ANNUAL REPORT FOR THE SDFI AND PETORO 2013

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Since its creation in 2001, Petoro has transferred a net cash flow of more than NOK 1 400 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.

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INSTRUMENT FOR **VALUE CREATION**

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.

STRATEGY:
Mature fields: Investing for improved recovery

Field development: Safeguarding future opportunities

Far north: Promoting integrated development

Petoro's principal job is to maximise the value of the State's Direct Financial Interest (SDFI) in Norway's petroleum industry. This portfolio embraces a third of the oil and gas reserves on the Norwegian continental shelf (NCS) as well as platforms, pipelines and land-based plants.

GROWING ON THE NCS

Petoro follows up the state's interests in production licences and other partnerships. The number of licences has increased from 80 when the company was founded in 2001 to 190 in the spring of 2014. Fields in production total 34.

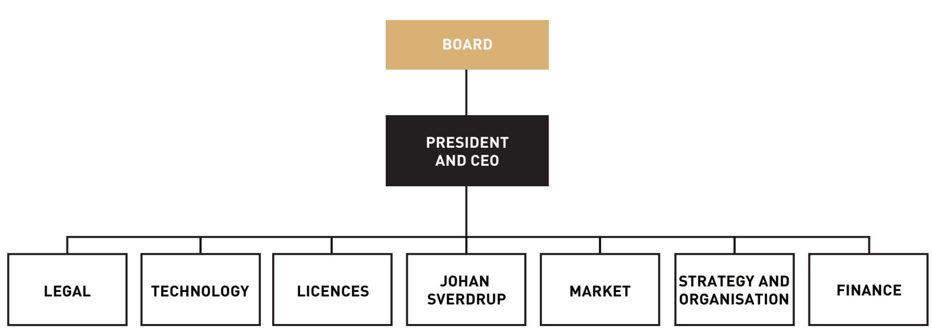
The company is involved in fields and projects in all three provinces on the NCS – the North, Norwegian and Barents Seas. Exploration activity was substantial in 2013, and a promising discovery was made in the Hoop area of the Barents Sea where Petoro is a licensee. Agreement was reached with Iceland in January 2014 on an interest in a third licence on the Icelandic continental shelf.

Mature fields have been retained as a main priority in the revised strategy. Together with the other partners in the Snorre licence, Petoro reached a choice of concept in 2013 for further development of this field up to 2040 on the basis of a new platform.

Investment in 2013 set a new record. Activity increased as a result of several new drilling rigs, a larger number of wells and big development projects, but also because costs are rising. Petoro has worked to boost the pace of production drilling from mature fields. More wells are the most important way to maximise the value of these producers within their commercial lifetime.

BIG ASSETS OFFER EXCITING OPPORTUNITIES

Petoro has about 70 staff at its Stavanger office. The combination of a big portfolio and a small organisation gives employees big opportunities for professional development through their encounters with other oil companies, both directly and 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.

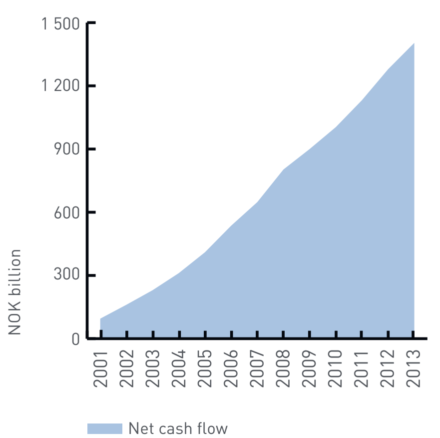


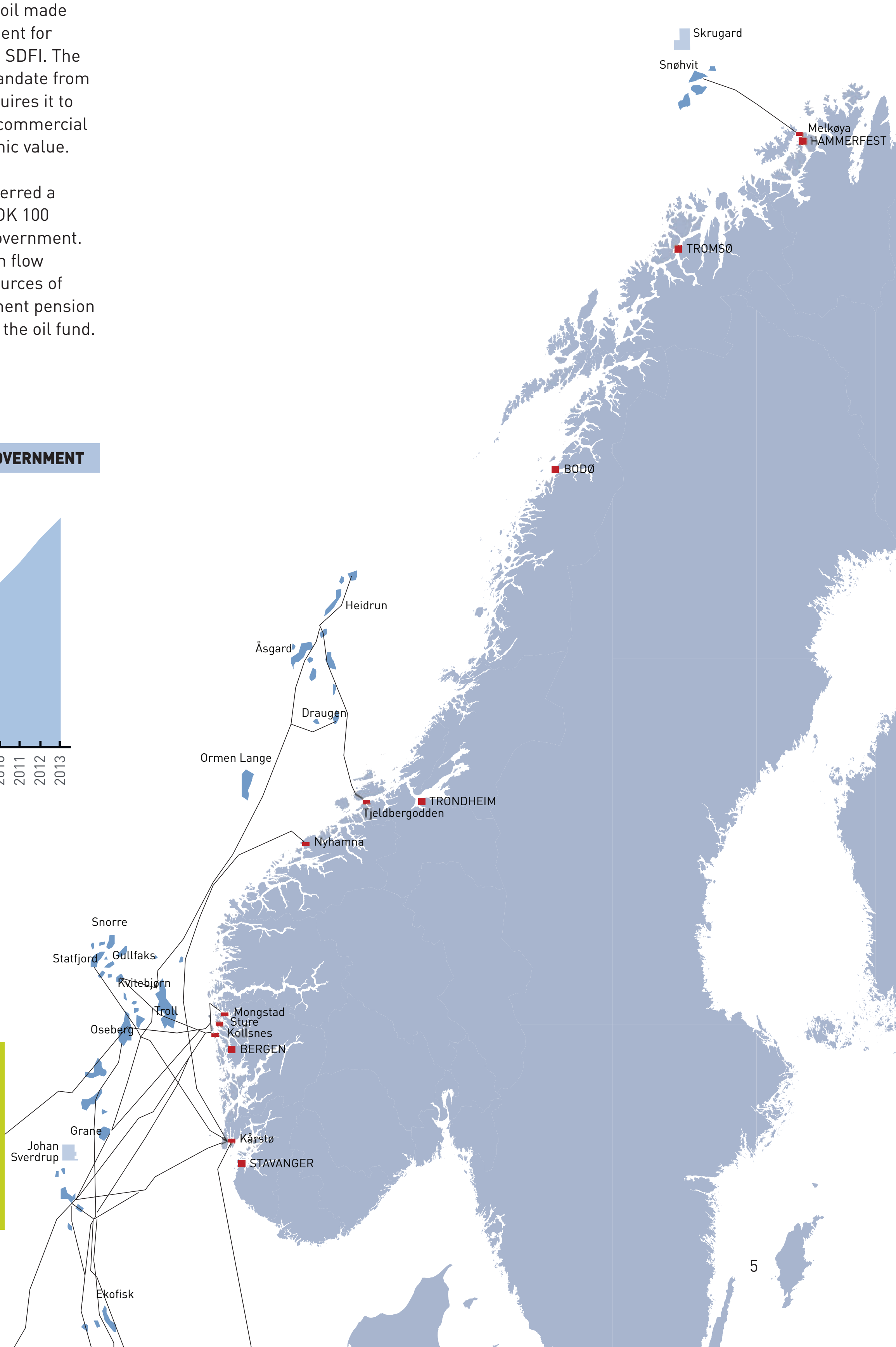
ROLE AS A LICENSEE

The company 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 averaging just over NOK 100 billion annually to the Norwegian government. Totalling NOK 1 400 billion, this cash flow 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





IMPORTANT MATURE OIL FIELDS:
Oseberg, Heidrun, Gullfaks, Snorre, Visund, Draugen, Ekofisk, Grane, Norne.

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

Grethe K. Moen - Photo: Emile Ashley

STRATEGIC FORCE AND STRONG PROFESSIONAL CONTRIBUTION

Petoro serves as the licensee for the state's direct interests in a total of 190 licences on the NCS, including 34 producing fields. My three years in the company – most recently as chief executive - have shown me that we have the opportunity to engage with many issues and business matters. But I have also seen that detailed and purposeful professional work is the way we influence decisions in the partnerships – and thereby value creation in our oil and gas portfolio.

A key to success for a small but highly competent organisation is accordingly to set priorities within a clear strategy. Our board adopted a new three-part strategy in September 2013, with existing priorities reinforced and some new ones added.

MATURE FIELDS: INVESTING FOR IMPROVED RECOVERY

The significance of maximising the value of the state's substantial interests in large mature fields is as least as great today as when we placed this subject on our strategic map in 2010. Work on the Snorre 2040 project has demonstrated with all possible clarity that the more technical detailing we have done, the greater the potential for improved recovery we have identified and the greater the need becomes to drill new production wells. It is therefore very positive that the partnership resolved in the autumn of 2013 to continue with Snorre 2040 on the basis of our original proposal – a new platform to drill many additional wells.

But it is also a matter of concern when we find that far too much of the extensive detailed work being done on mature fields is pursued for short-term objectives rather than to clarify the overall potential. We also see that the number of wells drilled last year from fixed installations in selected time-critical parts of our portfolio was lower than before. Work on mature fields shows that priority must be given to thorough work on reservoirs and geology in order to secure maximum recovery.

FIELD DEVELOPMENT: SAFEGUARDING FUTURE OPPORTUNITIES

Experience from work on mature fields is precisely what has shown us that we must take future commercial opportunities for improved recovery into account as early as in the selection of concept for new field developments offshore. That has become an even more important subject for us this year, particularly with an eye to the development of Johan Sverdrup. This field is so large that it will account on its own for a very large proportion of production and value creation both for the SDFI/Petoro and for the NCS as a whole.

A field of this size presents not only big opportunities but also challenges for the choice of development solution. Our ambition is to secure a concept which provides the robustness and flexibility to ensure maximum value creation over the field's producing life. We have learnt that elements such as adequate topside space, opportunities to drill many wells, sufficient pressure support and facilitating the adoption of enhanced oil recovery (EOR) methods from an early stage are critical building blocks from the start. Precisely from the perspective of safeguarding future opportunities, we are well satisfied with the choice of concept made for Johan Sverdrup in February.

FAR NORTH: PROMOTING INTEGRATED DEVELOPMENT

The Barents Sea is characterised today by a high level of activity and great diversity, with 17 operators, but in addition by varying exploration results. As a participant in no less than 27 licences, we are concerned not only with value creation from individual projects but also with area synergies – where establishing oil and gas infrastructure occupies a key place.

Work has been pursued by the partners in the Johan Castberg licence to make the concept more robust and thereby improve its profitability. This is an important job not only for the actual field development, but also for contributing to a wider area solution in the Barents Sea through an oil landfall. The latter, with an associated terminal, could be the first building block in achieving commercial development of discoveries in new areas such as Hoop.

NEED FOR CHANGE

Reflecting on 2013 cannot avoid a clear recognition that cost trends for the industry in general and on the NCS in particular have been so strong that they now not only present an obstacle to recovering the last drops from mature or marginal fields, but also actually pose a threat to the development of new discoveries which we had previously regarded as solidly commercial. Oil companies, suppliers and the government need to accept responsibility here for turning every stone to pursue simplifications, efficiency improvements and cheaper solutions without increasing risk.

Our industry has made a substantial contribution itself to the cost increases. I believe more extensive processes and requirements have crept up on us, almost imperceptibly. New elements are introduced without been assessed for their impact on costs. We end up with a kind of "compound interest" effect, which results overall in large cost increases. The industry must accept responsibility for reversing this trend.

It will not be easy, because we are talking here about challenging our own modes of action, which have been allowed to develop over a long time. We need to simplify formal procedures as well as practical ways of doing things. And we need to make a bigger effort to standardise where we currently use tailormade solutions.

Many of the challenges facing the industry must be met with good change management and a solid portion of stamina. Above all, I believe that players on the NCS must collaborate. That is done best, in my view, by starting with ourselves and then participating in a respectful and open manner in the interaction needed to find good solutions.

Grethe K. Moen

Grethe K. Moen
President and CEO, Petoro AS

KEY FIGURES 2013

Net income for the portfolio in 2013 came to NOK 132.8 billion, compared with NOK 150 billion the year before. Total operating revenue was NOK 194.3 billion, compared with NOK 213.9 billion in 2012. This yielded a cash flow to the government of NOK 124.8 billion as against NOK 146.9 billion the year before. Total production averaged 1 034 000 barrels of oil equivalent per day (boe/d), which was nine per cent lower than the 2012 figure of 1 132 000 boe/d.

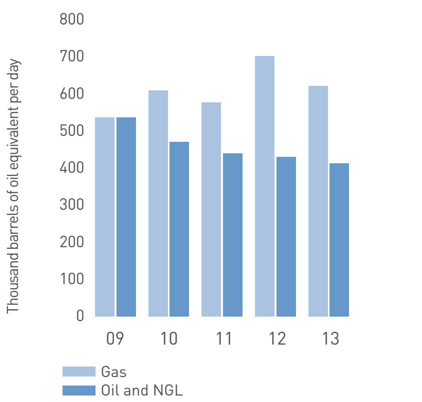
FINANCIAL DATA (in NOK million)

	2013	2012	2011	2010	2009
Operating revenue	**194 308**	213 885	188 820	159 270	154 186
Operating income	**132 455**	152 717	134 959	107 225	103 964
Net income for the year	**132 817**	149 986	133 721	105 379	100 662
Cash flow from operating activities	**157 882**	174 499	149 205	123 210	120 050
Cash flow applied to investment activities	**33 585**	25 610	21 437	18 443	23 592
Net cash flow	**124 825**	146 930	128 083	103 572	96 992

OPERATIONAL DATA

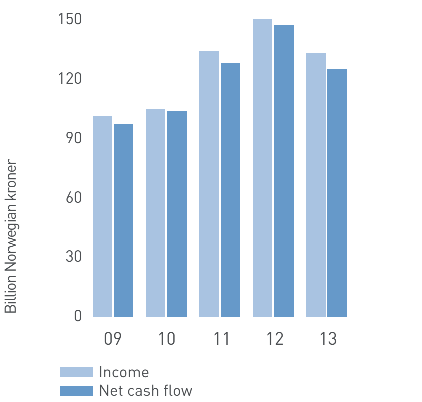
	2013	2012	2011	2010	2009
Production oil, NGL and condensate (1 000 barrels per day)	**413**	430	440	470	537
Production dry gas (million scm per day)	**99**	112	92	97	85
Oil, NGL and dry gas production (1 000 boe per day)	**1 034**	1 132	1 016	1 080	1 074
Remaining reserves (million boe)	**6 423**	6 623	6 759	6 541	6 789
Reserve replacement rate (three-year average in per cent)	**90**	86	49	1	(3)
Reserves added (million boe)	**177**	278	601	187	(176)
Oil price (USD per barrel)	**110.36**	113.27	114.00	79.38	60.53
Oil price (NOK per barrel)	**647**	657	632	482	380
Gas price (NOK per scm)	**2.31**	2.35	2.15	1.76	1.95

PRODUCTION



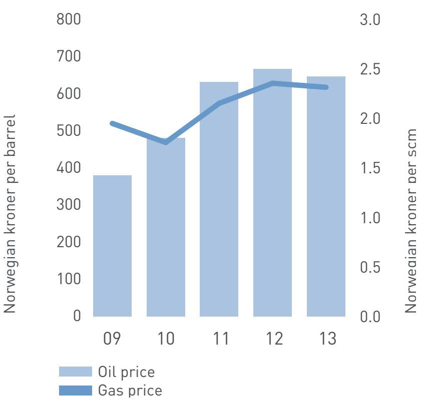
Total production from the SDFI portfolio was nine per cent lower than in 2012. The output of liquids (oil, NGL and condensate) declined by four per cent compared with the year before, while gas production was down by 12 per cent.

