petoro

ANNUAL REPORT FOR THE SDFI AND PETORO 2014

The Norwegian state 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.

Front cover: From Snorre B – photo: Harald Pettersen, Statoil
Left: Johan Sverdrup – photo: Statoil

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Grethe K Moen – photo: Emile Ashley

THE YEAR OF DRAMATIC CHANGES

2014 was the year of a sharp downturn in the industry. Driven by a high level of costs and a switch by the oil companies from volume to value, the willingness to invest on the Norwegian continental shelf (NCS) has been reduced.

This is illustrated in the fact that more than half the project decisions anticipated for 2014 in Petoro's portfolio were either deferred or taken with a reduced scope of work.

The industry also experienced a dramatic fall in oil prices, from USD 115 per barrel in June to USD 55 at 31 December, presenting us all with a strong challenge over sustainability from both profitability and environmental perspectives. The result is an urgent need for innovative thinking and change.

Fortunately, this picture has some bright silver linings. The fact is that the world needs energy, and that oil and gas will account for a significant share of supplies in the years to come. The International Energy Agency (IEA) has made it clear that, regardless of the direction taken by environmental policies and measures, large investment is still needed in our industry to safeguard energy supplies.

Oil and gas price trends are unquestionably crucial for the willingness of the oil companies to undertake new capital spending. Although our decisions will always be based on long-term price assumptions, we are strongly influenced by current market perspectives and prices. That is the paradox of and challenge for our industry – long-term by nature, but increasingly driven by short-term conditions.

The obvious task in a global industry is therefore to reduce marginal costs, so that Norwegian projects are competitive.

During 2014, the industry became increasingly aware of the challenges posed by the high level of costs. Various measures have accordingly been initiated, ranging from programmes which aim to simplify fundamental work processes and technical requirements to straightforward reductions in activity such as the cancellation of modification work and exploration operations.

We are wholly dependent on long-term efficiency improvements. These are not achieved by short-term cost cuts. I am therefore very concerned that all improvement measures must have clear cost-efficiency goals.

One challenge in realising the maximum improvement potential is the industry's complexity and interdependencies, in the sense of a broad range of players, an international orientation and long supply chains.

Virtually all the players have their own improvement agenda, which each pursues independently. The ability and willingness to collaborate with an international approach – to standardisation, for example – will be crucial for success.

New technology will unquestionably be part of the solution, but development must be shifted towards enhancing efficiency.

The appetite for exploration is an expression of the competitiveness of the NCS. Grounds for concern exist when the number of exploration wells in 2015 where Petoro is a partner looks like halving from the year before. The big test of the NCS' competitiveness will be the interest shown by the big international oil companies in the 23rd licensing round.

Development of Johan Sverdrup is now beginning, and will provide an important foundation for continued industrial activity on the NCS. A large and important field such as this boosts opportunities for continued technological progress and new solutions. Fully developed, Johan Sverdrup will account for about 25 per cent of Norwegian offshore output and have a production horizon of more than 50 years. Phase one of the development will encompass about 50 000 work-years, with a substantial Norwegian share.

We have, in Petoro, reviewed our portfolio of producing fields in Petoro to test its robustness to various oil price scenarios. The results show that very few of the large mature fields will need to cease production over the next five to 10 years, even with persistently low oil prices. But we see that Petoro's portfolio also contains fields whose remaining commercial life is uncomfortably short. Two facts illustrate that mature fields represent the backbone for future revenues from the NCS – more than 60 per cent of remaining proven resources off Norway lie in producing fields, and more than 90 per cent of new field developments will need to be tied back to existing installations. So we believe it will be important to exploit the coming period of limited activity in developing new discoveries to pursue effective further development of the mature fields.

Seeking lessons from the UK continental shelf (UKCS), which is matured 10 years ahead of the NCS on average, is relevant for Norway. An interesting observation is that combining good efficiency and positive HSE results without increasing costs is fully possible in an aging portfolio.

This year's climate summit in Paris and the subsequent changes to global and national climate goals will have consequences for both production and demand in our industry.

A significant point is that gas represents by far the "cleanest" component in the fossil energy mix, and that many of the challenges can be overcome by changing this mix through phasing out coal to the benefit of gas.

Another important consideration is that greenhouse gas emissions from Norwegian oil and gas production are among the lowest in the world per unit produced.

To sum up, we can see that our industry must once again adapt to new realities. History has shown that this sector is highly adaptable and has always emerged strengthened from such periods. I genuinely believe that this will happen yet again.

To quote Norwegian folk singer Øystein Sunde: "Of all the winds I've sailed with, a headwind is the most difficult to sail into."

Successful sailors make good progress whether the wind is with them or against them, but these two conditions call for radically different approaches. As is the case for all of us.

Grethe K. Moen

Grethe K Moen
President and CEO, Petoro AS

DIRECTORS' REPORT

PETORO AS AND THE SDFI PORTFOLIO

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Valemon – photo: Harald Pettersen, Statoil

DIRECTORS' REPORT 2014

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.

The SDFI was established with effect from 1985. Under this arrangement, the state participates as a direct investor in petroleum operations on the Norwegian continental shelf (NCS) so that the Treasury receives revenues and meets expenses associated with the SDFI's participatory interests directly and outside the regular system for taxing petroleum revenues. Petoro acts as the licensee for the state's participatory interests in production licences, fields, pipelines and land-based facilities, and manages the SDFI on the basis of sound business principles.

SUMMARY OF SDFI RESULTS

Net income in 2014 came to NOK 119.7 billion, compared with NOK 132.8 billion the year before. This result was affected by the development of oil and gas prices, and yielded a cash flow to the government of NOK 111.1 billion as against NOK 124.8 billion the year before. Total production averaged one million barrels of oil equivalent per day (boe/d), about three per cent lower than the 2013 figure. Sales for the year corresponded to production.

Investment for 2014 totalled NOK 35.7 billion, which was on a par with the year before.

At 31 December 2014, the portfolio's expected remaining oil, condensate, NGL and gas reserves comprised 6 145 million boe. That was down by 277 million boe from the end of 2013 when account is taken of production for the year and new reserves.

The book value of assets totalled NOK 265.6 billion at 31 December 2014. 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 171.5 billion. Future removal-liabilities are estimated at NOK 77.5 billion. Current liabilities, which comprise provision for costs incurred but not paid, were NOK 14.1 billion at 31 December.

An external valuation was also conducted by the Ministry of Petroleum and Energy in 2014, which estimated the value of the SDFI portfolio to be NOK 1 234 billion at 1 January 2014.

