0000	20.0000
396	20.0000	20.0000
400	20.0000	20.0000
402	20.0000	20.0000
402 B	20.0000	20.0000
423 BS	-	20.0000
423 S	-	20.0000
438	20.0000	20.0000

Production licence	At 31 Dec 11 Interest (%)	At 31 Dec 10 Interest (%)
439	20.0000	20.0000
448	30.0000	30.0000
473	19.9500	19.9500
475BS	30.0000	-
475CS	30.0000	-
479	14.9500	14.9500
482	20.0000	20.0000
488	30.0000	30.0000
489	20.0000	20.0000
502	33.3333	33.3333
504	3.0000	3.0000
504 BS	3.0000	3.0000
506 BS	20.0000	-
506 CS	20.0000	-
506 S	20.0000	20.0000
511	20.0000	20.0000
516	24.5455	24.5455
522	20.0000	20.0000
527	20.0000	20.0000
532	20.0000	20.0000
536	20.0000	20.0000
537	20.0000	20.0000
538	20.0000	20.0000
545	20.0000	20.0000
552	30.0000	30.0000
558	20.0000	20.0000
560	-	24.5455
562	20.0000	20.0000
566 S	20.0000	-
568	20.0000	-
598	20.0000	-
602	20.0000	-
605	20.0000	-
608	20.0000	-
611	20.0000	-
612	20.0000	-
615	20.0000	-

Net profit licences*		
027		
028		
029		
033		

Unitised fields	**At 31 Dec 11 Interest (%)**	**At 31 Dec 10 Interest (%)**	**Remaining production period**	**Licence term**
Brage Unit	-	14.2567	-	-
Gimle Unit	24.1863	24.1863	2027	2023
Grane Unit	28.9425	28.9425	2030	2030
Haltenbanken Vest Unit (Kristin)	19.5770	19.5770	2034	2027
Heidrun Unit	57.4029	58.1644	2039	2024
Hild Unit	30.0000	30.0000	2027	2012
Huldra Unit	31.9553	31.9553	2015	2015
Jotun Unit	-	3.0000	-	-
Njord Unit	-	7.5000	-	-
Norne Inside	54.0000	54.0000	2030	2026
Ormen Lange Unit	36.4750	36.4750	2034	2040
Oseberg Area Unit	33.6000	33.6000	2041	2031
Ringhorne Øst Unit	-	7.8000	-	-
Snorre Unit	30.0000	30.0000	2039	2015
Snøhvit Unit	30.0000	30.0000	2038	2035
Statfjord Øst Unit	30.0000	30.0000	2020	2024
Sygna Unit	30.0000	30.0000	2020	2024
Tor Unit	3.6874	3.6874	2049	2028
Troll Unit	56.0000	56.0000	2058	2030
Valemon Unit	30.0000	-	2042	2016
Vega Unit	24.0000	-	2022	2035
Visund Inside	30.0000	30.0000	2034	2034
Åsgard Unit	35.6900	35.6900	2030	2027
Fields				
Atla	30.0000	-	2016	2025
Draugen	47.8800	47.8800	2033	2024
Ekofisk	5.0000	5.0000	2049	2028
Eldfisk	5.0000	5.0000	2049	2028
Embla	5.0000	5.0000	2028	2028
Gjøa	30.0000	30.0000	2027	2028
Gullfaks	30.0000	30.0000	2039	2016
Gullfaks Sør	30.0000	30.0000	2033	2016
Heimdal	20.0000	20.0000	2014	2021
Kvitebjørn	30.0000	30.0000	2045	2031
Rev	30.0000	30.0000	2020	2021
Skirne	30.0000	30.0000	2015	2025
Statfjord Nord	30.0000	30.0000	2020	2026
Tordis	30.0000	30.0000	2019	2024
Tune	40.0000	40.0000	2014	2032
Urd	24.5455	24.5455	2030	2026
Varg	30.0000	30.0000	2021	2021
Veslefrikk	37.0000	37.0000	2020	2015
Vigdis	30.0000	30.0000	2020	2024
Yttergryta	19.9500	19.9500	2013	2027

PIPELINES AND LAND-BASED PLANTS

Oil pipelines	At 31 Dec 11 Interest (%)	At 31 Dec 10 Interest (%)	Licence term
Oseberg Transport System (OTS)	48.3838	48.3838	2014
Troll Oil Pipeline I + II	55.7681	55.7681	2023
Grane Oil Pipeline	42.0631	42.0631	2030
Kvitebjørn Oil Pipeline	30.0000	30.0000	2020
Norpipe Oil AS (Interest)	5.0000	5.0000	2028