INCOME AND CASH FLOW



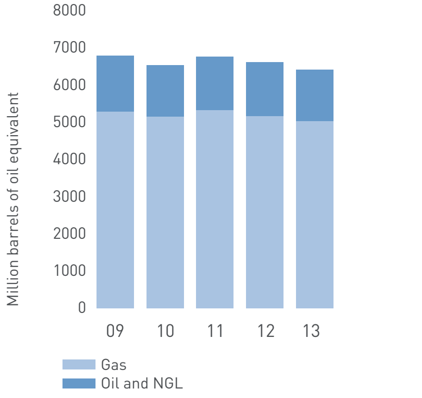
Net income for 2013 was NOK 133 billion, down by 11 per cent from the year before. This reflected declines of 13 per cent in gas sales and two per cent in gas prices compared with the 2012 record. Overall oil and gas sales averaged 1 094 000 boe/d, compared with 1 197 000 boe/d in 2012. Cash flow, transferred in its entirety to the government, was NOK 125 billion, down by almost NOK 22 billion from the year before.

OIL AND GAS PRICES



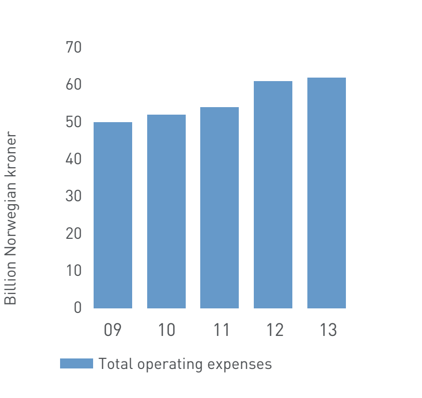
The price of oil from the SDFI portfolio averaged NOK 647 per barrel in 2013, compared with NOK 657 the year before. In US dollars, the average was USD 110 per barrel – down by about USD 3 from 2012. Gas fetched an average price of NOK 2.31 per scm in 2012, two per cent lower than the year before.

REMAINING RESERVES



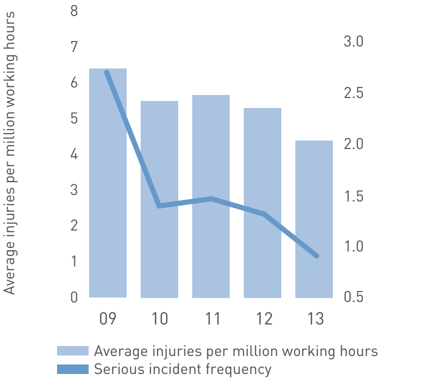
The portfolio's estimated remaining reserves totalled 6 423 million boe at 31 December, down 200 million boe from the year before. Production in 2013 came to 377 million boe, but was partly offset by the decision to deposit carbon dioxide in Snøhvit, the improved recovery project on Åsgard and the Delta 2 fast-track project on Oseberg.

EXPENSES



Total operating expenses were roughly on a par with 2012. The cost of operating fields, pipelines and land-based plants was up by 11 per cent from the year before. This rise reflected increased environmental taxes and reclassification of tax expense for gas operations related to Statoil Natural Gas LLC (SNG). The increase was offset by the lower cost of gas for onward sale.

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. This figure for 2013 was 0.9, an improvement on the year before. The number of personal injuries per million working hours came to 4.4, an improvement of almost 20 per cent.

Risers on Snorre A.
(Photo: Harald Pettersen/Statoil)

HIGHLIGHTS 2013

REVISED STRATEGY AND NEW CEO
Grethe Moen took over as chief executive in June 2013.

The company's strategy was revised during the year. Mature fields have been retained as a main priority. These represent a large part of Petoro's portfolio, and investment is time-critical for securing the recovery of their remaining resources and thereby their asset value. Something has been achieved, but much remains to be done.

Field development has been elevated to a separate main strategic topic. The commitment to Johan Sverdrup in 2013 related to promoting a unified development of the discovery up to a choice of concept in February 2014.

The far north has been selected as a third main priority for Petoro as a result of big exploration activity and discoveries in important frontier areas with broad SDFI participation.

RECORD INVESTMENT
Investment increased by 34 per cent from 2012 to reach a record level. Big development projects contributed to capital spending of almost NOK 35 billion in the SDFI portfolio. Investment in drilling and wells contributed to almost 50 per cent of total SDFI capital spending in 2013. Although investment in recent years has helped to level out the decline in overall output, the failure of such substantial spending to boost productivity represents a challenge. The figures show a substantial cost rise which cannot be explained by increased activity.

PROGRESS WITH SNORRE 2040
In the autumn of 2013, the partners in the Snorre licence chose a concept for further development of the field up to 2040. This is based on a new platform which will help to secure the recovery of the reserves during Snorre's commercial life and realise the potential for improved recovery. The decision is in line with Petoro's strategy for mature fields and will provide the opportunity for a substantial

increase in the number of production wells on Snorre. Petoro's calculations suggest that this could yield 240 million additional barrels from Snorre, which is considerably more than the oil in the Goliat development due to come on stream soon.

OWN RIGS FOR GULLFAKS AND OSEBERG

Petoro has taken a lead in pushing for licences with a long-term requirement for production drilling to own their own rigs as an alternative to chartering them. The aim is to contribute to increased capacity and predictability and to reduce drilling costs, which will in turn make it profitable to drill more wells. The licensees for Gullfaks and Oseberg ordered two new Category J jack-up rigs in 2013. These will be owned by the licences and contribute to improved recovery and extended producing life for the fields. Awarding the contracts secures the necessary rig capacity at a reduced cost, and thereby enhances financial robustness, provides more profitable wells and supports Petoro's commitment to improving recovery from mature fields.

EXPLORATION

The level of exploration activity on the NCS was high in 2013, and 20 new discoveries were made. Petoro was involved with 23 of 59 completed wildcat and appraisal wells, and participated in 11 new discoveries – including a very promising find in the Hoop area of the Barents Sea. The 22nd licensing round gave Petoro interests in eight new Barents Sea licences. Positive results were also obtained from appraisal of Johan Sverdrup, where drilling activity has been directed at understanding the resource potential and securing the best possible development solution for this discovery.

GOOD HSE RESULTS, BUT STILL CHALLENGES WITH DROPPED OBJECTS

Health, safety and environmental results for facilities in the portfolio have shown improvement over a number of years, and the number of serious incidents per million working hours in 2013 came to 0.9. No fatalities or incidents with a major accident potential occurred in the SDFI portfolio. Dropped objects and incidents related to mechanical handling continue to dominate the statistics.

Oseberg.
Photo: Harald Pettersen/Statoil

SAFETY

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SAFETY IN 2013

Results for health, safety and the environment on facilities in the SDFI portfolio have been improving for a number of years. The serious incident frequency (SIF) per million working hours was 0.9 in 2013, a marked improvement from 2012. No fatalities or incidents with a major accident potential occurred during 2013. Dropped objects and incidents related to mechanical handling continued to dominate the statistics.

Petoro's main parameter for following up HSE developments in the SDFI portfolio is expressed by the SIF. This 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 39 incidents were recorded as serious, or an average of 2.1 per installation included in the 2013 statistics. The PIF came to 4.4, down by one percentage point from 2012.

Despite a continued challenge presented by incidents related to dropped objects, their number has almost halved over the past four years. That reflects measures adopted by the industry.

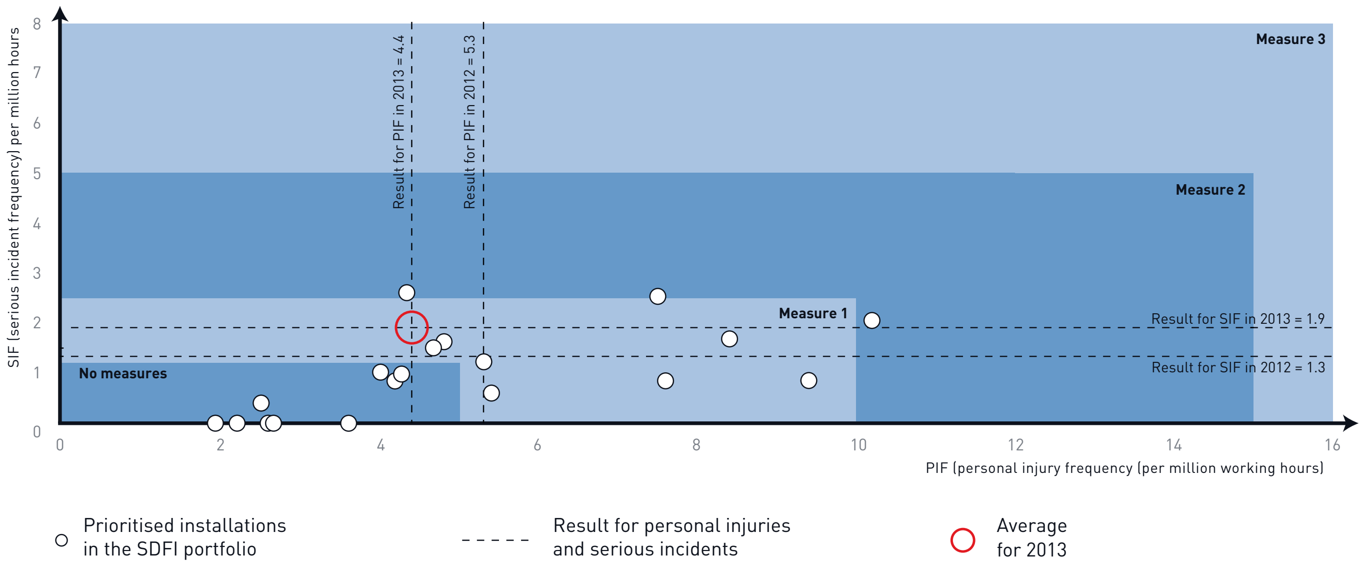
Petoro aims to be a proactive partner in efforts to reduce the scale of personal injuries and undesirable incidents on the NCS. The company has paid special attention in recent years to measures for reducing major accident risk. To identify risk elements in the licences, a joint project pursued with ConocoPhillips, ExxonMobil and Total has established best practice for preventing major accidents. Brainstorming took place during 2013 in 12 Statoil-operated licences to identify risk elements with a major accident potential. The work is continuing into 2014 with the goal of further operationalising this process.

ACROSS AREAS AND LICENCES

Health, safety and the environment 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 is actively engaged in exchanging experience across licences and operators. 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 2013 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. HSE work on facilities in the SDFI portfolio resulted in an improvement of about 25 per cent compared with 2012. No fatalities or incidents with a major accident potential occurred during 2013.

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.



SERIOUS INCIDENTS AND PERSONAL INJURY FREQUENCY

Measure 1: Call for specific measures with status in the management and technical committees • Ensure that annual management inspections address measures and developments

Measure 2: Contact the responsible person at the operator and call for a broader HSE analysis with compensatory measures in the management and technical committees • Assess extraordinary working meetings of the management committee • Assess partner management inspections with a special focus on the incidents and risk management • Department head assesses personal contact with the operator

Measure 3: Department head contacts/meets with the operator at management level • Conducts assessment of the portfolio to identify shared types of incidents across several facilities, raised by department head with the operator(s) management • HSE manager considers the need for industry measures through Norwegian Oil and Gas

PETORO'S MANAGEMENT AND BOARD

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REPORT FROM THE BOARD ON CORPORATE GOVERNANCE

Petoro's management of substantial assets on behalf of the Norwegian government calls for good enterprise management 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 2022.

Petoro's board of directors complies with the requirements for enterprise management specified in the government's financial regulations and the standards for good corporate governance. It observes those sections of the Norwegian code of practice for corporate governance (the code) regarded as relevant for Petoro's business and the parameters determined by the company's form of organisation and ownership. A report is provided below on the main topics in the code with relevance for Petoro AS. The governance system is tailored to the special character of Petoro. That simplifies the availability of management information and helps to keep attention concentrated on the company's performance and risk picture at all times. Petoro reports on the follow-up of its corporate social responsibility (CSR) in a separate chapter of this annual report.

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.

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.

THE BUSINESS

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

The purpose of the company is, on behalf of the state and at the expense and risk of the state, to be responsible for the commercial aspects related to the state's direct involvement in petroleum activities on the Norwegian continental shelf (NCS), 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 Limited Liability Companies Act and the Norwegian Petroleum 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 assignment (previously the letter of award). In addition, the company's articles of association, strategy, values and guidelines on business ethics, including its guidelines for exercising the company's CSR, provide guidance for the conduct of Petoro's business.

The company's vision is to be a driving force on the NCS.

Petoro's strategy is focused on the value potential of the portfolio and positions where Petoro has the greatest ability to exercise influence. The strategy was revised in 2013 and falls into three parts. It continues to be weighted towards an active role in mature fields – both because of their value in the portfolio and because taking investment decisions which secure the recovery of the remaining resources is time-critical. The strategic topics are:

- mature fields: investing for improved recovery
- field development: safeguarding future opportunities
- far north: promoting integrated development.

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 179 production licences and 15 joint ventures and companies for pipelines and terminals at 31 December 2013. The SDFI participates in 33 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.

The company 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 Norwegian 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 reports annual 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.

EQUITY AND DIVIDENDS

Petoro has a share capital of NOK 10 million and is wholly owned by the Norwegian state. The state guarantees the company's liabilities. 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. The company receives grants to meet its costs and does not pay a dividend. The shares in the company are not tradable and cannot be transferred.

Petoro AS established Petoro Iceland AS in December 2012 as a wholly owned Norwegian subsidiary with an Icelandic branch office in order to conduct on-going management of Norwegian participatory interests in two production licences awarded by the Icelandic government on 4 January 2013. The branch office serves as the licensee. The Norwegian state's participatory interest in each of these production licences is 25 per cent. From 2013, Petoro AS will present consolidated accounts which include activity in Petoro Iceland AS. Administration of Petoro Iceland AS and funding for the Norwegian state's participation in petroleum operations on the Icelandic continental shelf are covered by a separate item in the central government budget. The branch also manages a 25 per cent participatory interest in a third production licence awarded by the Icelandic government on 22 January 2014.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

The shares in Petoro AS are wholly owned by the Norwegian state. As a result, the company has no personal shareholders and no share transactions occur with close associates. Petoro Iceland AS entered into an agreement with Petoro AS on an overdraft facility during 2013. This agreement was treated in accordance with section 3-8, see section 2-6, first paragraph, nos 1-4, of the Norwegian Limited Liability Companies Act, and was reported to the Norwegian Register of Business Enterprises.