EXTERNAL TRENDS

Global economic growth was weaker than expected in 2014 and helped to curb the increase in demand for oil. At the same time, oil production from non-Opec countries – particularly shale oil output in the USA – maintained strong growth. A deterioration of the balance between supply and demand in the market and Opec's decision in November to refrain from adjusting its production to help redress that balance resulted in a sharp fall in the price of oil. Brent Blend was down to USD 55 per barrel at 31 December 2014, less than half its peak of USD 115 in June. The average price achieved by the SDFI portfolio in 2014 was USD 99 per barrel, compared with USD 110 the year before. A strong US dollar meant that the reduction was not quite as steep measured in Norwegian kroner. The average price in the latter currency was NOK 617 per barrel, down NOK 30 from 2013.

The declining trend in European demand for gas continued in 2014. Weak economic growth, competition from renewable energy and coal, and a mild winter were the main reasons for this development. European imports of liquefied natural gas (LNG) were on a par with 2013. Russian gas deliveries to Europe were somewhat lower than the year before, while exports of Norwegian gas remained at the same level. Gas exports from the SDFI portfolio were somewhat lower than originally planned, primarily because some production was deferred to boost its value. High stocks at the start of the summer season and robust supplies weakened gas prices during the year. The average gas price achieved for the SDFI portfolio was NOK 2.23 per standard cubic metre (scm), compared with NOK 2.31 in 2013.

Costs have risen sharply over the past decade in all parts of the industry, including field development, operation and maintenance, modification projects, subsea developments and drilling. The increase has been general at all levels of the supply chain. Agreement prevails in the industry that this trend is unsustainable.

Big oil companies have changed their commercial goals during 2013-14 from volume growth towards financial parameters such as cash flow and dividend. That has meant stricter prioritisation of investment funds and increased profitability requirements for new projects. The outcome is that projects are being halted, postponed or continued with a reduced scope.

A substantial commitment was made in 2014 to enhancing efficiency and reducing the level of costs on the NCS. Efficiency improvement efforts currently under way involve all parts of the value chain. Operators and the other licensees have individual approaches to this work.

Portfolio transactions on the NCS have increased in scope during recent years. This has been driven particularly by the individual company's need to free up cash, as manifested through the sale of participatory interests with investment commitments. Portfolio transactions are also used to realise strategic goals and improve tax positions. The interest in selling out of licences is somewhat higher than the availability of relevant buyers. Petoro has so far not found it relevant to exercise the pre-emptive right it holds with respect to all sales of participatory interests in joint ventures on the NCS.

Exploration activity on the NCS was at a high level in 2014. Fifty-nine exploration wells were completed, unchanged from the year before. A record number of exploration wells were drilled in the Barents Sea – 14 compared with 10 in 2013. Exploration activity in this area resulted in a couple of very interesting oil discoveries and successful appraisals. But exploration results in recent years have failed to meet the earlier optimistic estimates, and coming up with profitable development solutions is a challenge.

Attention in petroleum activities on the far northern NCS has shifted from the Snøhvit area, gas resources and gas infrastructure to oil resources in discoveries such as Johan Castberg and Wisting.

The international debate on climate change has continued to challenge the role of fossil fuels in the future global energy mix. A greater concentration on the environment and the climate will be significant with regard not only to demand and prices for oil and not least for gas, but also to the industry's commitment and choices related to improved recovery and new field developments.

HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

The improvement in HSE results is continuing. No incidents with a major accident potential occurred in 2014. Nor were there any large individual discharges to the sea or on land. The serious incident frequency has been developing positively for a number of years, and came to 0.7 per million working hours in 2014 compared with 0.9 the year before. The personal injury frequency also made progress, falling from 4.4 in 2013 to 3.8.

Major restructuring and change processes in the industry are influencing the risk picture, and Petoro has become more vigilant over HSE and technical integrity in its follow-up of licences.

An initiative was taken by Petoro, ConocoPhillips, ExxonMobil and Total in 2010 to improve the involvement of licensees in safety efforts. This work led in 2014 to guidelines for handling major accident risk at licence level, which has resulted in increased involvement by licensees in risk management. These guidelines are now being incorporated as an industry standard through the Norwegian Oil and Gas Association. Petoro participated during 2014 in 11 working meetings on major accidents, and the experience was positive. It also participated in several HSE management inspections on selected fields and installations during the year.

HIGHLIGHTS AND RESULTS 2014

The SDFI portfolio comprised 182 production licences at 31 December, up by three from 1 January. Participatory interests in 11 production licences were awarded for Petoro to manage during January 2015.

Following a revision of the company's strategy in 2013, its attention is concentrated primarily on mature fields, field development and the far north. An assessment in the autumn of 2014 determined that this strategy continued to provide the right response to the challenges and opportunities facing Petoro.

Output from the mature oil fields continues to dominate production in the SDFI portfolio. Troll, Åsgard, Oseberg, Heidrun, Snorre and Gullfaks accounted for about 60 per cent of total liquids production, while 75 per cent of gas output came from Troll, Ormen Lange and Åsgard. Only limited new capacity was introduced in 2014 when production began from the fast-track projects Fram H-North and Svalin C and M in the North Sea. Valemon and Eldfisk II came on stream in early January 2015. Huldra ceased production in the autumn of 2014.

In line with the strategy, work continued in 2014 on realising the reserve base and supplementary resources in the mature fields. Special commitments were made with Snorre, Heidrun and Oseberg. Petoro has given particular emphasis to realising greater drilling efficiency on these fields and to clarifying their reserve and resource bases.

Petoro continued to be active as a driving force for the Snorre 2040 project, and contributed through its own work to strengthening the reserve base and development solution for a possible new Snorre C platform. These efforts have led to a positive development of reserves which could be developed with such an installation. On the development side, Petoro has proposed a number of specific measures to reduce the weight and thereby the cost of a new platform. A decision on continuation (DG2) has been postponed several times and was scheduled in February 2015 for the fourth quarter of 2016. Plans now call for an investment decision in 2017, with production starting in 2022. This postponement reflects unsatisfactory profitability for the project, and work is now under way on more thorough changes to the platform solution. The choice of concept remains unchanged. Petoro has been concerned that the project is time critical. A delay to the timetable for such a development involves the risk of losing reserves because of the limited technical operating life of existing installations. Further work will include a closer look at measures which can counteract this.

Through its own independent work on understanding the reservoir in 2014, Petoro identified an increased reserve base in Heidrun and the associated need for additional well targets on this field. This contributed to a decision by the partnership to continue with a binding process for deciding on a Heidrun future development project. Conceptual studies will address the whole resource potential of this field, and a choice of concept is planned for late 2016.

The contribution made by Petoro to the Oseberg future development project led to the identification of a reserve base which meant that a simple new unstaffed wellhead platform was chosen as the concept, in line with the company's wishes.

Petoro's commitment to Johan Sverdrup in 2014 concentrated particularly on promoting an integrated development of the field both in the first phase and for subsequent stages. The company has worked on solutions which ensure maximum long-term value creation, including one field centre, robust power capacity and provision for measures which can improve recovery. The concept chosen in February 2014 for phase one was in line with Petoro's view. The company has conducted extensive analyses of the potential for enhanced oil recovery (EOR), and proposed solutions for this. Combined with other promising measures for improved recovery in the future, that potential will be studied further as an integrated part of work on phase two leading up to the choice of concept in 2016. This is in line with Petoro's strategy of safeguarding future opportunities when pursuing new field developments.