Oil - land-based plants			
Mongstad Terminal DA	35.0000	35.0000	-

Gas pipelines			
Gassled**	45.7930	38.4350	2028
Haltenpipe	57.8125	57.8125	2020
Mongstad Gas Pipeline	56.0000	56.0000	2030

Gas - land-based plants			
Dunkerque Terminal DA	29.7652	24.9828	2028
Zeepipe Terminal J.V.	22.4384	18.8332	2028
Vestprosess DA	41.0000	41.0000	-
Kollsnes (gas processing plant. operation)	45.7930	38.4350	-
Norsea Gas AS (Interest)	40.0060	40.0060	2028
Ormen Lange Eiendom DA	36.4750	36.4750	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 USA (SNG).

* Production licences where the SDFI is not a licensee. but has a right to a share of possible profit.
** The interest in Gassled including Norsea Gas is 46.698 per cent.

Riksrevisjonen
Office of the Auditor General of Norway

Executive officer
Stig Allan Snähre, +47 21 54 08 81

Our date	Our reference
22.02.2012	2.3 2012/00082-3
	Filing code
	680 OED
Your date	Your reference

The State´s Direct Financial Interest
c/o Petoro AS
P.O. Box 300 Sentrum
4002 Stavanger
NORWAY

Audit of the 2011 accounts of the State´s Direct Financial Interest

Pursuant to Act no 21 of the 7th of May 2004 relating to the Office of the Auditor General (Auditor General Act), the Office of the Auditor General of Norway is the auditor for the State's Direct Financial Interest.

When finalizing the annual audit, the Office of the Auditor General will issue an audit opinion which summarizes the conclusion of the audit performed. The audit opinion will be made public not until the Office of the Auditor General has reported the results of the audit to the Parliament (Storting) in the beginning of October, pursuant to section 18 of the Auditor General Act.

The board of directors, and possibly the annual general meeting of Petoro AS will be briefed on the results of the audit for this year.

Yours sincerely

Hans Conrad Hansen
Director General

Lars Christian Møller
Deputy Director General

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PETORO AS INCOME STATEMENT

All figures in NOK 1 000	NOTES	2011	2010	2009
Invoiced government contribution	1	**211 200**	208 000	201 600
Other revenue	1	**4 789**	2 902	3 201
Net deferred revenue recorded	2	**1 899**	2 713	57
Total operating revenue		**217 888**	**213 615**	**204 857**
Payroll expenses	3.10	**126 517**	108 136	108 395
Depreciation	4	**3 388**	4 864	4 513
Administrative fees	13.16	**3 182**	2 666	2 744
Accounting fees	15	**17 489**	15 830	19 077
Office expenses	14	**9 009**	8 976	8 613
ICT expenses	15	**17 167**	15 851	14 202
Other operating expenses	12.15.16	**51 253**	60 146	49 610
Total operating expenses		**228 004**	**216 470**	**207 154**
Operating income/(loss)		**-10 116**	**-2 855**	**-2 297**
Financial income	5	**3 707**	3 030	3 194
Financial expenses	5	**-574**	-541	-223
Net financial result		**3 133**	**2 490**	**2 971**
NET INCOME/(LOSS)		**-6 983**	**-365**	**674**
TRANSFERS				
Transferred to/(from) other equity		**-6 983**	-365	674
Total transfers		**-6 983**	**-365**	**674**

PETORO AS BALANCE SHEET

All figures in NOK 1 000	NOTES	2011	2010	2009
ASSETS				
Fixed assets				
Operating equipment, fixtures, etc	4	**4 320**	6 219	8 932
Total tangible fixed assets		**4 320**	**6 219**	**8 932**
Total fixed assets		**4 320**	**6 219**	**8 932**
Current assets				
Trade debtors		**3 582**	1 448	0
Other debtors	6	**8 465**	9 430	8 387
Bank deposits	7	**138 294**	125 510	119 734
Total current assets		**150 340**	**136 388**	**128 121**
TOTAL ASSETS		**154 660**	**142 607**	**137 053**
EQUITY AND LIABILITIES				
Equity				
Paid-in capital				
Share capital (10 000 shares at NOK 1 000)	8	**10 000**	10 000	10 000
Retained earnings				
Other equity	9	**21 401**	28 384	28 750
Total equity		**31 401**	**38 384**	**38 750**
Liabilities				
Provisions				
Pension liabilities	10	**77 458**	61 424	55 756
Deferred revenue government contribution	2	**4 320**	6 219	8 932
Total provisions		**81 778**	**67 644**	**64 688**
Current liabilities				
Trade creditors		**14 743**	13 364	10 904
Withheld taxes and social security		**7 729**	7 159	6 339
Other current liabilities	11	**19 009**	16 057	16 373
Total current liabilities		**41 481**	**36 580**	**33 616**
Total liabilities		**123 259**	**104 223**	**98 304**
TOTAL EQUITY AND LIABILITIES		**154 660**	**142 607**	**137 053**