The government has a common ownership strategy to maximise the collective value of its equity holding in Statoil ASA and the state's direct oil and gas interests. On that basis, Statoil ASA undertakes the marketing and sale of the state's petroleum pursuant to a marketing and sale instruction approved by the general meeting of

Statoil ASA. Through article 11 in Petoro's articles of association and the marketing and sale instruction for Statoil ASA, the government has given Petoro responsibility for monitoring that Statoil ASA performs its duties in accordance with this instruction.

A duty of commercial confidentiality applies to information Petoro receives through 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 ASA's securities for as long as the information is not publicly known.

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. Notice of general meetings is issued in accordance with the provisions of the Norwegian Limited Liability Companies Act relating to state-owned companies. The annual general meeting is held before the end of June each year. It considers matters prescribed by Norwegian law, including amendments to the articles of association and approval of the annual accounts. The Petroleum Act lays down guidelines for issues to be considered by the company's general meeting. Owner decisions are taken and resolutions adopted at the general meeting, which also elects the board of directors – with the exception of the worker directors – and the company's external auditor. The board of directors of Petoro AS serves as the general meeting of Petoro Iceland AS.

ELECTION OF DIRECTORS

The company is wholly state-owned, and is therefore subject to the government's procedures for selecting directors. Directors are elected by the general meeting, which also determines the remuneration of all the directors. Worker directors are elected for two years at a time by and from among the employees. A special nomination committee is appointed for the election of worker directors.

COMPOSITION AND INDEPENDENCE OF THE BOARD

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. All shareholder-elected directors are independent of the owner.

The board considers its composition to be appropriate in terms of expertise, capacity and diversity for following up the company's goals and assignments. Each director and the board as a collective body seek to strengthen their expertise in various ways on a continuous basis. This is done through dedicated study programmes for the board and through participation in courses and conferences.

WORK OF THE BOARD

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 2013.

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 topical commercial issues and following up 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 comprising two of the shareholder-elected directors, one of whom is the deputy chair. No other subcommittees have been established. The board has not found it appropriate to establish a separate audit committee. 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. Conflicts of interest are a fixed item on the agenda for the board's meetings and consideration of matters.

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. The board reviewed the company's CSR, business ethics guidelines and board instructions in 2013.

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 2013 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.

The company publishes information via its website, including press releases as well as the interim and annual reporting of its results. Petoro's annual report is prepared in March. 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. The board's presentation of the company's CSR is included in this annual report.

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, including the Petoro Iceland AS subsidiary.

CORPORATE SOCIAL RESPONSIBILITY

Petoro's presentation of its CSR builds on guidelines for exercising CSR adopted by the company in 2012. These are tailored to the company's activities as a licensee on the Norwegian continental shelf (NCS). CSR embraces the activities voluntarily pursued by the company over and above existing legal and regulatory obligations. Funding for discharging its management duties and for running the company is provided through appropriations from the government, and Petoro has no mandate to provide monetary support for social purposes. The board has chosen to build its presentation on the individual sections in the company's CSR guidelines, and not fully in conformity with a "comply or explain" principle as enshrined in the UN's Global Compact.

Petoro undertakes to pursue its business activities in an ethically acceptable, sustainable and responsible manner. The board emphasises that the company's CSR forms an integral part of its activities and strategies, and is reflected in part through its values. These include vigorous, responsible, inclusive and bold. It is implicit in the term "responsible" that the company's employees are actively involved with health, safety and the environment, show concern, do their work in a solid, professional manner and display a high level of integrity. These qualities are supported by the company's commercial guidelines.

Petoro pursues its business in accordance with good corporate governance. That applies to its participation in the individual production licences and as a partner in the joint ventures. The joint venture agreements for the production licences include requirements on governance by the operators. Petoro exercises its role through active participation in management committees and sub-committees on the basis of a prioritisation of available resources and where it can make a difference. Follow-up of the state's equity interests in all joint ventures is incorporated in Petoro's governance system.

Petoro pursues its business in a sustainable manner which minimises negative impacts on nature and the environment. Serious incidents are followed up as a critical success factor in Petoro's governance system, and it pays close attention to environmental incidents which could have negative consequences for nature and the environment. Health, safety and environmental results in the portfolio have improved over a number of years. Petoro participates every year in HSE management inspections on selected fields and installations. During 2013, the company continued its efforts in the joint ventures to prevent major accidents on the NCS.

Petoro works to secure the establishment of goals and the identification of action plans for energy-efficient solutions in the long-term plans of the production licences, and to ensure that these elements are carried over into the work programme and budget for implementation on the fields. The company is a licensee in Martin Linge, which is being developed with power from Kollsnes as its energy solution. The Johan Sverdrup licensees chose a development concept (decision gate 2) for the field in February 2014 which includes power from shore. The proposed solution will provide power for the first development phase.

The company contributes to creating environmentally conscious attitudes among all its employees, and continued waste sorting in 2013 as well as incentives established to increase the use of public and environment-friendly transport. Petoro give emphasis to efficient ICT solutions and good communication systems, and has built a modern collaboration and communication platform which integrates speech, data and video in a seamless interface with good opportunities to replace travel with videoconferencing.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of its annual report on the environment, based on figures obtained from the operators. The company is concerned that the industry takes account of the environment and would note, in this context, that emissions/discharges on the NCS have been low by international standards for many years. No significant emissions to the air or discharges to the sea occurred from the SDFI portfolio during 2013. The figures will be reported in the external annual report as soon as they are available.

Petoro does not accept any form of corruption or other malpractice, and employees are not permitted to receive remuneration from others in their work for the company. Guidelines on business ethics define what is regarded as corruption, and the consequences of breaching these guidelines receive special mention. No breaches of these guidelines have been recorded.

Petoro's employees do not accept unlawful money gifts or other benefits, or offer these in order to secure an advantage for themselves, for Petoro or for others. Employee directorships and jobs on the side must be approved by the president in order to avoid possible conflicts of interest. Guidelines on business ethics detail the consequences of breaches. No breaches of the guidelines have so far been recorded.

Petoro's employees comply with the company's business ethics guidelines. The company's guidelines on business ethics are publicly available. Their purpose is to clarify principles which will govern the company's commercial operations and employee behaviour. All employees sign the company's ethical guidelines annually. These guidelines 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 security requirements for data and for information and communication technology (ICT) in 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.

Petoro's employees discharge their duties with a high level of integrity and honesty, and show respect for other people, the public authorities and business contacts, as well as for health, safety and the environment. The company's guidelines on business ethics include requirements on ethical behaviour by all employees. Petoro's goal is a good mental and physical working environment for all personnel. PetroAktiv organises a number of social, cultural and sporting activities for employees.

Petoro does not discriminate on the basis of gender, religion, national or ethnic affiliation, social group or political views. Women accounted for 36 per cent of the total workforce in 2013, unchanged from the year before, and for 42 and 25 per cent of the company's board 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. The company has a number of employees with differing cultural and ethnic backgrounds. Working conditions at Petoro are customised to allow people with disabilities to work for it.

The company has routines for reporting conditions open to criticism. 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 to the board. No cases of whistleblowing were recorded in 2013.

Petoro expects its partners and contractors/suppliers to maintain the same ethical standards set for its own business operations. Petoro's standard contractual terms incorporate requirements that contractors/suppliers must execute the assignment with a high level of professionalism and in accordance with high ethical standards. An extract of the company's guidelines on business ethics is incorporated in all Petoro's standard contracts as the norm to be met. The management committee in each joint venture is responsible for considering and deciding issues related to the procurement and contract strategy.

BOARD OF DIRECTORS OF PETORO

Behind from left: Anniken Gravem, Gunn Wærsted, Per A Schøyen and Nils-Henrik Mørch von der Fehr. Seated front from left: Ragnar Sandvik, Gunnar Berge and Hilde Myrberg. (Photo: Emile Ashley)

GUNNAR BERGE [1940]
Chair

Years of election/re-election: 2007/2015
Other directorships: University of Stavanger, Western Norway Regional Health Authority, Norwegian Petroleum 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.

GUNN WÆRSTED [1955]
Director

Years of election/re-election: 2013/2015
Occupation: Executive vice president and member of group executive management, Nordea AB (publ) and country senior executive/CEO, Nordea Bank Norge ASA, 2007-.
Other directorships: Director, Nordea Bank Danmark and Nordea Bank Finland, chair, No rdea Life Holding and Nordea Bank SA AB, member of nomination committee, Schibsted ASA, council member, Veritas ASA, board member, Finance Norway..
Education: MBA, BI Norwegian Business School.
Career: A number of management/senior executive positions in banking and insurance, including executive vice president in DnB responsible for capital management and life insurance, CEO, Vital Forsikring ASA and member of corporate executive management, 1999-2002, CEO, SpareBank 1 Gruppen AS, and head, SpareBank 1 Alliance, 2002-07.

NILS-HENRIK MØRCH VON DER FEHR [1960]
Director

Years of election/re-election: 2005/2015
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.

HILDE MYRBERG [1957]
Deputy chair

Years of election/re-election: 2006/2015
Other directorships: director, CGGVeritas SA, member, corporate assembly, Jotun AS and Gjensidige AS, member, nomination committee, Det Norske Oljeselskap ASA and NBT.
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.

PER A SCHØYEN [1947]
Director

Years of election/re-election: 2007/2015
Occupation: Partner, Kluge Advokatfirma DA, Stavanger
Education: Law degree, various management programmes.
Career: Partner at Kluge since 2005. With Esso/ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also deputy judge and assistant police attorney.

RAGNAR SANDVIK [1973]
Director
(elected by the employees)

Years of election/re-election: 2012/2014
Occupation: Senior adviser, finance, Petoro
Education: MSc business economics, Norwegian School of Economics (NHH)
Career: Experience from various roles in Petoro in commercial,licence management and economics, 2002-. Consultant, Accenture, 1999-2002.

ANNIKEN GRAVEM [1968]
Director
(elected by the employees)

Years of election/re-election: 2012/2014
Occupation: Senior adviser, technology, Petoro
Education: MSc engineering, Norwegian University of Science and Technology (NTNU), 1992
Career: Number of years of experience in sub-surface work related to exploration and producing fields with contractor and operator companies (Schlumberger, Statoil, Halliburton and Petoro). Joined Petoro in 2009.

EXECUTIVE MANAGEMENT

From left: Roy Ruså, Nashater Deu Solheim, Laurits Haga, Kjell Morisbakk Lund, Grethe Kristin Moen, Jan Terje Mathisen, Marion Svihus and Olav Boye Siversten. (Photo: Emile Ashley)

GRETHE KRISTIN MOEN [1960]
President and CEO
Education: MSc chemical engineering, Norwegian University of Science and Technology (NTNU).
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.

JAN TERJE MATHISEN [1956]
Vice president Johan Sverdrup
Education: MSc marine civil engineering, NTNU, BSc in business economics, BI Norwegian Business School.
Career: Broad experience of project management, field development and business development from Norwegian Contractors, Selmer Furuholmen, own business, Shell, Statoil and others.

KJELL MORISBAK LUND [1968]
Vice president licences
Education: MSc marine technology, NTNU
Career: Broad experience from work in upstream and downstream oil and gas business including as a researcher on marine structures in Sintef. Several project, staff and managerial positions in Statoil – most recently as HSE vice president for midstream and downstream operations.

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 technology and ICT department.

MARION SVIHUS [1956]
Chief financial officer
Education: MSc in business economics, Norwegian School of Economics, 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.

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.

NASHATER DEU SOLHEIM [1968]
Vice president strategy and organisation
Education: Clinical psychology, PhD in psychology, University of Surrey
Career: Broad management experience from large organisations such as Statoil, the UK Ministry of Defence, and Britain's public and private health sector. She has also developed her own companies.

DIRECTORS' REPORT 2013

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.

INCOME, REVENUES, COSTS AND RESERVES

Net income in 2013[1] came to NOK 132.8 billion, compared with NOK 150 billion the year before. Total operating revenue was NOK 194.3 billion, compared with NOK 213.9 billion in 2012. This yielded a cash flow to the government of NOK 124.8 billion as against NOK 146.9 billion the year before. Total production averaged 1 034 000 barrels of oil equivalent per day (boe/d), which was about nine per cent lower than the 2012 figure.

An income after financial items of NOK 132.8 billion was down by 11 per cent from 2012. This primarily reflected a decline of NOK 16 billion in operating revenue from gas sales owing to a 13 per cent decline in such sales, with prices also down by two per cent, from the record set in 2012. Total operating costs were on a par with the year before. Overall oil and gas sales for 2013 averaged 1 094 000 boe/d, compared with 1 197 000 boe/d in 2012.[2] Liquids output fell by about 10 per cent annually between 2005 and 2010, but the decline has since been smaller. It was only four per cent from 2012 to 2013. The drop in production primarily reflects the maturation of large older oil fields in the portfolio, but is offset by improved recovery measures and contributions from new projects, including new fast-track developments. But the number of wells drilled remains too low compared to the existing recovery potential.

Income before financial items came to NOK 132.5 billion. Net financial income was NOK 0.4 billion.

Revenue for the year from dry gas sales totalled NOK 90.4 billion as against NOK 106.4 billion in 2012. Total gas sold came to 39.1 billion standard cubic metres (scm), including sales of third-party volumes. That corresponds to 674 000 boe/d.[3] The average gas price for the year was NOK 2.31 per scm, down two per cent from 2012.

Total revenue for the year from oil and natural gas liquids (NGL) was NOK 92.6 billion. The sales volume totalled 153.3 million boe, or a daily average of 420 000 boe. The average oil price obtained for the year was NOK 647 per barrel, compared with NOK 657 in 2012. Other revenues, which primarily comprise tariff earnings from Gassled, amounted to NOK 11.2 billion in 2013 and were on a par with 2012.

Investment came to NOK 34.4 billion, up by no less than 34 per cent from 2012. Capital spending on development in 2013 totalled NOK 11 billion, and embraced such new projects as Valemon, Martin Linge, fast-track developments, subsea compression on Åsgard and new compressors on Troll. Investment in production drilling amounted to NOK 16 billion, reflecting a record number of mobile drilling units on SDFI fields. Including capitalised exploration costs, total investment for 2013 was NOK 35.4 billion.

The cost of operating fields, pipelines and land-based facilities was NOK 18.3 billion, up by 11 per cent from 2012. This rise reflects higher environmental taxes and reclassification of tax costs for gas operations related to Statoil Natural Gas LLC (SNG). Expenses related to base operation and maintenance of the fields remained on a par with 2012. Exploration-related costs amounted to NOK 3.3 billion, of which NOK 1 billion was capitalised as investment related to possible and confirmed discoveries, and NOK 2.3 billion was expensed as dry wells. Correspondingly, exploration expenses totalled NOK 1.8 billion in 2012, of which NOK 1.1 billion was expensed. A total of 23 exploration wells were completed during 2013, 12 more than the year before. Eleven of these wells represented new discoveries, which contained recoverable reserves of 101-195 million barrels of oil and 57-94 million boe of gas. By comparison, 470-580 million boe were proven in 2012.