The company actively supported Statoil's candidacy to serve as operator for the unitised field. This proposal received unanimous support from the partnership in the fourth quarter of 2014.

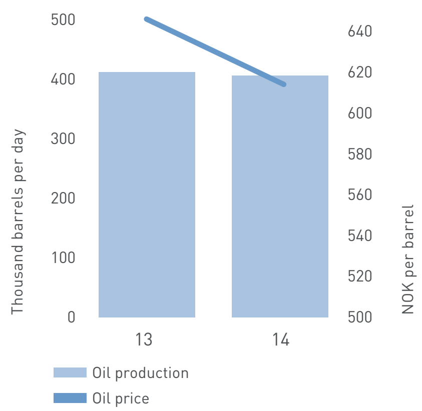
Petoro completed its own evaluations during the year as the basis for securing a rightful share of the value in this large field, which extends over several licences with a different composition of partners in each licence. The supplementary appropriation from the owner for this purpose was increased in 2014, tailored to the applicable plans for the Johan Sverdrup project. Extensive unitisation negotiations were conducted throughout 2014 and right up to the submission of the plan for development and operation (PDO) to the government on 13 February 2015. At that point, a majority of the licensees in the underlying licences – including Petoro – expressed support for a unitisation agreement which was submitted to the government for final determination of its terms.

In the far north, Petoro's attention has been concentrated on measures for improving regularity in Snøhvit LNG and efforts to ensure that all relevant development solutions for the Johan Castberg field are matured and assessed ahead of a final concept choice. Production efficiency for Snøhvit LNG came to 84 per cent, including turnarounds, which encourages expectations that plant and operating problems experienced over a number of years have been overcome. Work on the choice of concept for Johan Castberg continued throughout 2014. Petoro has been concerned to ensure that the various development solutions are individually optimised while also increasing their robustness to profitability challenges and uncertainties in both short- and long-term perspectives.

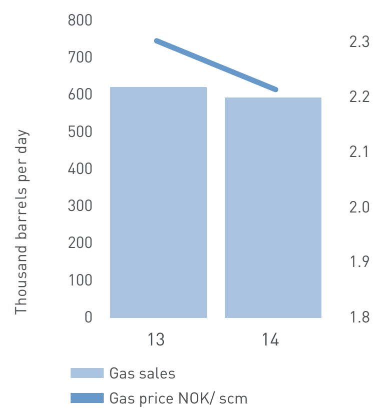
Petoro continued to direct the industry's attention during 2014 towards the need for efficiency enhancements and cost reductions, particularly in the drilling and well service area. As the dominant operator in the SDFI portfolio, Statoil achieved good results with a number of individual wells during the year.

Increasing attention was paid by Petoro in 2014 to the need for improved efficiency in development, operation and maintenance as well. The company has worked to ensure that

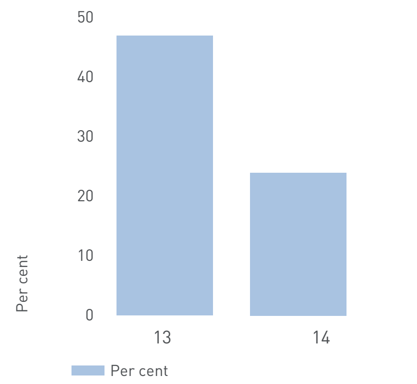
OIL PRODUCTION/PRICE



GAS SALES/PRICE



RESERVE REPLACEMENT RATE



the measures adopted are sustainable in both short and long terms, and involve a genuine enhancement in efficiency rather than simply a reduction in activity. The aim is to secure the profitability of investment in mature fields and new developments. Petoro saw in 2014 that the trend towards rising field costs had reversed. Restructuring efforts by the operators also contributed to some reduction in operational modifications. Operator improvement measures are expected to yield greater effects in the longer term.

Only one PDO was submitted to the government in 2014, covering Gullfaks Rimfaksdalen where the SDFI is a participant. The PDO for Flyndre was submitted in 2013 and approved by the government in 2014.

Petoro participated in 20 of the 59 exploration wells completed on the NCS in 2014, and in 10 of the 22 discoveries made.

Reserves showed a net increase of 88 million barrels of oil equivalent (boe) during the year. This figure was low because few decisions were taken in 2014 to invest in new developments and improved recovery measures on existing fields in the SDFI portfolio. Most of the increase reflected a more uniform reporting of reserves for new wells on fields operated by Statoil. Reserves were also downgraded on some fields. A total of 365 million boe was produced in 2014, giving a net reserve replacement rate of 24 per cent. The comparable figure in 2013 was 47 per cent.

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 initiate its own technology development and research projects.

In addition to the above-mentioned spending come a number of projects financed directly by licences and directed at field-specific qualification. Their costs are recognised as part of the investment budgets in the joint ventures.

Petoro has been a driving force, for example, in the development of subsea compression solutions over more than a decade, with efforts on Åsgard, Ormen Lange, Gullfaks and Snøhvit. Plans call for subsea compression on Åsgard and wet gas compression on Gullfaks to start during the second half of 2015. Petoro made a substantial commitment in 2014 to maturing the early use of advanced recovery methods on Johan Sverdrup.

MARKETING AND SALE OF THE PRODUCTS

All oil and natural gas liquids (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 value, and for ensuring a rightful 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.

Petoro has given priority to work on maximising 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. It has also been concerned with the role of gas in Europe's future energy mix, and has monitored developments in EU energy policy. In addition, Petoro has given priority to evaluating the formula for NGL in order to assess whether the goals in the marketing and sale instruction concerning Statoil's marketing and sale of the government's oil and gas are met.

Checks were also made to ensure that the SDFI was getting a rightful share of sales-related costs and revenues. Statoil's principles for charging sales and administrative costs related to marketing and sales were reviewed as well.

WORKING ENVIRONMENT AND EXPERTISE

The company's human resources policy will ensure diversity and equal opportunities, develop expertise, facilitate a good working environment, and prevent discrimination on the grounds of ethnicity, national origin, religion or beliefs.

Personnel in Petoro have long experience from the petroleum industry and a high level of education. The individual employee is crucial to the company's deliveries and success, and the board gives emphasis to ensuring that Petoro offers competitive terms and 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 has a defined benefit pension plan for its employees, which is under review in light of the Norwegian pension reform. New guidelines for pay and other remuneration of executives in enterprises and companies owned wholly or partly by the state were introduced by the Ministry of Trade, Industry and Fisheries with effect from 13 February 2015. The company has initiated a review of the guidelines.

Petoro had 67 employees at 31 December 2014, compared with 64 a year earlier. No staff resigned in 2014.