Stavanger. 22 February 2012

Gunnar Berge Chair	**Hilde Myrberg** Deputy chair	**Nils-Henrik M. von der Fehr** Director	**Per Arvid Schøyen** Director
Mari Thjømøe Director	**Erik Aarrestad** Director*	**Line Geheb** Director*	**Kjell Pedersen** President and CEO

* Elected by the employees

PETORO AS CASH FLOW STATEMENT

	All figures in NOK 1 000	2011	2010	2009
	LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES			
	Provided by operations for the year*	**-3 595**	4 499	5 187
+/-	Change in trade debtors	**-2 134**	-1 448	1 068
+/-	Change in trade creditors	**1 379**	2 460	-588
+/-	Change in accrued items	**18 623**	2 417	22 229
	Net change in liquidity from operating activities	**14 272**	**7 928**	**27 896**
	LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES			
-	Invested in tangible fixed assets	**-1 489**	-2 152	-4 456
	Net change in liquidity from investing activities	**-1 489**	**-2 152**	**-4 456**
	LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES			
+	Proceeds from share issue	**0**	0	0
	Net change in liquidity from financing activities	**0**	**0**	**0**
	Net change in liquid assets	**12 784**	5 776	23 440
+	Cash and cash equivalents at 1 January	**125 510**	119 734	96 296
	Cash and cash equivalents at 31 December	**138 294**	**125 510**	**119 735**
*)	This figure is obtained as follows:			
	Net income/(loss)	**-6 983**	-365	674
+	Ordinary depreciation and write-downs	**3 388**	4 864	4 513
	Provided by operations for the year	**-3 595**	**4 499**	**5 187**

PETORO AS NOTES

ACCOUNTING PRINCIPLES

Description of the company's business
Petoro AS was established by the Ministry of Petroleum and Energy on behalf of the Norwegian government on 9 May 2001. The company's object is to be responsible, on behalf of the government, for managing the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum activities on the Norwegian continental shelf, and activities related hereto.

The state is the majority shareholder in Statoil ASA and the owner of the SDFI. On that basis, Statoil handles marketing and sales of the government's petroleum. Petoro is responsible for monitoring that Statoil discharges its responsibilities under the applicable marketing and sale instruction.

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

Classification of assets and liabilities
Assets intended for ownership or use in the business for a longer period are classified as fixed assets. Other assets are classed as current assets. Debtors due within one year are classified as current assets. Similar criteria are applied for classification of current and long-term liabilities.

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

Debtors
Trade debtors and other debtors are carried at face value.

Bank deposits
Bank deposits include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase.

Pensions
The company's pension scheme for employees is a defined benefit plan. The capitalised obligation relating to the defined benefit plan is the present value of the defined obligation at 31 December less the fair value of the plan assets, adjusted for unrecorded change in estimates. The pension obligation is calculated annually by an independent actuary on the basis of a linear earnings method and expected final pay. The pension plan is valued at its expected fair value. The net book obligation includes payroll tax.

Net pension expense is included in payroll expenses and comprises pension rights earned over the period, interest charges on the estimated pension obligation, expected return on pension plan assets, the recorded effect of estimate changes and accrued payroll tax.

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

Current liabilities
Current liabilities are assessed at their face value.

Income taxes
The company is exempt from tax under section 2-30 of the Income Tax Act.

Operating revenue
The company receives an operating grant from the government for services provided to the Ministry of Petroleum and Energy in accordance with the company's object. This operating grant is appropriated annually by the Storting (parliament). The operating contribution is presented in the accounts as operating revenue. The contribution applied to investment for the year is accrued as deferred revenue and specified as a liability in the balance sheet. The deferred contribution is recorded as income in line with the depreciation of the investments and specified as deferred revenue in the income statement.