[1] All figures are based on the accounts compiled in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles (NGAAP).

[2] Sales of entitlement oil, NGL and gas in 2013 totalled 1 041 000 boe/d compared with 1 129 000 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 2013, the portfolio's expected remaining oil, condensate, NGL and gas reserves comprised 6 423 million boe – down by 200 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 288 million boe were added to the SDFI in 2013. At the same time, reserves were downgraded for certain fields, making the net increase 177 million boe. About half of this figure derived from mature fields. The biggest contributions to the increase in reserves were the decision on carbon injection in Snøhvit, the improved recovery project on Åsgard and the Delta 2 fast-track project in Oseberg. The net reserve replacement rate for 2013 was 47 per cent, compared with 67 per cent the year before, and the average replacement rate for the portfolio over the past three years came to 91 per cent. The corresponding figure for 2010-12 was 87 per cent. The reserve replacement rate will vary from year to year, and was particularly high in 2011, at 160 per cent, as a result of the decision on new compressors for Troll.

Petoro Iceland AS was established in December 2012 as a wholly owned subsidiary of Petoro AS. See further details below.

BOOK ASSETS AND EQUITY

The book value of assets totalled NOK 234.9 billion at 31 December 2013. 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 162.9 billion. Future removal liabilities were NOK 52.6 billion. 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 17.2 billion at 31 December.

From the establishment of Petoro in 2001 and until 31 December 2013, the number of production licences in the SDFI portfolio rose from 80 to 179. At 31 December 2013, Petoro also participated in 15 joint ventures for pipelines and terminals.

STRATEGY FOR PETORO

The company's strategy was revised in 2013. Its new strategy retains mature fields as a main priority. This is because such fields represent a large proportion of Petoro's portfolio, and because investment decisions which secure the recovery of their remaining resources, and thereby their value, are time-critical.

Field development has also been elevated as a separate principal strategic topic. The background for this is Petoro's participation in large new projects such as Johan Sverdrup as well as the insight and experience which the company has acquired from its work on mature fields and which can be applied to securing long-term and flexible solutions for new field developments.

The far north has been chosen as third main topic in the strategy. Petoro has a broad involvement in the Barents Sea through participation in a substantial number of production licences in the exploration phase and in the Snøhvit field and Johan Castberg development, where substantial value could be secured through good and forward-looking area solutions.

FOLLOW-UP OF THE SDFI PORTFOLIO

Output from a few large oil fields in a mature phase dominates liquids production in the SDFI portfolio. Remaining reserves are substantial, but realising these volumes assumes continuous drilling of production wells. However, Petoro sees that the pace of drilling and the number of new wells have declined compared with earlier years – from three per drilling rig to less than half. In addition, the remaining number of necessary wells appears to have been underestimated.

This increases the risk that the producing life of mature fields will be reduced, which will limit the number of remaining profitable drilling targets. More wells per year can be achieved through increased drilling efficiency from existing facilities, greater capacity in the form of new installations (such as wellhead platforms) or more subsea wells. Reduced uncertainty through detailed mapping of the remaining resource potential and good solutions for field development are necessary for realising reserves and resources. Work to increase the pace of drilling has and will continue to characterise Petoro's commitment to mature fields.

Record investment characterised 2013. Activity increased on the Norwegian continental shelf (NCS), mainly because of more new drilling rigs and a larger number of wells as well as major development projects. This is a result of business opportunities matured to the point of decision, and will generate greater future revenues. But part of this investment growth also reflects high price rises and reduced productivity. The growth in costs challenges the profitability of new projects and must be tackled through cost cuts/productivity improvements.

One area where Petoro sees a need for improvement is drilling of production wells. The drilling rate – the number of new wells per year – must be increased. Several measures are available to achieve this, and Petoro has made a strong commitment in recent years to securing more mobile drilling rigs for the NCS. That has contributed to a doubling of rig-years from mobile units over the past two years. The number of production wells completed on SDFI fields in 2013 was up by 25 from the year before. Mobile units accounted for 23 of this increased number, primarily on Ekofisk, Troll and the new fast-track developments.

No rise in the drilling pace is seen from fixed installations on mature fields, despite initiatives to boost productivity. Petoro will increase its future commitment in this area. On some of the mature oil fields, the company has challenged the operator and partners to assess wellhead platforms as another measure to speed up the pace of drilling.

Together with Statoil, Petoro has also worked for licences which have a long-term need to drill many wells to consider owning mobile rigs themselves. The partners in Gullfaks and Oseberg resolved in 2013 to order such units for their fields. These decisions represent an important milestone in securing the big remaining assets in these mature fields.

Special attention was devoted during the past year to Snorre, which has the largest remaining oil reserves among producing oil fields on the NCS after Ekofisk. The concept for the Snorre 2040 project was chosen in November 2013, with the partners resolving to continue with Petoro's preferred solution of a platform which will help to realise the 100 remaining identified drilling targets. According to Petoro's calculations, this will yield 240 million barrels of extra crude – substantially more than the oil in the Goliat field soon to come on stream in the Barents Sea. A new platform for Snorre 2040 represents a demanding decision.

Other mature fields given priority by Petoro in 2013 include the big Heidrun and Oseberg oil producers. As with Snorre, the main effort has related to identifying new drilling targets in order to secure a better picture of the total remaining need for wells and thereby create greater confidence in the reserve base. This is fundamental for the discussion of future development.

Petoro's commitment on Heidrun since 2010 has convinced the partnership to carry out detailed work to realise the reserve potential. The company has played a key role in the partnership's establishment of a project intended to produce a long-term and coherent plan for continued development of the field. Petoro's commitment has related to changes in work processes for reservoir management, identification of new well targets and measures to boost the pace of drilling. The licence is due to decide in June 2014 whether the basis exists for starting conceptual studies. Petoro will conduct its own studies to support this process.

The commitment on Johan Sverdrup in 2013 related to promoting a coherent development of the field up to a choice of concept in February 2014. This work includes independent analyses of the sub-surface. Petoro's field development commitment has concentrated particularly on solutions which maximise long-term value creation, including a single field centre, provision for water and gas injection, many well slots, an integrated drilling facility, enhanced oil recovery (EOR) and the provision of spare space for future phases. This is in line with the company's strategy of shaping field development for future opportunities and manifesting the potential for EOR.

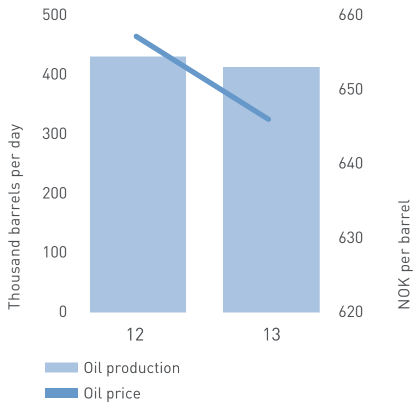
Petoro has received a supplementary appropriation from its owner related to unitisation negotiations for the Johan Sverdrup discovery between PLs 265, 501 and 502. Work on this was pursued in 2013 and will continue in the direction of negotiations in 2014.

Two plans for development and operation (PDO) were approved in the SDFI portfolio in 2013, covering Oseberg Delta 2 and Fram H North respectively. The first of these is one of Statoil's fast-track projects, which aim to reduce the time from discovery to production and the cost of small developments close to existing fields. Three of these fast-track projects where Petoro is a licensee – Skuld/Norne, Stjerne/Oseberg and Vigdis North-East/Tordis/Vigdis – came on stream during 2013. Another five are due to begin production in coming years.

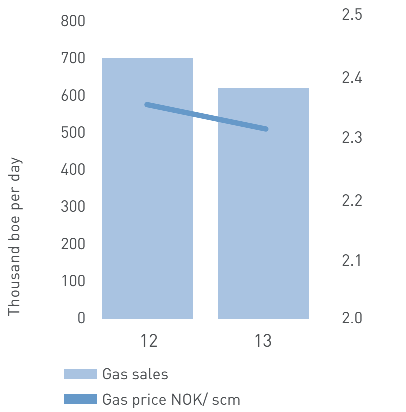
EXPLORATION ACTIVITY

Petoro was involved in 23 of 59 completed wildcat and appraisal wells. A total of 20 new

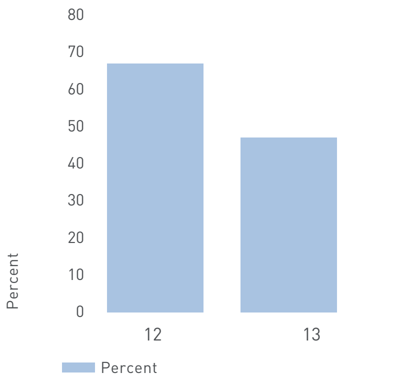
OIL PRODUCTION/PRICE



GAS SALES/PRICE



RESERVE REPLACEMENT RATE



discoveries were made - five in the Barents Sea, eight in the Norwegian Sea and seven in North Sea, and Petoro was a participant in 11 of these.

Much of the exploration activity was directed at understanding the resource potential of Johan Sverdrup and ensuring the best possible development solution for this field. A total of 11 exploration wells were drilled in the two main licences, PLs 265 and 501, during 2013. In addition, an exploration well was drilled in PL 502.

A very promising discovery, Wisting Central, was made in the Hoop area of the Barents Sea. This opens a number of new exploration opportunities in the central and north-western parts of this region.

Three exploration wells were drilled in the area around Johan Castberg, resulting in two small gas discoveries and one minor oil find. These will be viewed in relation to the Skrugard and Havis discoveries in connection with the choice of concept for Johan Castberg in 2014. Before this choice, two new exploration wells will be drilled in 2014.

Allocations in the awards in predefined areas (APA) and the regular 22nd licensing round in 2013 added interests in 25 new production licences to the SDFI portfolio. A large proportion of these are in the Barents Sea.

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

Oil prices were particularly influenced by several factors during 2013 – continued weak growth in important economies, unrest in important supplier countries and the emergence of new oil sources. Weaker economic growth meant that demand for crude rose more slowly than the historical trend during 2013. However, the expansion in global oil demand staged a recovery towards the end of the year. Daily oil consumption accordingly averaged 91 million barrels per day during November/December, up by two per cent from the same period of 2012.

On the other hand, continued geopolitical tensions have reduced oil output from such countries as Libya, Iraq, Syria, Sudan/South Sudan and Nigeria. Production from oil shales and sands in the USA and Canada has contributed new volumes to the market, reduced US import requirements and thereby moderated oil prices. Overall, developments in supply and demand left oil prices at roughly the same level as in 2012.

Oil prices obtained for the SDFI moved within a band of USD 100-120 per barrel. The average figure for 2013 was USD 110 per barrel compared with USD 113 in 2012.

European demand for gas is showing a falling trend. Weak economic development and increased competition from renewable energy and coal are important reasons for the reduction. However, preliminary figures indicate that the decline in 2013 was smaller than expected, at around 0.7 per cent. The main reason was an unusually long period of cold weather during the winter of 2012-13, which led to a sharp rise in gas demand. However, demand fell again over the year compared with 2012, particularly in important countries such as Germany and the UK. The decline in European gas demand is expected to continue during 2014.

Norwegian gas exports fell by five per cent from a record 2012 level. High gas prices in Asia during 2013 again meant that liquefied natural gas (LNG) originally intended for the European market was sent instead to eastern markets. Russia functioned as the swing producer for Europe, and increased its gas deliveries there by roughly 16 per cent in 2013. Part of the gas volume sold to Europe is priced in accordance with market quotations which reflect the balance between supply and demand (spot pricing). Prices in the European gas market were somewhat lower than in 2012, but still move at a relatively high level.

The average gas price for the SDFI portfolio in 2013 was NOK 2.31 per scm, compared with NOK 2.35 the year before.

Petoro has worked to ensure maximum value creation for the gas portfolio. The company is concerned to ensure that available gas is sold in the market at the highest possible price, and that the flexibility of production plants and transport capacity is exploited to optimise deliveries.

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)

HSE results for facilities in the portfolio have been improving over a number of years. The serious incident frequency (SIF) per million working hours was 0.9 for 2013, an improvement from the year before. This is based on 39 serious incidents registered on the 18 fields included in the statistics, compared with 47 incidents in 2012. No fatalities were suffered in Petoro's portfolio during 2013. Dropped objects and incidents related to mechanical handling continued to dominate the statistics, despite big improvements in these categories over the past three years. The personal injury frequency per million working hours came to 4.4 in 2013, an improvement of almost 20 per cent.

Petoro has focused particular attention in recent years on measures to reduce the risk of major accidents. To identify risk elements in the licences, efforts were made to establish best practice for preventing such incidents through a collaboration project with ConocoPhillips, ExxonMobil and Total. Brainstorming sessions were conducted in 12 Statoil-operated licences during 2013 to identify risk elements with a major accident potential. This work will continue in 2014 with the goal of further operationalising the process. The project has received positive responses from the Petroleum Safety Authority Norway.

The company participated in several HSE management inspections on selected fields and installations during 2013.

Petoro reports on emissions to the air and discharges to water from the portfolio in a separate section on the environment in the annual report. It is concerned to ensure that the industry takes account of the environment and would point in that context to the fact that emissions/discharges on the NCS have been low in an international context for many years. No big individual discharges to the sea or on land occurred in the SDFI portfolio during 2013. The final figures will be reported in the external annual report as soon as they are available.

ATTRACTIVE WORKING ENVIRONMENT AND EXPERTISE

Petoro's human resources policy aims to ensure diversity and equal opportunities, develop expertise and facilitate a good working environment.

The individual Petoro employee is crucial to the company's deliveries 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.
Opportunities for professional and personal development will help to retain, develop and attract able personnel.

Petoro had 64 employees at 31 December 2013, compared with 65 a year earlier. Twelve staff left or retired during 2013. Replacing them has been challenging in a tight labour market with strong competition over terms and conditions of employment.

Women accounted for 36 per cent of the total workforce in 2013, similar to 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 as well as pay. 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. It customises working conditions so that people with disabilities can also work for Petoro.

Sickness absence came to 1.2 per cent, compared with 2.35 per cent in 2012. Long-term sick leave was particularly reduced in 2013. Petoro has an inclusive workplace (IA) agreement, and gives weight to close follow-up and dialogue as well as to making arrangements which can 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 2013.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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 presentation of CSR by the company builds on the guidelines for its exercise adopted in 2012, which are tailored to its activities as a licensee on the NCS. CSR embraces the activities voluntarily pursued by the company over and above existing legal and regulatory obligations. Funding for discharging its management duties and for running the company is provided through appropriations from the government, and Petoro has no mandate to provide monetary support for social purposes.