No occupational accidents were recorded among Petoro's personnel during the year.

Women accounted for 39 per cent of the total workforce in 2014, and for 43 and 37 per cent of the company's directors and executive management respectively. Petoro emphasises equality between the genders in terms of opportunities for professional and personal development as well as pay. The company customises working conditions so that people with disabilities can also work for Petoro. Sickness absence came to 2.5 per cent, compared with 1.2 per cent in 2013. Petoro has an inclusive workplace (IA) agreement, and gives weight to close follow-up and dialogue to promote good health and prevent sickness absence.

Collaboration with the company's working environment committee (AMU) and works council (SAMU) lays an important basis for a good working environment in the company. Work in these bodies again functioned well in 2014.

CORPORATE GOVERNANCE

The board gives weight to good governance to ensure that the SDFI portfolio is managed in a way which maximises financial value creation in a long-term perspective. Requirements for governance in the public sector are specified in the government's financial regulations and in 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 to the frameworks established by its form of organisation and ownership.

The management system is tailored to Petoro's distinctiveness, 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.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Petoro discharges its CSR in line with the company's guidelines for exercising such responsibility, which are tailored to its role. Funding for discharging its management duties and for running the company is provided through appropriations from the government, and Petoro is unable 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 an HR policy which ensures diversity and equal opportunities. Petoro reports annual cash flows related to the SDFI portfolio to the extractive industries transparency initiative. The board provides a more detailed presentation of the exercise of CSR in a separate section of the annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The board conducted an assessment of the risk picture in 2014 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 within the frameworks established for it.

Two internal audit projects implemented in 2014 evaluated Petoro's processes for financial management (SDFI) and external IT security (Petoro) respectively. The results were summed up in reports to the board which describe the checks undertaken, the findings made and the measures proposed and implemented. Petoro's internal audit function is outsourced to Deloitte, which also undertakes the internal financial audit for the SDFI.

WORK OF THE BOARD

The board held 10 meetings in 2014. It has established a meeting and work plan 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, and follows up and considers 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. A declaration has been drawn by the board on the remuneration of the chief executive and senior personnel. The board has organised its preparatory work on compensation arrangements in a sub-committee.

Conflicts of interest are a fixed item on the agenda at board meetings, and directors with such a conflict withdraw from the board's consideration of the relevant issue. The board conducts an annual evaluation of its own work. That also includes a review of the company's guidelines on business ethics and CSR, and the instructions for the board.

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.

Petoro's board comprises Gunn Wærsted as chair, Hilde Myrberg as deputy chair, Per Arvid Schøyen, Nils-Henrik M von der Fehr and Per-Olaf Hustad as shareholder-elected directors, and Marit Ersdal and Lars Kristian Bjørheim as directors elected by and from among the employees. Wærsted succeeded Gunnar Berge as chair in June 2014.

PETORO AS AND THE GROUP

SHARE CAPITAL AND SHAREHOLDER

Petoro AS was established as part of the restructuring of the state's oil and gas activities in 2001, when Statoil was part-privatised and management of the SDFI was assigned to Petoro. The company's operations are regulated by chapter 11 of the Petroleum Act. Its general meeting is the Ministry of Petroleum and Energy.

The company's share capital at 31 December 2014 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. Through a branch registered in Iceland, it is a licensee and participant in production licences where the Norwegian government decides to participate. The appropriation to Petoro Iceland for 2014 was NOK 16 million. Its share capital at 31 December 2014 comprised NOK 2 million, divided between 2 000 shares. Petoro Iceland participated with 25 per cent interests in three production licences during 2014. One of the joint ventures resolved to relinquish its licence after completing the first phase of the work programme, so that Petoro Iceland had a 25 per cent participatory interest in two production licences at 4 January 2015. The company has no employees and has entered into a management agreement with Petoro.

NET INCOME AND ALLOCATIONS

Petoro AS maintains separate accounts for all transactions relating to participatory interests in the joint ventures. Revenue and expenses for the SDFI portfolio are kept apart from operation of the company. Cash flow from the portfolio is transferred to the central government's own accounts with the Bank of Norway. 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).

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 consolidated accounts embrace the parent company and Petoro Iceland AS. Amounts related to internal transactions are eliminated in the consolidated accounts.

NOK 311 million was appropriated for ordinary operation of Petoro AS in 2014. In addition, NOK 35.5 million in extra appropriated funds were applied to meeting the cost of unitisation work for the Johan Sverdrup field.

Operating expenses in 2014 were NOK 291.7 million for the parent company and NOK 301.5 million for the group. They related primarily to payroll and administration expenses and to the purchase of external services. The company prioritised spending substantial resources and study funds on mature fields and the work with Johan Sverdrup.

The net loss came to NOK 6 million for the parent company and NOK 5.95 million for the group. The board proposes that this loss be covered from other equity. Remaining other equity at 31 December 2014 was thereby NOK 6.7 million for the parent company. The group's reserves of NOK 8.9 million comprise other equity in the parent company, NOK 2 million in grants from the Norwegian government relating to Petoro Iceland and accumulated results in the subsidiary.

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. The company has a satisfactory equity and low financial risk.

The board has devoted attention to the company's resource position, and has followed up the organisational changes and efficiency improvements implemented to ensure that Petoro is as well equipped as possible for tackling the challenges and opportunities involved in managing the SDFI portfolio within available resources.

PROSPECTS

The international debate on measures to deal with climate change raises questions about the role of fossil fuels in tomorrow's global energy mix, and the increased attention being paid to the environment and the climate could be significant for oil and gas demand in the future. This year's climate summit in Paris could establish important parameters for fossil fuel demand in the future.

Global economic developments are expected to contribute to moderate growth in demand for oil. At the same time, the supply position has become more robust, with a substantial increase in production by non-Opec players and particularly from shale oil in the USA. Combined with the fact that Opec has refrained from taking new measures to reduce its output, this development has resulted in low oil prices and great uncertainty over future price trends.

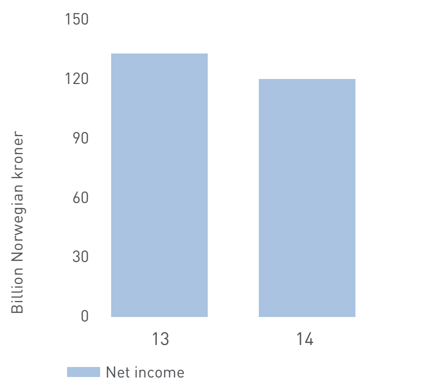
Competition from coal and renewable energy, together with weak economic progress, has reduced European demand for gas. The EU's new energy and climate policy targets for 2030 confirm its long-term climate policy ambitions, with reduced greenhouse gas emissions, a higher proportion of renewable energy and increased energy efficiency as key elements. Measures to realise these goals are expected to contribute to a further weakening in European gas demand. However, global gas demand is expected to continue growing. Decisions on developing new LNG capacity and the agreement over big Russian gas deliveries to China will substantially expand global gas supply in the years to come. World gas prices are influenced to a great extent by oil price trends, and considerable uncertainty exists about future price developments.