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction. Receivables and liabilities in foreign currencies are recorded at the exchange rate prevailing at 31 December.

Cash flow statement
The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term liquid instruments.

NOTE 1 GOVERNMENT CONTRIBUTION AND OTHER INCOME

The company received an operating contribution from the Norwegian government totalling NOK 208 million excluding VAT in 2011. The net loss after financial items was NOK 0.4 million. Other revenue primarily relates to invoicing of services provided to operators of joint ventures and other joint venture partners.

NOTE 2 DEFERRED REVENUE

The change in deferred revenue recorded in the income statement comprises deferred revenue related to NOK 1.5 million in investment made during 2011 as well as NOK 3.4 million in depreciation of investments made during the year and in earlier years.

NOTE 3 PAYROLL EXPENSES, NUMBER OF EMPLOYEES, BENEFITS, ETC

Payroll expenses (all figures in NOK 1 000)	**2011**	**2010**	**2009**
Pay	**82 691**	73 151	68 293
Payroll taxes	**11 978**	10 616	10 745
Pensions (note 10)	**27 274**	20 870	26 312
Other benefits	**4 574**	3 500	3 045
Total	**126 517**	**108 136**	**108 395**

Employees at 31 Dec	67	69	65
Employees with a signed contract who had not started work at 31 Dec	1	0	1
Average number of work-years employed	68	68	63

Remuneration of senior executives (all figures in NOK 1 000)	**Pay**	**Other benefits**	**Total benefits**	**Recorded pension**
President, Kjell Pedersen	3 665	171	3 836	2 976
Rest of the management team				
Olav Boye Sivertsen	1 423	114	1 537	526
Marion Svihus	1 741	138	1 878	746
Tor Rasmus Skjærpe	2 224	137	2 362	1 764
Laurits Haga	1 888	135	2 023	891
Jan Rosnes	1 666	133	1 799	461
Grethe Kristin Moen (joined 30 March)	1 312	104	1 416	761
Roy Ruså	1 798	135	1 934	697

Sonja Samsonsen and Sveinung Sletten ceased to be members of the management team from 7 February 2011.

Recorded pension liabilities represent the estimated cost of the overall pension liability for the president plus the rest of the management team.

Breakdown of directors' fees (all figures in NOK 1 000)	**Directors' fees**
Gunnar Berge, chair	347
Hilde Myrberg, deputy chair	224
Nils-Henrik M von der Fehr, director	182
Per Arvid Schøyen, director	182
Mari Thjømøe, director	182
Line Gehed, director, elected by the employees	179
Erik Aarestad, director, elected by the employees	179

DECLARATION ON SENIOR EXECUTIVE PAY FOR PETORO AS

The declaration on remuneration for the president and other senior executives is in line with the provisions of the Norwegian Act on Public Limited Companies and the guidelines for state ownership, including the revised guidelines on conditions of employment for executives in state-owned undertakings and companies of 1 April 2011. These replaced the earlier guidelines for state ownership – attitude to executive pay, which dated from 2006.

Guidelines on remuneration

Petoro's remuneration guidelines are entrenched in the company's vision, goals and values. The relationship between the level of performance, demonstrated leadership/collegiality and reward will be predictable, motivational, clear and easy to communicate. Petoro has an integrated pay policy and system for the whole company, and aims to pay a competitive rate without being a pacesetter on remuneration in relation to the relevant market for the petroleum industry.

Decision-making process

The board determines the compensation of the president, who in turn determines the compensation of the other members of the company's senior management. The board has appointed a compensation sub-committee comprising the deputy chair and a director. The head of human resources provides the secretariat function for this committee, which prepares proposals and recommendations for the board on compensation issues.

Main principles for remuneration in the coming fiscal year

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

Basic pay is the main component in Petoro's compensation scheme. Senior executives are also entitled to benefits on the same lines as others in the company, including car allowance as well as pension and insurance benefits, but with a somewhat wider entitlement to communication allowance. Certain executives have the opportunity to choose a company car rather than a car allowance. Members of the management team other than the president also have a loyalty scheme which comprises an annual payment determined by the board. This amount is currently NOK 70 000, and one-third of the credit balance is paid every fifth year. The accumulated sum is lost if the executive leaves the company. Petoro does not have a bonus programme. Share programmes, options and other option-like arrangements are not used by the company.