Measures which ensure that Petoro discharges its CSR include ethical guidelines, openness on money flows and anti-corruption work, the HSE declaration, and diversity and equal opportunities. The board provides a more detailed presentation of the exercise of CSR in a separate section of the annual report.

RESEARCH AND DEVELOPMENT

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

Qualifying new technological solutions for field application and their efficient implementation on fields represent 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. Qualification of subsea compression on Ormen Lange, Åsgard and Gullfaks, totalling NOK 7-8 billion over a five-year period, is a case in point. Petoro has worked for a number of years to secure faster adoption of technological opportunities and improved roll-out of new technologies in the production licences.

The company has been a driving force over a number of years for maturing EOR measures. An extensive test with silicate injection was implemented on Snorre in 2013. Although the project was completed during the year, it will take time for a possible response to be measured in the production wells.

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. Requirements for governance in the public sector are specified in the government's financial regulations and standards for good corporate governance. The board observes those sections of the Norwegian code of practice for corporate governance regarded as relevant to Petoro's business and the frameworks established by its form of organisation and ownership.

The internal audit function conducted a review in 2013 of Petoro's compliance with the Norwegian code of practice for corporate governance as well as supplementary requirements and best practice. It concluded that the company's is very compliant with these provisions, and found no significant recommendations/requirements which were not observed and no significant nonconformities with best practice. The management system is tailored to Petoro's special character, and has been further developed in line with organisational changes during the year. See the separate section in the annual report for further details.

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

WORK OF THE BOARD

The board held 12 meetings in 2013. 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. Balanced scorecards are a key instrument used by the board in following up the company's results, and it measures the results achieved against established commercial and organisational goals.

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

The board has maintained the practice of allocating preparatory work related to compensation arrangements to a sub-committee. Conflicts of interest are a fixed item on the agenda at board meetings, and directors with such a conflict withdraw from the board's consideration of the relevant issue. The board conducts an annual evaluation of its own work. That also includes the company's guidelines on business ethics and CSR, and the instructions for the board.

Chief executive Kjell Pedersen retired on 11 June 2013. Grethe K Moen was appointed to succeed him as president and CEO, and took office on 12 June. Gunn Wærsted joined the board and Mari Thjømøe stepped down as a director during 2013.

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 conducted two strategy meetings in 2013.

Petoro's board comprises Gunnar Berge as chair, Hilde Myrberg as deputy chair, Gunn Wærsted, Per Arvid Schøyen and Nils-Henrik M von der Fehr as the other shareholder-elected directors, and Anniken Teigen Gravem and Ragnar Sandvik as directors elected by and from among the employees.

RISK MANAGEMENT AND INTERNAL CONTROL

The board conducted an assessment of the risk picture in 2013 on the basis of the approved strategy, and set targets for the coming year. Measures were identified for reducing the most significant risks which Petoro has an opportunity to influence through the frameworks available to it.

Several internal audit projects are approved and implemented every year. These are summed up in a report to the board and describe the checks undertaken, the findings made and measures proposed and implemented. Petoro's internal audit function is outsourced to Deloitte, which also undertakes the internal financial audit for the SDFI.

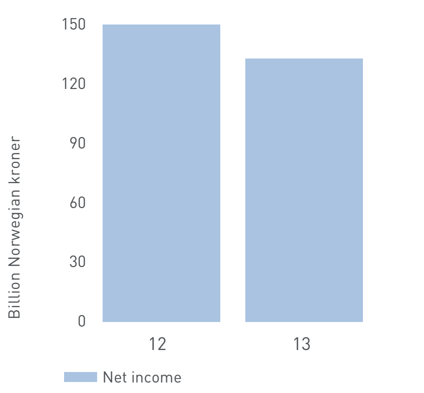
PROSPECTS

The board expects economic growth to remain strong in Asia and to strengthen again in the USA and Europe. However, growth prospects for several non-OECD countries look more uncertain. Viewed overall, nevertheless, the outlook for the world economy looks better than it was a year ago. Improved economic prospects will have a positive influence on demand for oil. Unrest in the Middle East means continued uncertainty about oil supplies from countries such as Libya, Syria and Iraq. On the other hand, Opec has spare production capacity and a further increase in shale oil output is also expected in the USA. Viewed overall, the board expects oil prices to remain relatively high in 2014 although at a somewhat lower level than in 2013.

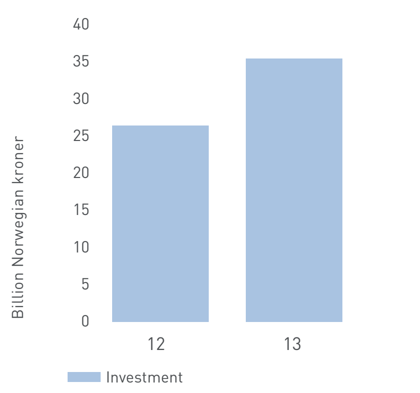
Global gas demand is expected to rise in the years to come. Growth in Asian demand for gas is likely to continue and will attract a substantial proportion of the world's LNG volumes. Large volumes of shale gas are being produced in the USA, which has resulted in low gas prices. Some US gas is likely to be exported as LNG, with Europe as a possible market.

Demand for gas is expected to decline in the European market, even if the economic outlook

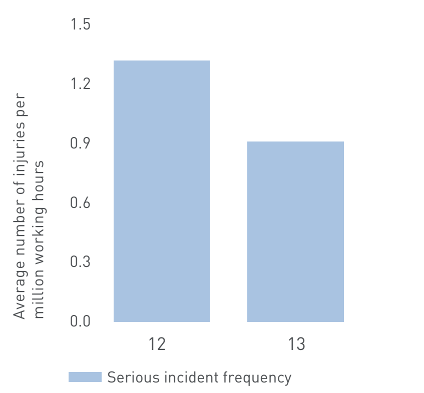
NET INCOME



INVESTMENT



SERIOUS INCIDENT FREQUENCY



shows signs of improvement. Gas is increasingly competing with renewable energy and coal, particularly for electricity generation. Energy efficiency gains are also reducing the need for gas. Europe's own gas production is declining, and the need for gas imports will rise. Russian deliveries and LNG are the main competitors for Norwegian gas. Gas prices in 2014 are expected to remain unchanged from the year before.

Oil and gas production from the SDFI portfolio is expected to remain at a level of just over a million boe/d in the years to come, with a fairly stable division between liquids and gas. Total output in 2020 is likely to be roughly unchanged from 2013, with the difference that the portfolio will contain a substantially larger number of fields and that production from large mature fields will be lower. Maintaining this stable level of output will be a challenge, and will call for an independent technical and commercial commitment by Petoro both to safeguard expected output from fields already covered by development decisions and to mature new projects.

Petoro manages large holdings in the big mature fields on the NCS. Its strategy calls for investment both to safeguard the production of existing reserves and to improve recovery from such fields. This will be an ever more demanding job, both because the simplest and cheapest volumes were produced first and because a high level of growth in costs combined with a stable oil and gas prices puts pressure on project profitability.

The big operators have communicated a need to set stronger priorities for projects in the light of capital requirements, cost increases and declining returns. This could lead to projects being postponed and to the priority of profitable Norwegian projects being downgraded to the benefit of developments in other countries. A danger accordingly exists that necessary and time-critical investments in mature fields fail to be implemented.

The board would emphasise the significance of the company's strategy for the mature fields in the SDFI portfolio. Important jobs for maximising the value of the fields include increasing the number of production wells, ensuring that technical integrity provides scope for extending producing lives, and generally enhancing the efficiency of work processes.

At the same time, Petoro also has substantial assignments associated with developing new discoveries such as Johan Sverdrup and Johan Castberg. The company will contribute to ensuring the best possible developments, not least with a view to future opportunities in such fields. It will also look after the government's commercial interests in the unitisation of the licences which make up Johan Sverdrup.

A large proportion of Norway's undiscovered resources are located in the far north. The discovery of Johan Castberg has created new faith in the opportunities on the northern NCS, and a high level of exploration activity is planned for the next few years. Petoro is involved in a number of important licences in the far north where exploration activity is being pursued, including the promising Hoop area.

SDFI production today is the result of a number of important historical political decisions, including the licensing policy which has been pursued and the decisions taken to sell SDFI interests in the early 2000s. The SDFI accordingly participates in only a small proportion of today's large development projects and has generally received a smaller interest in production licences during recent years than was the case before. Oil operations are very long term, and SDFI production up to 2030 will depend in the same way on the decisions taken by the government over the next few years on maximising state revenues from the petroleum industry – including licensing policy.

PETORO AS – SHARE CAPITAL AND SHAREHOLDER

The company's share capital at 31 December 2013 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government. Petoro's business office is in Stavanger.

PETORO ICELAND AS

Petoro Iceland's purpose is to participate in petroleum operations on that part of the Icelandic continental shelf which falls within the joint Icelandic-Norwegian collaboration area. The company was established in December 2012 as a wholly owned subsidiary of Petoro AS. Its share capital at 31 December 2013 comprised NOK 2 million, divided between 2 000 shares. Petoro Iceland participated during 2013 with 25 per cent interests in two licences, and secured a participatory interest in a third licence on 22 January 2014. The company has no employees and has entered into a management agreement with Petoro, which will handle day-to-day operation of Petoro Iceland's activities and take care of all administrative functions. An agreement on technical support has also been entered into with the Norwegian Petroleum Directorate.

The budget covers management costs for Petoro AS, which is responsible for daily operation and handles all administrative functions, as well as Petoro's share of licence costs in the two first production licences.

PETORO AS AND GROUP – NET INCOME AND ALLOCATIONS

Petoro AS administers the SDFI portfolio in accordance with 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.

The consolidated accounts embrace the parent company and Petoro Iceland AS. A management agreement has been entered into between the two companies. Amounts related to internal transactions are eliminated in the consolidated accounts. No consolidated accounts were prepared for 2012.

Funds for operating Petoro AS and Petoro Iceland AS are provided by the government, which is directly liable for the commitments accepted by the companies. The government contribution for ordinary operation of Petoro AS in 2013 was NOK 290.7 million, compared with NOK 281.2 million the year before. Since this sum includes VAT, disposable revenue exclusive of VAT was NOK 232.6 million as against NOK 225 million in 2012. Petoro received an additional appropriation of NOK 28.1 million exclusive of VAT in 2013 to meet costs related to unitisation work for the Johan Sverdrup field. Consolidated recorded operating income for 2013 was NOK 267.7 million and the net financial results was NOK 3.5 million.

Operating expenses for the parent company in 2013 were NOK 270.4 million, compared with NOK 256.7 million the year before. Consolidated operating expenses totalled NOK 271.7 million in 2013. 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 joint ventures in the SDFI portfolio accounts for a substantial proportion of the company's operating expenses. The company gave priority to devoting substantial resources and study funds to mature fields and the work on Johan Sverdrup. This boosted costs for studies and leading-edge expertise by NOK 13.6 million from 2012.

The board again devoted attention in 2013 to the company's overall resource position, and has followed up the organisational and management changes made in order to equip Petoro even better to tackle the challenges and opportunities faced in managing the SDFI portfolio. The business manager arrangement was not renewed when contracts expired in the autumn of 2013, and Petoro included follow-up of fields during 2013 which were previously handled by business managers. Priority will be given by Petoro to directing resources at the three main topics specified in its strategy. The company's commitment to the strategically important priority areas of mature fields and Johan Sverdrup will depend on available disposable funds.

The net loss after net financial income came to NOK 0.5 million for the group and NOK 0.6 million for Petoro AS. The board proposes that this loss be covered from other equity. Remaining other equity at 31 December was NOK 14.8 million for the group and NOK 12.8 million for Petoro AS. The company's equity position is satisfactory, with low financial risk.

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

Stavanger, 21 February 2014

Gunnar Berge
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M. von der Fehr
Director

Per Arvid Schøyen
Director

Gunn Wærsted
Director

Ragnar Sandvik
Director*

Anniken Teigen Gravem
Director*

Grethe K. Moen
President and CEO

* Elected by the employees

ANNUAL ACCOUNTS 2013

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SDFI APPROPRIATION ACCOUNTS

All figures in round NOK	Notes	2013
Investment	2	33 584 652 908.89
Total expenses		**33 584 652 908.89**
Pro et contra settlement (repayments)		**0.00**
Operating revenue	3,4	(197 639 908 294.17)
Operating expenses	5	36 559 772 471.30
Exploration and field development expenses		3 199 809 609.07
Depreciation	2	20 261 842 050.73
Interest	7	6 014 365 417.31
Operating income		**(131 604 118 745.76)**
Depreciation	2	(20 261 842 050.73)
Interest on fixed capital	7	(6 041 285 152.00)
Interest on intermediate accounts	7	26 919 734.69
Total revenue		**(157 880 326 213.80)**
Cash flow (net revenue from the SDFI)		**(124 295 673 304.91)**

SDFI CAPITAL ACCOUNTS

All figures in round NOK	Notes	NOK	NOK	NOK
Open account government				1 801 770 514.40
Fixed assets before impairment			176 533 609 353.66	
Impairment	2		(256 034 396.20)	
Fixed asset account	2		176 277 574 957.46	176 277 574 957.46
Total				**178 079 345 471.86**
Open account government 1 Jan 13			(2 331 348 515.18)	
Total expenses		33 584 652 908.89		
Total revenue		(157 880 326 213.80)		
Cash flow		(124 295 673 304.91)	(124 295 673 304.91)	
Net transfer to the government			124 825 251 305.69	
Open account government at 31 Dec 13			**(1 801 770 514.40)**	**(1 801 770 514.40)**
Fixed assets 1 Jan 13			(163 210 798 495.50)	
Investments for the year			(33 584 652 908.89)	
Depreciation for the year			20 261 842 050.73	
Impairment			256 034 396.20	
Fixed assets 31 Dec 13			(176 277 574 957.46)	(176 277 574 957.46)
Total				**(178 079 345 471.86)**

Stavanger, 21 February 2014

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President and CEO

* Elected by the employees

SDFI INCOME STATEMENT

All figures in NOK million	Notes	2013	2012
OPERATING REVENUE			
Operating revenue	3, 4, 9, 11	**194 308**	213 885
Total operating revenue		**194 308**	**213 885**
OPERATING EXPENSES			
Exploration expenses		**2 277**	1 127
Production expenses	5	**18 262**	16 380
Depreciation, amortisation and impairment	2	**23 781**	25 450
Other operating expenses	5, 9, 10	**17 534**	18 210
Total operating expenses		**61 854**	**61 167**
Operating income		**132 455**	**152 717**
FINANCIAL ITEMS			
Financial income		**5 566**	4 556
Financial expenses	12	**5 204**	7 287
Net financial items	8	**362**	**(2 731)**
NET INCOME FOR THE YEAR	19	**132 817**	**149 986**

SDFI BALANCE SHEET AT 31 DECEMBER

All figures in NOK million	Notes	2013	2012
Intangible fixed assets	2	**610**	649
Tangible fixed assets	1, 2, 18	**201 784**	196 365
Financial fixed assets	2, 11	**393**	1 102
Fixed assets		**202 787**	**198 116**
Stocks	6	**4 466**	3 507
Trade debtors	9, 10	**27 514**	26 776
Bank deposits		**123**	97
Current assets		**32 102**	**30 380**
TOTAL ASSETS		**234 889**	**228 496**
Equity at 1 January		**155 085**	152 029
Paid from/(to) government during the year		**(124 825)**	(146 930)
Net income		**132 817**	149 986
Translation differences*		**(219)**	0
Equity	19	**162 858**	**155 085**
Long-term decommissioning liabilities	12, 18	**52 580**	58 349
Other long-term liabilities	13	**2 212**	2 081
Long-term liabilities		**54 792**	**60 430**
Trade creditors		**3 260**	3 244
Other current liabilities	9, 14, 15	**13 980**	9 736
Current liabilities		**17 240**	**12 980**
TOTAL EQUITY AND LIABILITIES		**234 889**	**228 496**

* Related to a change in the method for translating foreign currencies when calculating Fifo for the stock margin in the gas stock in 2013.