The sharp growth in costs for the oil and gas industry in recent years, reinforced by capital constraints and increased requirements for profitability, have prompted operator companies to implement extensive measures for reducing costs and investment. The board has noted an increasing acceptance of restructuring in the industry, and expects current improvement measures – combined with market developments – to result in an adjustment of cost levels on the NCS as well.

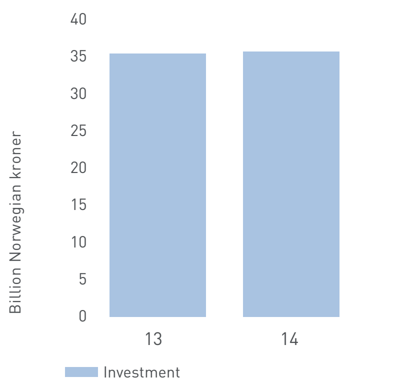
Johan Sverdrup is one of the five largest oil fields on the NCS. It will be one of Norway's most important industrial projects over the next 50 years and generate substantial revenues and employment. This field will help to maintain a relatively high level of activity on the NCS during both the development stage and the production phase.

However, uncertainty about new development projects on the NCS is growing as a result of the priorities being set by the oil companies for capital utilisation. Relatively high development costs mean that investment in mature fields and small discoveries will be particularly vulnerable. Combined with reduced exploration activity, this increases the challenge of replacing the decline in SDFI production with new output.

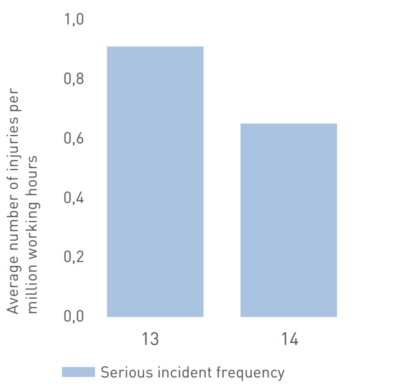
NET INCOME



INVESTMENT



SERIOUS INCIDENT FREQUENCY



Continued activity in the far north will continue to be affected by the fact that this is very much a frontier area and lacks existing oil infrastructure. Relatively small discoveries located in a large region mean high development costs. Realising new discoveries calls for technology development and the ability of licences to cooperate in achieving area-wide synergies. Exploration activity based on the 23rd licensing round in the Barents Sea will be crucial for the pace of future progress in the far north.

Overall oil and gas production from the SDFI portfolio is expected to decline over the next few years, while the proportion of gas in this output will rise. It is uncertain whether total production in 2020 could be back to the 2014 level even after Johan Sverdrup comes on stream. Forecasts for the latter field indicate that it will account for over 30 per cent of the SDFI's oil output in 2025, with the most significant proportion coming from the mature fields.

The board expects that portfolio transactions between players on the NCS could influence opportunities to realise new production.

An increase in the attention given to the environment and the climate will be significant for the industry's commitment and choice of solutions for improved recovery and new field developments.

Petoro will face a number of decisions of great strategic and value-related significance for the SDFI in the time to come. These relate, for example, to the Snorre 2040 project, Johan Castberg and phase two of the Johan Sverdrup development.

The company's opportunities to create the greatest possible value for the SDFI portfolio will remain conditional on its capacity for purposeful commitment in following up the licences, combined with opportunities for flexibility in changing priorities.

Stavanger, 6 March 2015

Gunn Wærsted
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M von der Fehr
Director

Per Arvid Schøyen
Director

Per-Olaf Hustad
Director

Lars Kristian Bjørheim
Director*

Marit Ersdal
Director*

Grethe K Moen
President and CEO

*Elected by the employees

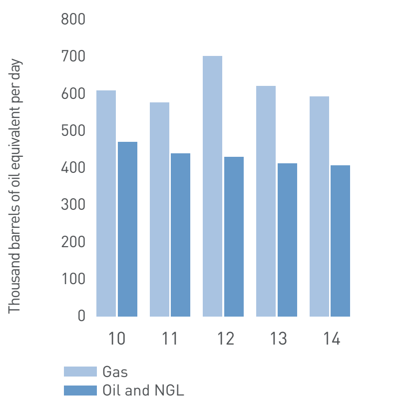
KEY FIGURES 2014

Net income for the portfolio in 2014 came to NOK 119.7 billion, compared with NOK 132.8 billion the year before. Total operating revenue was NOK 179.8 billion, compared with NOK 194.3 billion in 2013. Cash flow to the government came to NOK 111.1 billion as against NOK 124.8 billion the year before. Total production averaged 1 000 000 barrels of oil equivalent per day (boe/d), which was about three per cent lower than the 2013 figure of 1 034 000 boe. Investment was on a par with 2013, and the highest ever for the portfolio.

NGAAP

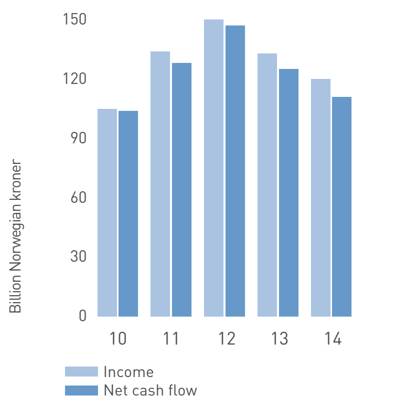
	2014	2013	2012	2011	2010
Operating revenue (in NOK million)	**179 797**	194 308	213 885	188 820	159 270
Net income for the year (in NOK million)	**119 671**	132 817	149 986	133 721	105 379
Investment (in NOK million)	**35 742**	35 444	26 399	19 053	19 533
Net cash flow (in NOK million)	**111 068**	124 825	146 930	128 083	103 572
Production – oil and NGL (1 000 b/d)	**407**	413	430	440	470
Production – dry gas (million scm/d)	**94**	99	112	92	97
Oil, NGL and dry gas production (1 000 boe/d)	**1 000**	1 034	1 132	1 016	1 080
Remaining reserves (million boe)	**6 145**	6 423	6 623	6 759	6 541
Reserve replacement rate (annual percentage)	**24**	47	67	160	37
Reserves added (million boe)	**88**	177	278	601	187
Oil price (USD/bbl)	**99**	110	113	114	79
Oil price (NOK/bbl)	**617**	647	657	632	482
Gas price (NOK/scm)	**2.23**	2.31	2.35	2.15	1.76

PRODUCTION



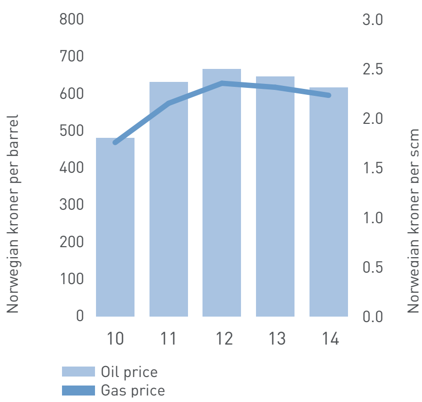
Total production from the SDFI portfolio averaged one million barrels of oil equivalent (boe) per day, down roughly three per cent from 2013. Output of liquids declined slightly, by 1.5 per cent. A reduction in gas volume reflected a decision to postpone production in order to boost value.