Pay levels in a reference market comprising relevant companies in the upstream and supplies industries for oil and gas provide the basic guidelines for the company's remuneration profile. Basic pay is primarily fixed on the basis of the responsibilities and complexity of the position, as well as its holder's behaviour and performance. Basic pay is subject to an annual assessment.

Petoro has a defined benefit pension scheme. The president's retirement age is 62. He can choose to retire on a full pension upon reaching the age of 60. Should he exercise this right, however, he must make himself available to the company for 25 per cent of full-time employment until the age of 62. Two other members of the management team also have the opportunity to retire on a full pension upon reaching the age of 62. Three members of the management team can opt to retire upon reaching the age of 65 on a reduced pension. The remaining executives retire at 67. The pension benefit is calculated as about 66 per cent of the pension basis, less an estimated National Insurance benefit. For competitive reasons, Petoro has an unfunded defined benefit plan for personnel earning more than 12 times the National Insurance base rate (G). This pension agreement was established before the revised guidelines on employment terms for senior executives in state-owned undertakings and companies came into force. It embraces all employees of the company earning more than 12G, and is not confined to senior executives.

Work has begun in Petoro on an overall review of the company's pension schemes, taking account of industry practice for companies comparable with Petoro. The second interim report from the banking law commission will occupy a key place in this work.

Remuneration principles and their implementation in the preceding year

The annual evaluation of the basic pay of the president and other senior executives is conducted with effect from 1 July. For 2011, this assessment was carried out in the second quarter. The president's remuneration was considered and approved by the board during the third quarter.

The pension scheme for those earning above 12G was revised in 2011. It was decided to introduce a qualifying period for personnel who become permanent employees after 30 November 2011. This change means that the required qualifying period is symmetrical for all the company's pension plans.

NOTE 4 TANGIBLE FIXED ASSETS

All figures in NOK 1 000	Fixed fittings	Equipment, etc	ICT	Total
Purchase cost 1 Jan 11	4 021	8 825	26 501	39 347
Additions	-	-	1 489	1 489
Disposals		-		-
Purchase cost 31 Dec 11	4 021	8 825	27 990	40 836
Accumulated depreciation 1 Jan 11	2 473	8 022	22 633	33 128
Depreciation for the year	418	592	2 379	3 388
Accumulated depreciation 31 Dec 11	2 891	8 614	25 012	36 516
Book value at 31 Dec 11	**1 131**	**211**	**2 978**	**4 320**

Economic life	Until lease expires in 2014	3-5 years	3 years
Depreciation plan	Linear	Linear	Linear

Operational leasing contracts include the hire of cars as well as office equipment and machines. The initial hire period is three-five years.

NOTE 5 FINANCIAL ITEMS

Financial items (all figures in NOK 1 000)	2011	2010	2009
Financial income			
Interest income	**3 373**	2 843	2 908
Currency gain	**333**	188	286
Other financial income			-
Financial expenses			
Interest expenses	**308**	297	10
Currency loss	**266**	244	213
Other financial expenses			0
Net financial items	**3 133**	**2 490**	**2 971**

NOTE 6 OTHER DEBTORS

Other debtors consist in their entirety of pre-paid costs relating primarily to rent, insurance, licences, subscriptions for market information and VAT credits.

NOTE 7 BANK DEPOSITS

Bank deposits total NOK 138.3 million, including NOK 88.1 million in withheld tax and pension plan assets.

NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital of the company at 31 December 2011 comprised 10 000 shares with a nominal value of NOK 1 000 each. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government, and all have the same rights.

NOTE 9 EQUITY

(All figures in NOK 1 000)	**Share capital**	**Other equity**	**Total**
Equity at 1 Jan 11	**10 000**	28 384	38 384
Change in equity for the year			
Net income		-6 983	-6 983
Equity at 31 Dec 11	**10 000**	**21 401**	**31 401**

NOTE 10 PENSION COSTS, ASSETS AND LIABILITIES

The company is legally obliged to have an occupational pension plan pursuant to the Act on Mandatory Occupational Pensions. The company's pension plan complies with the requirements of this Act.

The company has pension plans covering all its employees, which give the right to defined future benefits. These depend primarily on the number of years of pensionable earnings, the level of pay at retirement and the size of national insurance benefits.