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* Elected by the employees

SDFI CASH FLOW STATEMENT

All figures in NOK million	2013	2012
CASH FLOW FROM OPERATIONAL ACTIVITIES		
Cash receipts from operations	**197 590**	213 095
Cash disbursements to operations	**(39 738)**	(38 650)
Net interest payments	**(30)**	(54)
Cash flow from operational activities	**157 882**	**174 499**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Pro et contra from government sale		
Investments	**(33 585)**	(25 610)
Cash flow from investment activities	**(33 585)**	**(25 610)**
CASH FLOW FROM FINANCING ACTIVITIES		
Change in working capital in the licences	**1086**	(789)
Change in under/over calls in the licences	**(532)**	(1 157)
Net transfer to the government	**(124 825)**	(146 930)
Cash flow from financing activities	**(124 271)**	**(148 876)**
Increase in bank deposits of partnerships with shared liability	**26**	13

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.

Petoro served at 31 December 2013 as the licensee on behalf of the SDFI for interests in 179 production licences and 15 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 facilities 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.

Purchase of third-party gas for onward sale is recorded gross as operating costs. The corresponding revenue is included in sales income.

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 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, and 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 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 65.4 per cent of expected remaining oil reserves in 2013, while the corresponding figure for gas fields was 86.1 per cent. The reserve estimates are revised annually, and possible changes affect only further depreciation expenses.

Ordinary depreciation for land-based facilities 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 impairment charges are deducted.

Impairment
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 impairment. Should the recoverable value be lower than the book value, and this decline is not expected to be temporary, the asset is written down to its recoverable value, which is the higher of the asset's fair value less sales costs and its utility value. The utility value is calculated using discounted cash flows, which are discounted using a discount rate based on the weighted average cost of capital (WACC) calculated for the company.

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

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

Abandonment and decommissioning expenses
Under the terms of a licence, the authorities can require the licensees to remove offshore installations when their production life comes to an end. The estimated fair value of liabilities for decommissioning 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 decommissioning costs are recorded and capitalised in the same manner and depreciated over the remaining economic life of the assets. The discount rate applied when calculating the fair value of a decommissioning liability is based on the interest rate for Norwegian government bonds with the same maturity as the decommissioning liability.

A change in the liability relating to its time value – the effect of the decommissioning date 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 companies 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 company tax in Norway. The SDFI is registered for value-added tax (VAT) in Norway. Virtually all the SDFI's sales of oil and gas products from its activity take place outside the geographic 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 losses 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

Twenty-five production licences with SDFI participation were awarded in 2013. Seventeen of these were formally awarded by the Ministry of Petroleum and Energy on 15 January 2013 in connection with the awards in predefined areas (APA) for 2012. A further eight licences were formally awarded by the Ministry of Petroleum and Energy on 21 June 2013 in connection with the 22nd licensing round. In addition, four licences were carved out of existing licences with SDFI participation, and SDFI participation was increased in two other licences.

Eight licences were relinquished in 2013. The Fram H-North unit was established, and redeterminations were carried out in the Vega and Ormen Lange units during the year.

NOTE 2 SPECIFICATION OF FIXED ASSETS

All figures in NOK million	Book value at 31 Dec 12	Correction to opening balance	Historical cost at 1 Jan 13	Accumulated depreciation 1 Jan 13	Addition 2013	Impair-ment 2013	Disposal 2013	Depreciation 2013	Book value at 31 Dec 13
Fields under development	3 865	5 985	9 850	0	3 092	0	0	(298)	12 643
Fields in operation	156 134	(5 985)	415 831	(265 682)	22 503	(256)	(33)	(21 391)	150 973
Pipelines and terminals	31 582	0	62 143	(30 561)	2 634	0	0	(1 806)	32 411
Capitalised exploration expenses	4 783	0	4 783	0	2 295	0	(1 322)	0	5 757
Total tangible fixed assets	**196 365**	**0**	**492 608**	**(296 243)**	**30 524**	**(256)**	**(1 354)**	**(23 495)**	**201 784**
Intangible assets	649	0	786	(138)	(8)	0	0	(31)	610
Financial fixed assets	1 102	0	1 102	0	(709)	0	0	0	393
Total fixed assets (NGAAP)	**198 116**	**0**	**494 496**	**(296 380)**	**29 808**	**(256)**	**(1 354)**	**(23 526)**	**202 787**

The correction to the opening balance relates to development projects which had been classified as "fields in production" instead of "fields under development".

Tangible 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 610 million relate mainly to rights in the gas storage facility at Aldbrough. Total capacity for the SDFI and Statoil is 100 million scm, of which the SDFI's share is 48.3 per cent. The amount invested is depreciated on a straight-line basis over the estimated 25-year economic life. Investment in further development of the Etzel gas storage facility and a small amount for Åsgard Transport are included in intangible assets.

Financial fixed assets of NOK 393 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 11. The SDFI participates in SNG under the marketing and sale instruction with regard to activities related to the marketing and sale of the government's LNG from Snøhvit. Nothing indicates that a new impairment test is required. Cash flows from the SNG are settled on a monthly basis in connection with the purchase and sale of LNG from 2013.
- 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	2013	2012
Mature oil fields	**62 013**	61 690
Gas fields/new developments	**127 188**	142 416
Other infrastructure	**2 455**	2 548
Net profit agreements	**627**	1 085
Other revenue	**6 466**	10 785
Elimination internal sales	**(4 441)**	(4 640)
Total operating revenue	**194 308**	**213 885**

Other revenue primarily comprises revenue from onward sale of purchased gas.

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	2013	2012
Crude oil and NGL (Includes condensate)	**92 614**	96 320
Gas	**90 441**	106 442
Transport and processing revenue	**10 421**	9 913
Other revenue	**205**	124
Net profit agreements	**627**	1085
Total operating revenue	**194 308**	**213 885**

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 three largest customers purchase about 30 per cent of the annual volumes under long-term contracts.

NOTE 5 SPECIFICATION OF PRODUCTION AND OTHER OPERATING EXPENSES BY AREA

All figures in NOK million	2013	2012
PRODUCTION EXPENSES		
Mature oil fields	**9 102**	8 722
Gas fields/new developments*	**7 561**	7 003
Other infrastructure	**1 599**	655
Total production expenses	**18 262**	**16 380**
OTHER OPERATING EXPENSES		
Mature oil fields	**2 881**	2 748
Gas fields/new developments*	**10 560**	10 332
Other infrastructure	**381**	-233
Other operating expenses	**8 152**	10 003
Elimination internal purchases	**(4 441)**	(4 640)
Total other operating expenses	**17 534**	**18 210**
Total production and other operating expenses	**35 796**	**34 590**

* Includes Gassled.

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

NOTE 6 INVENTORIES

All figures in NOK million	2013	2012
Petroleum products	**2 223**	1 460
Spare parts	**2 243**	2 047
Total inventories	**4 466**	**3 507**

Petroleum products include LNG and natural gas. The SDFI does not hold inventories of crude oil, which is sold in its entirety to Statoil.

NOTE 7 INTEREST

Not relevant under the Norwegian Accounting Act.

NOTE 8 NET FINANCIAL ITEMS

All figures in NOK million	2013	2012
Interest	**50**	71
Other financial revenue	**41**	58
Currency gain	**5 474**	4 427
Currency loss	**(3 514)**	(5 331)
Interest costs	**(123)**	(74)
Other financial expenses	**0**	(256)
Interest on decommissioning liability	**(1 566)**	(1 626)
Net financial items	**362**	**(2 731)**

NOTE 9 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 92.5 billion (corresponding to 153 million boe) for 2013 and NOK 96.6 billion (158 million boe) for 2012.

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 484 million in 2013, compared with NOK 407 million in 2012. 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 17.4 billion in 2013, compared with NOK 19.5 billion in 2012. Internal LNG cargoes from SNG to Statoil are recorded net from 2013. Open accounts with Statoil totalled NOK 10.2 billion in favour of the SDFI, converted at the exchange rate prevailing at 31 December, compared with NOK 8.4 billion in 2012.

Pursuant to the marketing and sale instruction, the SDFI also participates with a financial interest in Statoil Natural Gas LLC (SNG) in the USA. Cash flows from SNG are settled continuously on a monthly basis in connection with the purchase and sale of LNG from 2013. The investment is recorded in accordance with the equity method, and is covered in more detail in note 11.

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

NOTE 10 TRADE DEBTORS

No bad debts were recorded during the year.

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

NOTE 11 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 impairment test is required. Cash flows from SNG are settled continuously on a monthly basis in connection with the purchase and sale of LNG from 2013.

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	**2013**	**2012**
Opening balance financial fixed assets (adjusted share)	**1102**	1746
Net profit credited before impairment	**(709)**	692
Write-up/(down)		
Share of profit reversed as dividend		(1336)
Closing balance financial fixed assets	**393**	**1102**

NOTE 12 ABANDONMENT/DECOMMISSIONING

The liability comprises future abandonment and decommissioning 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 decommissioning liability.

The liability is calculated on the basis of estimates from the respective operators. Great uncertainty relates to a number of factors underlying the decommissioning estimate, including assumptions for decommissioning and estimating methods, technology and the decommissioning date. The last of these is expected largely to fall one-two years after the cessation of production. See note 22.

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

The estimate for decommissioning costs has been increased by NOK 3.5 billion as a result of changes to future estimated costs from operators and alterations to cessation and decommissioning dates. This change includes higher estimates for plugging and abandoning wells and for shutting down installations. Estimates for decommissioning expenses include operating costs for rigs and other vessels required for such complex operations. A higher discount rate reduces the liability by NOK 11.4 billion.

All figures NOK million	**2013**	**2012**
Liability at 1 Jan	**58 207**	57 906
New liabilities/disposals	**1 359**	1 176
Actual decommissioning	**(655)**	(635)
Changes to estimates	**3 482**	(3 179)
Changes to discount rates	**(11 380)**	1 313
Interest expense	**1 566**	1 626
Liability at 31 Dec	**52 580**	**58 207**

NOTE 13 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 1 145 million. Of this, NOK 138 million falls due for payment in 2014, NOK 551 million in the subsequent four years and the residual NOK 456 million after 2018.

Other long-term liabilities total NOK 1 067 million, of which NOK 699 million falls due longer than five years from the balance sheet date.

NOTE 14 OTHER CURRENT LIABILITIES

Other current liabilities falling due in 2013 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 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Only limited use is made of financial instruments (derivatives) to manage risk in the SDFI portfolio. This is primarily because the SDFI is owned by the state and is accordingly included in the government's overall risk management. The SDFI does not have significant interest-bearing debt, and all crude oil and NGL is sold to Statoil. Instruments used to hedge gas sales relate to forwards and futures. At 31 December 2013, the market value of the financial instruments was NOK 289 million in assets and NOK 301 million in liabilities. The comparable figures at the end of 2012 were NOK 350 million and NOK 360 million respectively. These figures include the market value of unlisted instruments. The market value of built-in derivatives related to end-user customers in continental Europe. This amounted to a supplementary NOK 1 137 million in assets and NOK 31 million in liabilities. The corresponding figures for 2012 were NOK 1 438 million and NOK 18 million. A net unrealised loss of NOK 11.6 million for the trading portfolio was recorded at 31 December 2013.

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 sale instruction together with the SDFI's participation in the government's overall risk management, only limited use is made 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 2013 was largely related to one month's outstanding revenue.

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

Credit risk
The SDFI's sales are made to a limited number of parties, with all oil and NGL sold to Statoil. In accordance with the marketing and sale instruction, financial instruments for the SDFI's operations are purchased from other parties with sound credit ratings. Financial instruments are only established with large banks or 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 16 LEASES/CONTRACTUAL LIABILITIES

All figures in NOK million	**Leases**	**Transport capacity and other liabilities**
2014	6 086	1 381
2015	5 801	1 378
2016	5 605	1 342
2017	3 639	1 287
2018	3 351	1 231
Beyond	10 716	11 243

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 2013 to participate in nine wells with an expected cost to the SDFI of NOK 840 million. Of this, NOK 570 million is expected to be incurred in 2014.

The company has also accepted contractual liabilities relating to investment in new and existing fields. These obligations total NOK 14.3 billion for 2014 and NOK 16.2 billion for subsequent periods, a total of NOK 30.5 billion. The SDFI is also committed in 2013 through approved licence budgets to operating and investment expenses for subsequent years. The above-mentioned liabilities for 2013 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 17 OTHER LIABILITIES

The SDFI could be affected by possible legal actions and disputes as a participant in production licences, fields, pipelines and land-based facilities, 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 18 SIGNIFICANT ESTIMATES

The SDFI accounts are presented in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles (NGAAP), which means that the management makes assessments and exercises judgement in a number of areas. Changes in the underlying assumptions could have a substantial effect on the accounts. Where the SDFI portfolio is concerned, it is presumed that assessments of reserves, decommissioning 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 classification system used by the Norwegian Petroleum Directorate (NPD). 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 decommissioning and financial instruments.

NOTE 19 EQUITY

All figures in NOK million	**2013**	**2012**
Equity at 1 Jan	**155 085**	152 029
Net income for the year	**132 817**	149 986
Cash transfers to the government	**(124 825)**	(146 930)
Items recorded directly against equity	**(219)**	
Equity at 31 Dec	**162 858**	**155 085**

Items recorded directly against equity relate to an equity adjustment in connection with a change to the method for translating foreign currencies to Norwegian kroner when valuing the stock margin for the gas stock. The reversal supplement for Fifo at 31 December 2012 under the former method which would have had an effect in 2013 has been recorded against equity. 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.

NOTE 20 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 21 EXPECTED REMAINING OIL AND GAS RESERVES (UNAUDITED)

	2013		2012		2011		2010	
Oil* in mill bbl Gas in bn scm	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**
Expected reserves at 1 Jan	1458	821	1429	847	1397	817	1511	839
Corrections for earlier years**						(1)	(2)	(6)
Change in estimates	41	6	62	8	43	(3)	(4)	3
Extensions and discoveries	12	3	34	6	74	7	16	8
Improved recovery	35	5	89	1	86	61	48	9
Purchase of reserves								
Sale of reserves					(10)	(1)		
Production	(151)	(36)	(157)	(41)	(161)	(33)	(172)	(35)
Expected reserves at 31 Dec	**1395**	**799**	**1458**	**821**	**1429**	**847**	**1397**	**817**

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

The SDFI added 288 million boe in new reserves during 2013. The biggest contribution came from Snøhvit as a result of changes to estimates as well as the decision on a long-term solution for carbon management. At the same time, downward adjustments on certain fields resulted in a net increase of 177 million boe in reserves.