INCOME AND CASH FLOW



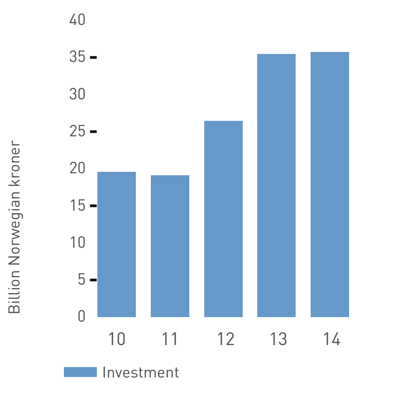
Net income for 2014[1] was NOK 119.7 billion, down by about 10 per cent from NOK 132.8 billion the year before. This figure was affected by developments in oil and gas prices, and gave a cash flow to the government of NOK 111.1 billion, compared with NOK 124.8 billion in 2013.

OIL AND GAS PRICES



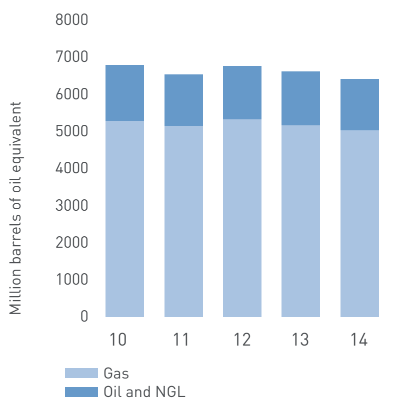
The price of oil averaged USD 99 per barrel in 2014, compared with USD 110 the year before. This decline in US dollars was partly counteracted by a strengthening of that currency against the Norwegian krone. Converted to the latter, the average oil price was NOK 617 per barrel as against NOK 647 in 2013. Gas fetched an average price of NOK 2.23 per scm in 2014, compared with NOK 2.31 the year before.

INVESTMENT



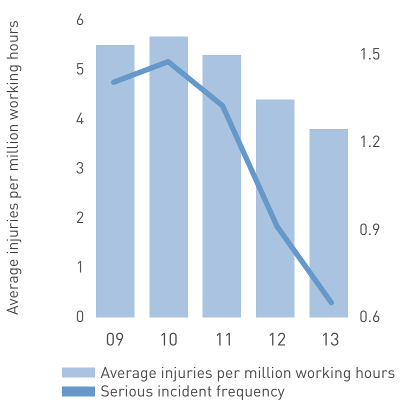
Investment in 2014 totalled NOK 35.7 billion, on a par with the year before and the highest ever figure for the portfolio. Capital spending for 2014 included new developments such as Valemon, Martin Linge, fast-track projects, subsea compression on Åsgard and new compressors on Troll.

REMAINING RESERVES



The portfolio's estimated remaining reserves of oil, condensate, NGL and gas totalled 6 145 million boe at 31 December, down by 277 million boe from the year before. Production in 2014 came to 365 million boe.

SAFETY



Petoro's main parameter for monitoring HSE developments in the SDFI portfolio is the serious incident frequency, which measures the number of such events per million working hours. This figure for 2014 was 0.7, an improvement on the year before. The number of personal injuries per million working hours came to 3.8, which was also a better performance than in earlier years.

[1] All figures are presented in accordance with Norwegian accounting legislation and accounting standards (NRS).

From the Åsgard field – photo: Øyvind Hagen, Statoil

GOALS ACHIEVED AND RESULTS

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GOALS ACHIEVED AND RESULTS

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

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

OPERATIONAL TARGETS

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

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

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

Production averaged one million boe per day in 2014.

Petoro will establish operational targets aimed at increasing the maturation of reserves through measures to improve recovery from mature fields and to develop new discoveries.

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

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

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

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

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

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

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

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

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

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

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

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

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

An initiative was taken by Petoro, ConocoPhillips, ExxonMobil and Total in 2010 to improve licensee involvement in safety work. These efforts resulted during 2014 in guidelines for handling major accident risk at licence level. The outcome has been increased involvement by licensees in work on risk management. These guidelines are now being incorporated as an industry standard through the Norwegian Oil and Gas Association. Petoro participated during 2014 in 11 working meetings on major accidents, and the experience was positive. The company also took part in several management inspections for HSE on selected fields and installations during the year.

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

PRIORITY TARGETS AND ACTIVITIES

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

Mature fields: investing in improved recovery

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

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

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

Where the platform is concerned, results from the operator's studies revealed an undesirable weight increase. Petoro initiated its own studies in 2014 to develop specific measures which it believes are important for reducing the weight and thereby cost of a new installation.

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

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

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

<u>Oseberg</u>
Under pressure from Petoro, the Oseberg future development project was established in 2011, and divided into three phases because of the big areal spread of the remaining resources. Petoro carried out its own work during 2014 on assessing the resource base, well requirements and development concept for the southern part of the field. Supplementary volumes were identified, but the increase in reserves was insufficient to justify a new process platform. The western section of Oseberg has been defined as phase one, and the project passed DG1 for a start to concept development in June 2014. Two concepts have been assessed, involving subsea facilities and an unstaffed wellhead platform respectively. The latter, which represents Petoro's preferred solution, was chosen by the partnership in early 2015.

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

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

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

Petoro devoted particular resources to following up Johan Sverdrup.

Johan Sverdrup
Petoro will safeguard the SDFI's commercial interests in the unitisation negotiations, as well as conducting quality assurance of the decision base for phase one of the field development and ensuring its robustness ahead of the investment decision and the submission of the plan for development and operation (PDO).

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

The company actively supported Statoil's candidacy to serve as operator for the unitised field. This proposal received unanimous support from the partnership in the fourth quarter of 2014.

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

A PDO was submitted on 13 February 2015, together with a negotiated unitisation agreement for final approval by the government.

Far north – promoting coherent development

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

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

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

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

The biggest disappointments of 2014 were the Apollo and Atlantis wells in PL615 in the Hoop area. The first of these proved dry while the second yielded only a small gas discovery. Two exploration wells were drilled around Johan Castberg in addition to Drivis, but both found only small amounts of gas for which no commercial development concept exists at present.

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

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

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

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

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

Priority has been given by Petoro to work related to maximising value in the gas portfolio. The company seeks to ensure that the available gas is sold in the market at the highest possible price, and that flexibility in the production facilities and transport capacity is exploited to optimise marketing and sales. Petoro has also been concerned with the role of gas in Europe's future energy mix, and has followed developments in EU energy policy.