Net pension cost (all figures in NOK 1 000)	**2011**	**2010**	**2009**
Present value of benefits earned during the year	**19 684**	16 217	19 645
Interest expense on pension obligation	**6 879**	5 796	5 334
Return on pension plan assets	**-3 899**	-3 524	-3 618
Recorded change in estimates	**652**	-198	1 700
Payroll tax	**3 958**	2 579	3 252
Net pension cost	**27 274**	**20 870**	**26 312**

Capitalised pension obligation	**2011**	**2010**	**2009**
Estimated pension obligation at 31 Dec	**180 287**	142 648	101 864
Pension plan assets (market value)	**-80 484**	-67 940	-55 161
Net pension obligations before payroll tax	**99 803**	74 708	46 703
Unrecorded change in estimates	**-32 028**	-20 875	2 163
Payroll tax	**9 683**	7 591	6 890
Capitalised pension obligation	**77 458**	**61 424**	**55 756**

The following financial assumptions have been applied in calculating net pension cost and obligation:

	2011	**2010**	**2009**
Discount rate	**3.9 %**	4.6 %	5.4 %
Expected return on plan assets	**4.8 %**	5.4 %	5.7 %
Expected increase in pay	**4.0 %**	4.0 %	4.5 %
Expected increase in pensions	**0.7 %**	1.3 %	1.4 %
Expected change in NI base rate	**3.75 %**	3.75 %	4.5 %

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

NOTE 11 OTHER CURRENT LIABILITIES

Other current liabilities relate almost entirely to provision for costs incurred, pay outstanding and holiday pay.

NOTE 12 AUDITOR'S FEES

Erga Revisjon AS is the elected auditor of Petoro AS. Fees charged by Erga Revisjon to Petoro for external auditing in 2011 totalled NOK 0.2 million.

In accordance with the Act on Government Auditing of 7 May 2004, the Auditor General is the external auditor for the SDFI. Deloitte AS has also been engaged to conduct a financial audit of the SDFI as part of the company's internal audit function. Deloitte charged NOK 1.4 million for this service in 2011. Deloitte has also performed other services, including partner audits, totalling NOK 1.8 million.

NOTE 13 BUSINESS MANAGEMENT AGREEMENTS

To ensure efficient resource utilisation with an organisation totalling 68 employees, Petoro sets priorities for its work commitments in and between the interests it manages in the various joint ventures. This prioritisation reflects the significance of each joint venture to the overall value of the portfolio and risk assessments related to the various phases in a joint venture (exploration, development and production). To permit such prioritisation, Petoro has concluded business management agreements with various licence partners. These agreements delegate daily administrative supervision of selected production licences in the portfolio. Petoro nevertheless retains the formal responsibility, including responsibility for on-going financial management of the interest in the production licence. The bulk of the business management agreements have been entered into with Statoil ASA.

NOTE 14 LEASES

The company entered into a lease with Smedvig Eiendom AS for office premises in the autumn of 2003. The remaining term of the lease is three years, with options for a further two periods of five years each. Rent for the year was NOK 8.2 million, which included all management and shared expenses.

NOTE 15 SIGNIFICANT CONTRACTS

Petoro has entered into an agreement with Upstream Accounting Excellence (Upax) on the delivery of accounting and associated ICT services related to the SDFI accounts. This five-year agreement was entered into in 2008, with delivery starting on 1 March 2010. ErgoGroup is the sub-contractor for ICT services. The recorded accounting fee for Upax in 2011 was NOK 16.4 million. Other services purchased from the contractor totalled NOK 2.3 million.

NOTE 16 CLOSE ASSOCIATES

Statoil ASA and Petoro AS have the same owner in the Ministry of Petroleum and Energy, and are accordingly close associates. Petoro purchased services in 2011 relating to business management agreements, cost sharing for the audit of licence accounts and other minor services. NOK 4.1 million was recorded in 2011 for the purchase of services from Statoil ASA. These were purchased at market price on the basis of hours worked. NOK 3.4 million has been invoiced for services rendered to Statoil ASA under the arm's-length principle, based on hours worked by Petoro personnel and contract staff.

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To the general meeting for Petoro AS

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Petoro AS, showing a loss of NOK 6 983 000. The financial statements comprise the balance sheet as at December 31, 2011, and the income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements
The Board of Directors and the Managing director is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of Petoro AS as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

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Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements, the going concern assumption and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 22 February 2012

Sven Erga
State Authorised PublicAccountant (Norway)

[Translation has been made for information purposes only]

PETORO'S FINANCIAL CALENDER 2012

28 February	Annual result 2011 / Fourth quarter report 2011
08 May	First quarter report
31 July	Second quarter report
30 October	Third quarter report

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