At 31 December 2013, the portfolio's expected remaining oil, condensate, NGL and gas reserves totalled 6 423 million boe. This represented a decline of 200 million boe from the end of 2012. 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 2013 was thereby 47 per cent, compared with 67 per cent the year before. The average reserve replacement rate for the portfolio over the past three years was 91 per cent. The corresponding figure for the 2010-12 period was 87 per cent.

NOTE 22 SDFI OVERVIEW OF INTERESTS

Production licence	Interest at 31 Dec 13 (%)	Interest at 31 Dec 12 (%)
018	5.0000	5.0000
018 B	5.0000	5.0000
018 C	5.0000	5.0000
018 DS	5.0000	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
037 F	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
050 ES	30.0000	30.0000
050 FS	30.0000	30.0000
050 GS	30.0000	30.0000
050 HS	30.0000	30.0000
051	31.4000	31.4000
052	37.0000	37.0000
052 B	37.0000	37.0000
053	33.6000	33.6000
054	40.8000	40.8000
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
085 C	56.0000	56.0000
089	30.0000	30.0000
093	47.8800	47.8800
093 B	47.8800	47.8800

Production licence	Interest at 31 Dec 13 (%)	Interest at 31 Dec 12 (%)
093 C	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
102 D	30.0000	30.0000
102 E	30.0000	30.0000
102 F	30.0000	-
102 G	30.0000	-
104	33.6000	33.6000
104 B	33.6000	33.6000
107 B	7.5000	7.5000
107 D	7.5000	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
134	13.5500	13.5500
152	30.0000	30.0000
153	30.0000	30.0000
153 B	30.0000	30.0000
158	47.8800	47.8800
169	30.0000	30.0000
169 B1	37.5000	37.5000
169 B2	30.0000	30.0000
169 C	50.0000	50.0000
169 D	30.0000	30.0000
171 B	33.6000	33.6000
176	47.8800	47.8800
190	40.0000	40.0000
190 B	40.0000	-
193	30.0000	30.0000
193 B	30.0000	30.0000
193 C	30.0000	30.0000
193 D	30.0000	30.0000
193 E	30.0000	30.0000
195	35.0000	35.0000
195 B	35.0000	35.0000
199	27.0000	27.0000
208	30.0000	30.0000

Production licence	Interest at 31 Dec 13 (%)	Interest at 31 Dec 12 (%)
209	35.0000	35.0000
237	35.6900	35.6900
248	40.0000	40.0000
248 B	40.0000	40.0000
248 C	40.0000	-
250	45.0000	45.0000
255	30.0000	30.0000
263C	19.9500	19.9500
264	-	30.0000
265	30.0000	30.0000
275	5.0000	5.0000
277	30.0000	30.0000
277 B	-	30.0000
309	-	33.6000
309 B	33.6000	33.6000
309 C	33.6000	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
374 S	20.0000	20.0000
393	20.0000	20.0000
393 B	20.0000	20.0000
395	20.0000	20.0000
402	-	20.0000
402 B	-	20.0000
438	20.0000	20.0000
448	30.0000	30.0000
473	19.9500	19.9500
475 BS	30.0000	30.0000
475 CS	30.0000	30.0000
479	14.9500	14.9500
482	-	20.0000
488	-	30.0000
489	20.0000	20.0000
502	33.3333	33.3333
504	52.4070	32.2300
504 BS	4.2860	3.0000
504 CS	46.0430	-
506 BS	20.0000	20.0000
506 CS	20.0000	20.0000
506 DS	20.0000	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

Production licence	Interest at 31 Dec 13 (%)	Interest at 31 Dec 12 (%)
532	20.0000	20.0000
537	20.0000	20.0000
552	30.0000	30.0000
558	20.0000	20.0000
562	-	20.0000
566 S	20.0000	20.0000
568	20.0000	20.0000
598	20.0000	20.0000
602	20.0000	20.0000
605	20.0000	20.0000
608	20.0000	20.0000
611	20.0000	20.0000
612	20.0000	20.0000
615	20.0000	20.0000
615 B	20.0000	-
618	20.0000	20.0000
625	20.0000	20.0000
628	20.0000	20.0000
638	20.0000	20.0000
639	20.0000	20.0000
642	20.0000	20.0000
656	20.0000	20.0000
657	20.0000	20.0000
659	30.0000	30.0000
660	20.0000	-
663	20.0000	-
676 S	20.0000	-
681	20.0000	-
682	20.0000	-
684	30.0000	-
685	20.0000	-
686	20.0000	-
687	20.0000	-
694	20.0000	-
695	20.0000	-
696	20.0000	-
698	36.4750	-
699	36.4750	-
706	20.0000	-
712	20.0000	-
714	20.0000	-
716	20.0000	-
718	20.0000	-
720	20.0000	-
723	20.0000	-

Net profit licences*		
027		
028		
029		
033		

Unitised fields	Interest at 31 Dec 13 (%)	Interest at 31 Dec 12 (%)	Remaining production period	Licence term
Fram H-Nord Unit	11.2000		2022	2024
Gimle Unit	24.1863	24.1863	2034	2023
Grane Unit	28.9425	28.9425	2037	2030
Haltenbanken Vest Unit (Kristin)	19.5770	19.5770	2034	2027
Heidrun Unit	57.7934	57.7934	2044	2024
Huldra Unit	31.9553	31.9553	2014	2015
Jette Unit	30.0000	30.0000	2019	2021
Martin Linge Unit	30.0000	30.0000	2027	2027
Norne Inside	54.0000	54.0000	2030	2026
Ormen Lange Unit	36.4850	36.4750	2038	2040
Oseberg Area Unit	33.6000	33.6000	2039	2031
Snorre Unit	30.0000	30.0000	2039	2015
Snøhvit Unit	30.0000	30.0000	2045	2035
Statfjord Øst Unit	30.0000	30.0000	2025	2024
Sygna Unit	30.0000	30.0000	2025	2024
Tor Unit	3.6874	3.6874	2049	2028
Troll Unit	56.0000	56.0000	2069	2030
Valemon Unit	30.0000	30.0000	2029	2031
Vega Unit	25.4000	24.0000	2026	2035
Visund Inside	30.0000	30.0000	2034	2034
Åsgard Unit	35.6900	35.6900	2032	2027

Fields	Interest at 31 Dec 13 (%)	Interest at 31 Dec 12 (%)	Remaining production period	Licence term
Atla	30.0000	30.0000	2017	2025
Draugen	47.8800	47.8800	2034	2024
Ekofisk	5.0000	5.0000	2049	2028
Eldfisk	5.0000	5.0000	2049	2028
Embla	5.0000	5.0000	2050	2028
Gjøa	30.0000	30.0000	2026	2028
Gullfaks	30.0000	30.0000	2034	2036
Gullfaks Sør	30.0000	30.0000	2034	2036
Heimdal	20.0000	20.0000	2015	2021
Kvitebjørn	30.0000	30.0000	2042	2031
Rev	30.0000	30.0000	-	2021
Skirne	30.0000	30.0000	2017	2025
Skuld	24.5455	24.5455	2030	2026
Statfjord Nord	30.0000	30.0000	2025	2026

Svalin	30.0000	30.0000	2030	2030
Tordis	30.0000	30.0000	2029	2024
Tune	40.0000	40.0000	2015	2032
Urd	24.5455	24.5455	2030	2026
Varg	30.0000	30.0000	2020	2021
Veslefrikk	37.0000	37.0000	2019	2020
Vigdis	30.0000	30.0000	2031	2024
Yttergryta	19.9500	19.9500	-	2027

PIPELINES AND LAND-BASED PLANTS

Oil pipelines	Interest at 31 Dec 13 (%)	Interest at 31 Dec 12 (%)	Licence term
Oseberg Transport System (OTS)	48.3838	48.3838	2028
Troll Oil Pipeline I + II	55.7681	55.7681	2023
Grane Pipeline	42.0631	42.0631	2030
Kvitebjørn 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	45.7930	2028
Haltenpipe	57.8125	57.8125	2028
Mongstad Gas Pipeline(EMV)	56.0000	56.0000	2030
Polarled (NSGI)	11.9460	11.9460	-
Kristin Gas Export	35.6000	35.6000	-
Gas - land-based plants			
Dunkerque Terminal DA	29.7652	29.7652	2028
Zeepipe Terminal J.V.	22.4384	22.4384	2028
Vestprosess DA	41.0000	41.0000	-
Kollsnes (gas processing plant, operation)	45.7930	45.7930	-
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.

	Interest at 31 Dec 13 (%)	Interest at 31 Dec 12 (%)
Petoro share Gassled	45.7930 %	45.7930 %
Norsea Gas share of Gassled	2.2610 %	2.2610 %
Petoro share of Norsea Gas	40.0060 %	40.0060 %
Petoro share Gassled excl Norsea Gas	45.7930 %	45.7930 %
Petoro share Gassled incl Norsea Gas	46.698 %	46.698 %

Riksrevisjonen
Office of the Auditor General
of Norway

Executive officer
Stig Allan Snähre +47 21540881

Our date	Our reference
19.02.2014	2013/01953-6
Your date	Your reference

State´s Direct Financial Interest
Petoro AS
PO Box 300 Sentrum
4002 STAVANGER
NORWAY

Audit of the 2013 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 Stortinget (Parliament) 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 the year.

Yours sincerely,

Hans Conrad Hansen
Director General

Lars Christian Møller
Deputy Director General

Postal address	Office address	Telephone	Fax	E-mail/Internet	Bank acc. no	Org.no.
Postboks 8130 Dep	Pilestredet 42	+47 22 24 10 00	+47 22 24 10 01	postmottak@riksrevisjonen.no	7694 05 06774	974760843
N-0032 Oslo	0167 Oslo			www.riksrevisjonen.no		

PETORO AS INCOME STATEMENT

PARENT COMPANY				GROUP	
2012	**2013**	**NOTES**	All figures in NOK 1 000	**NOTES**	**2013**
244 496	**260 654**	1	Invoiced government contribution	1	**264 995**
1 472	**4 338**	1,18	Other revenue	1,18	**1 313**
(490)	**1 378**	2	Net deferred revenue recorded	2	**1 378**
245 478	**266 370**		**Total operating revenue**		**267 686**
133 007	**135 395**	3,11	Payroll expenses	3,11	**135 395**
3 252	**2 722**	4	Depreciation	4	**2 722**
18 075	**16 180**	14,16,17	Accounting and business management fees	14,16,17	**16 180**
8 834	**9 268**	15	Office expenses	15	**9 268**
17 280	**21 463**	16	ICT expenses	16	**21 463**
76 241	**85 349**	13,17	Other operating expenses	13,17,19	**86 666**
256 688	**270 377**		**Total operating expenses**		**271 694**
(11 210)	**(4 007)**		**Operating loss**		**(4 008)**
3 511	**3 790**	5	Financial income	5	**3 860**
(355)	**(366)**	5	Financial expenses	5	**(371)**
3 156	**3 424**		**Net financial result**		**3 489**
			Loss before tax expense		**(519)**
			Tax expense on ordinary loss	20	**(18)**
(8 054)	**(584)**		**NET LOSS**		**(537)**
			TRANSFERS		
(8 054)	**(584)**		Transferred from other equity		
(8 054)	**(584)**		**Total transfers**		

PETORO AS BALANCE SHEET

PARENT COMPANY					GROUP
2012	**2013**	**NOTES**	All figures in NOK 1 000	**NOTES**	**2013**
			ASSETS		
			Fixed assets		
			Tangible fixed assets		
4 810	**3 432**	4	Operating equipment, fixtures, etc	4	**3 432**
4 810	**3 432**		**Total tangible fixed assets**		**3 432**
			Financial assets		
0	**0**	6	Shares in subsidiaries		**0**
0	**0**		**Total financial assets**		**0**
4 810	**3 432**		**Total fixed assets**		**3 432**
			Current assets		
7 987	**1 435**		Trade debtors		**1 322**
13 107	**9 836**	7	Other debtors	7	**9 844**
154 684	**171 411**	8	Bank deposits	8	**177 864**
175 778	**182 682**		**Total current assets**		**189 030**
180 588	**186 113**		**TOTAL ASSETS**		**192 462**
			EQUITY AND LIABILITIES		
			Equity		
			Paid-in capital		
10 000	**10 000**	9	Share capital (10 000 shares at NOK 1 000)	9	**10 000**
			Retained earnings		
13 348	**12 764**	10	Other equity	10	**14 829**
23 348	**22 764**		**Total equity**		**24 829**
			Liabilities		
			Provisions		
92 904	**103 886**	11	Pension liabilities	11	**103 886**
4 810	**3 432**	2	Deferred revenue government contribution	2	**3 432**
97 713	**107 318**		**Total provisions**		**107 318**
			Current liabilities		
20 363	**21 122**		Trade creditors		**22 416**
8 366	**8 719**		Withheld taxes and social security		**8 719**
30 797	**26 191**	12	Other current liabilities	12	**29 180**
59 527	**56 032**		**Total current liabilities**		**60 315**
157 240	**163 349**		**Total liabilities**		**167 633**
180 588	**186 113**		**TOTAL EQUITY AND LIABILITIES**		**192 462**

Stavanger, 21 February 2014

Gunnar Berge Chair	**Hilde Myrberg** Deputy chair	**Nils-Henrik M. von der Fehr** Director	**Per Arvid Schøyen** Director
Gunn Wærsted Director	**Ragnar Sandvik** Director *	**Anniken Teigen Gravem** Director *	**Grethe K. Moen** President and CEO

* Elected by the employees

PETORO AS CASH FLOW STATEMENT

PARENT COMPANY				GROUP
2012	**2013**		All figures in NOK 1 000	**2013**
			LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES	
(4 802)	**2 138**		Provided by operations for the year*	**2 203**
(4 405)	**6 552**	+/-	Change in trade debtors	**6 664**
5 620	**759**	+/-	Change in trade creditors	**2 053**
23 719	**8 622**	+/-	Change in accrued items	**11 578**
20 132	**18 071**		**Net change in liquidity from operating activities**	**22 498**
			LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES	
(3 742)	**(1 344)**	-	Invested in tangible fixed assets	**(1 344)**
(3 742)	**(1 344)**		**Net change in liquidity from investing activities**	**(1 344)**
			LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES	
0	**0**	+	Proceeds from share issue	**0**
0	**0**		**Net change in liquidity from financing activities**	**0**
16 391	**16 727**		Net change in liquid assets	**21 154**
138 294	**154 684**	+	Cash and cash equivalents at 1 January	**156 710**
154 684	**171 411**		**Cash and cash equivalents at 31 December**	**177 864**
		*)	This figure is obtained as follows:	
(8 054)	**(584)**		Loss before tax expense	**(519)**
3 252	**2 722**	+	Ordinary depreciation and impairment	**2 722**
(4 802)	**2 138**		**Provided by operations for the year**	**2 203**

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. The cash flow for the SDFI is accordingly excluded from the limited company's annual accounts.