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

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

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

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

RESOURCE ACCOUNTS 2014

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

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

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

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

* Including condensate

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

Samples from the Johan Sverdrup field – photo: Harald Pettersen, Statoil

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS OF PETORO

Standing from left: Lars Kristian Bjørheim, Marit Ersdal, Per-Olaf Hustad and Hilde Myrberg. Seated from left: Nils-Henrik Mørch von der Fehr, Gunn Wærsted and Per A Schøyen. (Photo: Kjetil Alsvik)

GUNN WÆRSTED
Chair

Years of election/re-election: 2014/2016
Occupation: President, Nordea Bank Norge, and member of corporate executive management.
Other directorships: Director, Nordea Bank Danmark and Nordea Bank Finland, chair, Nordea Life Holding and Nordea Bank SA AB, member of the nomination committee, Schibsted ASA, council member, Veritas ASA, board member, Finance Norway.
Education: MBA, BI Norwegian Business School.
Career: 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.

PER-OLAF HUSTAD
Director

Years of election/re-election: 2014/2016
Occupation: Independent consultant.
Education: MSc petroleum technology, Norwegian Institute of Technology (now Norwegian University of Science and Technology)
Career: Statoil, 1976-80, then more than 30 years with Shell – including executive positions in operator companies and major projects. Head of exploration and production for Shell in Norway to 2012.

NILS-HENRIK MØRCH VON DER FEHR
Director

Years of election/re-election: 2005/2015
Occupation: Professor of community economics, University of Oslo.
Education: Economics degree.
Career: In addition to academic posts at the University of Oslo, has lectured at the Universities of Heidelberg and Oxford. Member/chair of several official committees.

HILDE MYRBERG
Deputy chair

Years of election/re-election: 2006/2015
Other directorships: Director, Bank of Norway, CGGVeritas SA and Nordic Mining AS. Member, nomination committee, Det norske ASA.
Education: Law degree, MBA from Insead.
Career: Head, market sector, Hydro Oil & Energy, 2002-06. 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
Director

Years of election/re-election: 2007/2015
Occupation: Consultant.
Education: Law degree, various management programmes.
Career: Partner, Kluge, 2005-14. With Esso/ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also judge and assistant police attorney.

MARIT ERSDAL
Director (elected by the employees)

Years of election/re-election: 2014/2016
Occupation: Senior adviser, technology department, Petoro AS.
Education: MSc technical physics/reservoir technology, Norwegian Institute of Technology (now Norwegian University of Science and Technology).
Career: Long experience from Norwegian and international companies, mainly in the reservoir and production technology area.

LARS KRISTIAN BJØRHEIM
Director (elected by the employees)

Years of election/re-election: 2014/2016
Occupation: Senior adviser, licence follow-up, Petoro AS.
Education: MBA, BI Norwegian Business School, 2003.
Career: Experience from various roles in Petoro within accounting and licence follow-up. Has been a consultant in Accenture.

EXECUTIVE MANAGEMENT

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

GRETHE KRISTIN MOEN
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
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
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 vice president HSE for midstream and downstream operations.

LAURITS HAGA
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
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
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 positions in the fields of economics, analysis, finance and strategy. Also eight years of experience from the banking and financial sector.

OLAV BOYE SIVERTSEN
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
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.

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.

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 the government's principle for good corporate governance as expressed in Report no 27 (2013-2014) to the Storting on a diversified and value-creating ownership, and those sections of the Norwegian code of practice for corporate governance 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 with relevance for Petoro AS. The governance system is tailored to Petoro's special character. Petoro reports on the follow-up of its corporate social responsibility (CSR) in a separate chapter of this annual report.

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 vigorous, responsible, inclusive and bold.

THE BUSINESS

Petoro's 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 management of the SDFI's activities are governed by the Ministry of Petroleum and Energy's instructions for financial management of the SDFI and the annual letter of assignment. New instructions for financial management of the SDFI were issued by the ministry in December 2014. 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.

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 is 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 company is the licensee – with the same rights and obligations as the other licensees – for the state's portfolio on the NCS. 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. 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 commercial follow-up of Norwegian participatory interests in production licences awarded by the Icelandic government. The consolidated accounts of Petoro AS include activities 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.

EQUAL TREATMENT OF SHAREHOLDERS

The shares in Petoro AS are owned by the Norwegian state, and the company has no personal shareholders. Petoro Iceland AS entered into an agreement with Petoro AS on an overdraft facility during 2013.

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. Guidelines for issues to be considered by the company's general meeting are laid down in the Petroleum Act. Owner decisions are taken and resolutions adopted at the general meeting, which also elects 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 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.

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 10 times in 2014.

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.

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 sub-committees have been established. 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 2014.

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 integrated in Petoro's performance management system.

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.

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 2014 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 presents a broad description of its operations as well as the directors' report and the annual accounts. 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 RS800 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 this role, the company audits the internal control systems in accordance with instructions and an annual plan approved by the board. The 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.

PRESENTATION OF CORPORATE SOCIAL RESPONSIBILITY

Petoro's presentation of its CSR builds on guidelines for exercising CSR adopted by the company, and is tailored to its activities as a licensee on the Norwegian continental shelf (NCS). CSR embraces the responsibilities which companies are expected to fulfil for people, societies and the environment affected by their operations. Petoro's funding for performing its management duties and for running the company is provided through appropriations from the government. Pursuant to its mandate, Petoro has no opportunity to provide monetary support for social purposes.

The owner's expectations on CSR are expressed in Report no 27 (2013-2014) to the Storting, which refers to the UN's Global Compact. The board's presentation below, tailored to Petoro's role and mandate, is rooted in the owner's expectations and the company's guidelines for CSR.

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. The company's guidelines on business ethics support these values.

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. 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.

Power from shore will be assessed for new fields and major conversions, providing a technically feasible solution is available at an acceptable abatement cost. Petoro is a licensee in Martin Linge, which is being developed with power from shore, and in Johan Sverdrup where the partners have chosen this approach for the field's first development phase. Total carbon emissions from these fields will thereby be reduced.

The company contributes to creating environmentally conscious attitudes among all its employees through waste sorting and an incentive scheme to encourage increased use of public and environment-friendly transport. Petoro give emphasis to efficient ICT solutions and good communication systems which can replace travel to meetings 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 2014. 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. Employees annually sign the company's ethical guidelines, which cover such considerations as the duty of confidentiality, possible conflicts of interest and issues related to the receipt of gifts and services. Petoro has established security requirements for data and for information and communication technology (ICT) in its operations.