Petoro Iceland AS was established in December 2013 as a wholly owned subsidiary of Petoro AS. The company's purpose is, on behalf of the state and at the government's expense and risk, to be responsible for managing the commercial aspects related to the Norwegian state's participation in petroleum operations on the Icelandic continental shelf and associated activities. The company has no employees. A management contract has been entered into with Petoro AS.

Consolidated accounts have been prepared for the first time in 2013.

Group and consolidation
The consolidated accounts include the parent company, Petoro AS, and the Petoro Iceland AS subsidiary. They have been prepared as if the group was a single financial unit. Transactions and accounts between the companies in the group have been eliminated. The consolidated accounts have been prepared on the basis of uniform principles in that the subsidiary applies the same accounting principles as the parent company.

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.

Shares in subsidiaries
Investment in subsidiaries is assessed in accordance with the cost method.

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. Payment of earned pension rights in the event of early retirement is reported as pension.

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 with regard to Petoro AS pursuant to section 2-30 of the Taxation Act. Tax expense in the consolidated accounts applies to Petoro Iceland AS.

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 contribution is appropriated annually by the Storting (parliament). The operating contribution is presented in the accounts as operating revenue.

Contributions for special projects are recorded as income in line with the progress of the projects.

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 recorded an operating contribution from the Norwegian government totalling NOK 260.7 million excluding VAT as income in 2013. For the group, the amount was NOK 265 million. The appropriation for the year, excluding VAT and additional funding for Johan Sverdrup, was NOK 232.6 million for Petoro AS and NOK 6 million for Petoro Iceland AS, giving a total amount of NOK 238.6 million for the group. The difference between the operating contribution recorded as income and the appropriation for the year reflects accruals between fiscal years. The invoiced contribution for Johan Sverdrup totalled NOK 21.6 million excluding VAT for 2013.

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 1.4 million in investment made during 2013 as well as NOK 2.7 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)	**2013**	**2012**
Pay	**93 505**	85 347
Payroll taxes	**11 488**	12 918
Pensions (note 11)	**26 356**	30 864
Other benefits	**4 046**	3 878
Total	**135 395**	**133 007**

Employees at 31 Dec	64	65
Employees with a signed contract who had not started work at 31 Dec	4	1
Average number of work-years employed	64	65

Remuneration of senior executives (all figures in NOK 1 000)	**Pay**	**Other benefits**	**Total benefits**	**Recorded pension**
Kjell Pedersen, president until 11 Jun 13	2 223	95	2 318	3 284
Grethe Moen, president from 12 Jun 13	1 520	96	1 617	984
Rest of the management team (seven people)				
Olav Boye Sivertsen	1 592	123	1 715	464
Marion Svihus	1 973	145	2 117	840
Tor Rasmus Skjærpe	2 411	146	2 557	1 373
Laurits Haga	2 100	141	2 241	1 194
Jan Rosnes	1 931	141	2 072	572
Roy Tore Ruså	2 010	144	2 153	724
Jan Terje Mathisen, from 12 Jun 13	1 071	71	1 141	372
Grethe Moen, to 12 Jun 13	1 265	72	1 337	(everything included above)

Recorded pension liabilities represent the current year's estimated cost of the overall pension liability for the president plus the rest of the management team. Pay includes payments from the credit balance in the loyalty scheme.

Breakdown of directors' fees (all figures in NOK 1 000)	**Directors' fees**
Gunnar Berge, chair	378
Hilde Myrberg, deputy chair	264
Nils-Henrik M von der Fehr, director	198
Per Arvid Schøyen, director	218
Gunn Wærsted, director from Sep	64
Mari Thjømøe, director until Sep	134
Ragnar Sandvik, director, elected by the employees	195
Anniken Gravem, director, elected by the employees	195
Tore Wiig Jonsbråten, director, elected by the employees, alternate	5
Back payment, employee-elected directors, 2012	7

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 compensation arrangements for the president, who in turn determines the compensation arrangements for the other members of the company's senior management. The board has appointed a compensation sub-committee comprising the deputy chair and another director. The human resources manager 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. Members of the management team other than the president also have a loyalty scheme which comprises an annual payment determined by the board. The scheme accords with the calendar year and was amended from 1 January 2013 to include other employees as well. The management team now participates in a new scheme, whereby a sum equivalent to five per cent of their annual pay at 1 January is allocated annually up to a maximum of 24 times the National Insurance base rate (G). The calculation is based on the value of G at 1 January.

One-third of the credit balance at 31 December is first paid out after a minimum qualifying period of three years. Payment will be made together with regular salary in January. Thereafter, one-third of the credit balance at any given time will be paid annually. The accumulated sum is lost if the person concerned resigns from the company or is under notice at the due date for payment. In the event of retirement, the credit balance will be paid in its entirety on departure. The sum paid is reported as a payroll expense.

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. Basic pay is subject to an annual assessment.

Petoro has a defined benefit pension scheme. The new president took office on 12 June 2013. She has a retirement age of 67. Her employment contract stipulates a mutual six-month period of notice. Agreement has been entered into on a pay guarantee scheme of 12 months in addition to the period of notice. One member of the management team has the opportunity to retire on a full pension upon reaching the age of 62. Two 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 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.

Petoro has begun work on an overall review of the company's pension schemes and has established a project to assess the options, taking account of the legal framework and the terms of union-management agreements, relevant pension projects available on the market and Petoro's competitive position in the industry. New legislation on occupational and contributory pensions 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. The new president took office in 12 June 2013 and had no new pay assessment during the year. The assessment of other senior executives for 2013 was carried out in the second quarter.

NOTE 4 TANGIBLE FIXED ASSETS

All figures in NOK 1 000	**Fixed fittings**	**Equipment, etc**	**ICT**	**Total**
Purchase cost 1 Jan 13	4 021	7 440	23 818	35 279
Addition fixed assets	358	522	464	1 344
Disposal/obsolescence fixed assets	-	-	-	-
Purchase cost 31 Dec 13	4 380	7 962	24 282	36 623
Accumulated depreciation 1 Jan 13	3 309	7 358	19 803	30 470
Reversed accumulated depreciation				-
Depreciation for the year	418	151	2 153	2 722
Accumulated depreciation 31 Dec 13	3 727	7 509	21 956	33 192
Book value at 31 Dec 13	**653**	**453**	**2 326**	**3 432**
Economic life	Until lease expires in 2014	3-5 years	3 years	
Depreciation plan	Linear	Linear	Linear	

Operational leasing contracts include the hire of a car 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)	**2013**	**2012**
Financial income		
Interest income	3 770	3 474
Currency gain	20	37
Other financial income		
Financial expenses		
Interest expenses	78	190
Currency loss	287	164
Other financial expenses		
Net financial items Petoro AS	**3 424**	**3 156**
Net financial items Petoro Iceland AS	**65**	**1**
Net financial items group	**3 489**	

NOTE 6 INVESTMENT IN SUBSIDIARY

Company	Acquisition date	Business office	Interest	Voting share	Equity 31 Dec	Profit 2013
Petoro Iceland AS	Dec 2012	Stavanger	100 %	100 %	NOK 2 mill	65

Petoro AS received a contribution of NOK 2 million in 2012 which was earmarked as share capital for Petoro Iceland AS. This contribution has been offset against the acquisition price of the shares. For that reason, investment in Petoro Iceland has been recorded as NOK 0 in the balance sheet.

Petoro Iceland receives its own appropriations over the central government budget to fund its operations. It has also entered into an agreement with the parent company, Petoro AS, on an overdraft facility of NOK 3 million. This agreement has been established on the arm's-length principle and is based on normal commercial terms and principles, and is thereby considered to accord with the pricing of corresponding financial services in the market.

NOTE 7 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 8 BANK DEPOSITS

Of consolidated bank deposits totalling NOK 177.9 million, Petoro AS accounts for NOK 171.4 million. That includes NOK 118 million in withheld tax and pension plan assets.

NOTE 9 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital of the company at 31 December 2013 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 10 EQUITY

Petoro AS (All figures in NOK 1 000)	Share capital	Other equity	Total
Equity at 1 Jan 13	**10 000**	13 348	23 348
Change in equity for the year			
Net income		(584)	(584)
Equity at 31 Dec 13	**10 000**	**12 764**	**22 764**

Group (All figures in NOK 1 000)	Share capital	Other equity	Total
Equity at 1 Jan 13	**10 000**	15 348	25 348
Change in equity for the year			
Net income		(519)	(519)
Equity at 31 Dec 13	**10 000**	**14 829**	**24 829**

Other equity at 1 January 2013 includes a contribution of NOK 2 million from the Norwegian government in connection with the establishment of Petoro Iceland AS.

NOTE 11 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 (Figures in NOK 1 000)	2013	2012
Present value of benefits earned during the year	**21 799**	23 432
Interest expense on pension obligation	**8 056**	7 309
Return on pension plan assets	**(3 775)**	(4 155)
Recorded change in estimates	**(2 726)**	1 023
Payroll tax	**3 002**	3 255
Net pension cost	**26 356**	**30 864**

Capitalised pension obligation	2013	2012
Estimated pension obligation at 31 Dec	**203 561**	179 553
Pension plan assets (market value)	**(90 255)**	(88 545)
Net pension obligations before payroll tax	**113 306**	91 008
Unrecorded change in estimates	**(22 374)**	(9 585)
Payroll tax	**12 954**	11 481
Capitalised pension obligation	**103 886**	**92 904**

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

	2013	2012
Discount rate	**4.1%**	4.2 %
Expected return on plan assets	**4.4 %**	4.0 %
Expected increase in pay	**3.75 %**	3.5 %
Expected increase in pensions	**0.6 %**	0.2 %
Expected change in NI base rate	**3.5 %**	3.25 %

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

NOTE 12 OTHER CURRENT LIABILITIES

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

NOTE 13 AUDITOR'S FEES

Erga Revisjon AS is the group's elected auditor. Fees charged by Erga Revisjon to Petoro for external auditing in 2013 totalled NOK 0.37 million, while other assistance amounted to NOK 0.024 million for 2013. These figures were NOK 0.26 million and NOK 0.015 million respectively for Petoro AS.

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 1.7 million for this service in 2013. Deloitte has also executed internal audit projects and delivered services related to partner audits totalling NOK 2.1 million.

NOTE 14 ACCOUNTING AND BUSINESS MANAGEMENT FEES

The system of existing business management agreements was discontinued in 2013 when the contracts expired. Day-to-day administrative follow-up of these production licences has been taken over by the company itself. Prioritisation of its commitment in the various joint ventures is based on 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).

NOTE 15 LEASES

Petoro AS entered into a lease with Smedvig Eiendom AS for office premises in the autumn of 2003. The remaining term of the lease is one year, with options for a further two periods of five years each. Rent for the year was NOK 8.6 million, which included all management and shared expenses.

NOTE 16 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 2009. Evry is the sub-contractor for ICT services. The contract for delivering accounting and associated ICT services for the SDFI was put out to tender anew in the market during 2013. This tendering process resulted in the award of a new contract to Upax for a further five-year period. Evry remains the sub-contractor for ICT services. The recorded accounting fee for Upax in 2013 was NOK 16.2 million. Other services purchased from the contractor totalled NOK 1 million.

NOTE 17 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 2013 relating to business management agreements, cost sharing for the audit of licence accounts, insurance services for the Norwegian Government Petroleum Insurance Fund and other minor services. NOK 0.9 million was recorded in 2013 for the purchase of services from Statoil ASA. These were purchased at market price on the basis of hours worked. NOK 3 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.

NOTE 18 INTERNAL GROUP TRANSACTIONS

Petoro Iceland AS has entered into a management agreement with Petoro AS. Its purpose is that Petoro AS will manage the operations of Petoro Iceland AS on the terms and conditions specified in the agreement. NOK 1.4 million was invoiced in 2013 for the purchase of hours and services, including NOK 0.08 million for travel. These services are purchased at market price, based on hours worked and the government's scale for travel expenses. The amounts have been eliminated in the accounts.

NOTE 19 LICENCES/INTERESTS GROUP

The Icelandic government awarded two licences on 4 January 2013 for exploring for and producing hydrocarbons on the Icelandic continental shelf. The Norwegian government has resolved that Petoro Iceland AS, through its branch office in Iceland, will manage the Norwegian participatory interest of 25 per cent in these two licences. The work programme in the licences is divided into three phases, and the licensees can opt to relinquish the licences at the end of each phase. The first of these phases lasts until 31 December 2014 and 31 December 2016 respectively for the two licences. A third licence was also awarded in January 2014, again with a Norwegian participatory interest of 25 per cent managed by Petoro Iceland AS.

NOTE 20 TAX

Tax expense for the year breaks down as	**2013**
Tax payable	18
Change in deferred tax	0
Total tax expense	**18**

Calculation of tax base for the year	
Profit before tax expense	65
Permanent differences	0
Change in temporary differences	0
Tax base for the year	65
Tax payable	**18**

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Tlf: +47 51 51 03 70
Fax: +47 51 51 03 71
Jens Zetlitzgt. 47
Postboks 672
N-4003 Stavanger
Foretaksregisteret NO 980 024 679 MVA
Statsautoriert revisor
medlem av Den norske Revisorforening
Autorisert regnskapsfører

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, which comprise the financial statements of the parent company, showing a loss of NOK 584 000, and the financial statements of the group, showing a loss of NOK 537 000 . The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at December 31, 2013, 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 are 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.

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Opinion
In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of parent company and the group Petoro AS as at December 31, 2013, 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.

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, 21 February 2014

Sven Erga
State Authorised PublicAccountant (Norway)

[Translation has been made for information purposes only]

PETORO´S FINANCIAL CALENDAR 2014

27 February	Annual result 2013/Fourth quarter report 2013
08 May	First quarter report 2014
07 August	Second quarter/first-half report 2014
04 November	Third quarter report 2014

ADDRESSES

Petoro AS
Øvre Strandgate 124
P O Box 300 Sentrum
NO-4002 Stavanger
Phone: +47 51 50 20 00
E-mail: post@petoro.no
Website: www.petoro.no
Register of Business Enterprises: Org.nr. NO 983 382 355

EDITORIAL TEAM/PRODUCTION

Editorial team: Marianne Eskeland, Terje Moltu og Sveinung Sletten
English translation: Rolf E Gooderham
Production: Megabite
Photos: Harald Pettersen/Statoil, Øyvind Hagen/Statoil, Emile Ashley and Kjetil Alsvik

PETORO AS, P O Box 300 Sentrum, NO-4002 Stavanger, Phone +47 51 50 20 00, Telefax +47 51 50 20 01, post@petoro.no, **www.petoro.no**