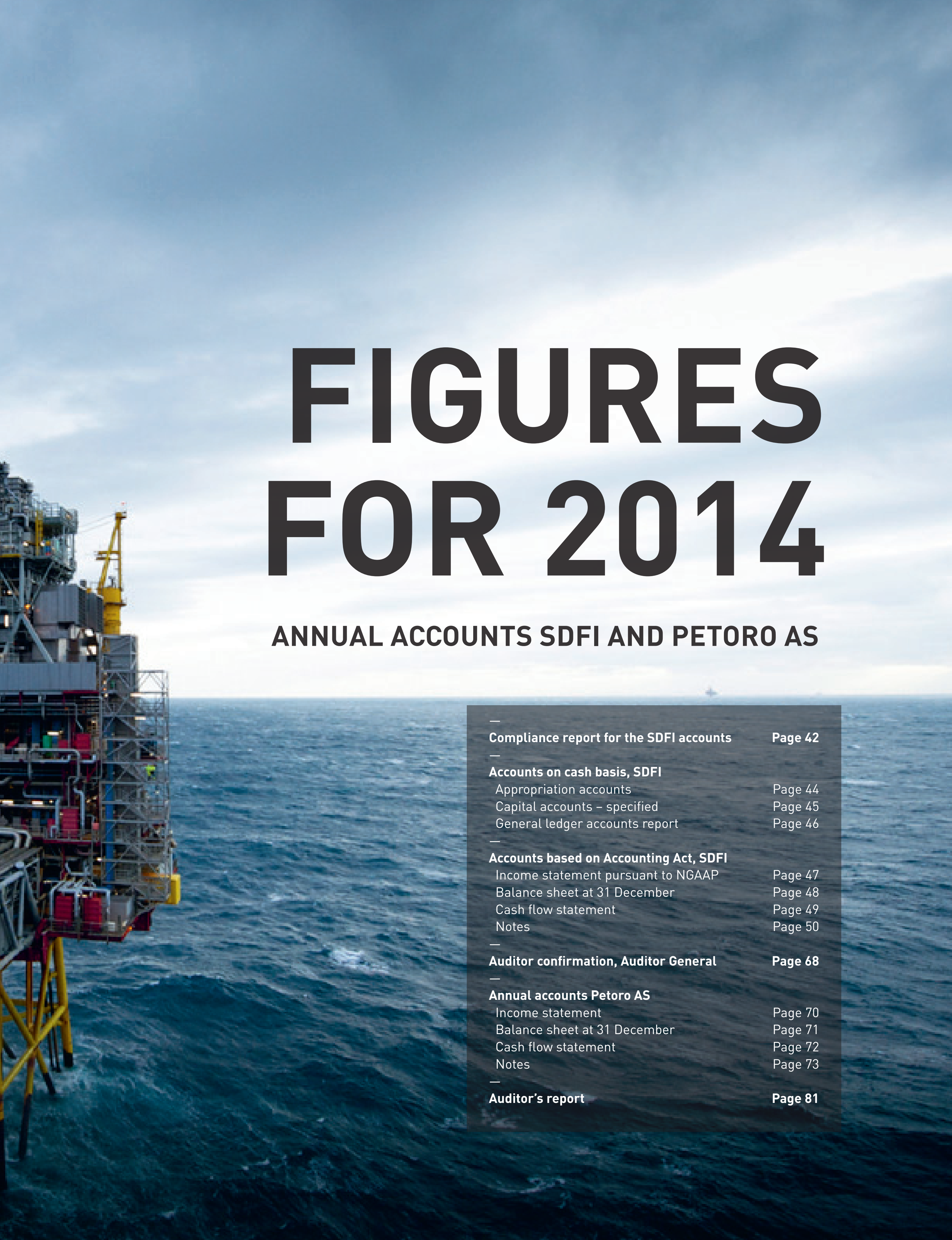
Petoro's employees discharge their duties with a high level of integrity and honesty, and show respect for other people, the public authorities and business contacts, as well as health, safety and the environment. The company's guidelines on business ethics include requirements on ethical behaviour by 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, and participation in the various events is good.

Petoro does not discriminate on the basis of gender, religion, national or ethnic affiliation, social group or political views. 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 2014.

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.

Oseberg field centre – photo: Ole Jørgen Bratland/Statoil



FIGURES FOR 2014

ANNUAL ACCOUNTS SDFI AND PETORO AS

COMPLIANCE REPORT FOR THE SDFI ACCOUNTS

PURPOSE
Since its establishment in 2001, Petoro has served as the licensee for the state's participatory interests in production licences, fields, pipelines and land-based facilities. Petoro is charged with managing the SDFI portfolio on the basis of sound business principles. The portfolio at 31 December 2014 comprised 34 producing fields, 182 production licences and 15 joint ventures for pipelines and terminals. An external valuation commissioned by the Ministry of Petroleum and Energy estimated that the SDFI portfolio was worth NOK 1 234 billion at 1 January 2014.

CONFIRMATION
The annual accounts are presented in accordance with the provisions on financial management in the government, circular R-115 from the Ministry of Finance, and requirements in the instructions on financial management of the SDFI in Petoro, with the exceptions granted for the SDFI. We hereby confirm that the annual accounts, which comprises the appropriation and capital accounts prepared on a cash basis, provide a true and fair picture in accordance with the cash basis. The general ledger accounts report presents accounting figures for the SDFI as reported to the government accounts in accordance with the standard chart of accounts for state-owned enterprises.

We furthermore confirm that the accounts based on the Accounting Act have been prepared in accordance with the Act and with Norwegian accounting standards, and provide a true and fair picture of the SDFI's assets, liabilities and financial results at 31 December 2014.

ASSESSMENT OF SIGNIFICANT CONDITIONS

APPROPRIATION AND CAPITAL ACCOUNTS
In accordance with the supplementary letter of assignment dated 8 December, the SDFI's appropriation for investment[2] is NOK 37 billion and for operating income[3] is NOK 118.9 billion. The appropriation for interest on the state's capital[4] is NOK 4.9 billion. Operating income is affected first and foremost by the price of oil and gas and by the volume of the SDFI's production sold. Statoil is responsible for marketing and sales of the SDFI's products under a marketing and sale instruction.

THE GENERAL LEDGER ACCOUNTS REPORT presents net reported revenue of NOK 185.5 billion in 2014 in accordance with the cash basis, which consists mainly of revenue from oil and gas sales. Expenses reported to the appropriation accounts comprise NOK 35.4 billion in payments to investment and NOK 34.8 billion in payments to operations. Payments to operations relate primarily to the operation of fields and facilities as well as processing and transport costs.

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

Net income for 2014 was NOK 119.7 billion, compared with NOK 132.8 billion the year before. This decline primarily reflected reduced operating revenue as a result of lower oil and gas prices, and also affected cash flow to the government. Net cash flow transferred to the government came to NOK 111.1 billion, compared with NOK 124.8 billion in 2013. The average oil price for 2014 was NOK 617 per barrel, as against NOK 647 the year before. Gas averaged NOK 2.23 per scm compared with NOK 2.31. Reduced gas revenue also reflected the decision to defer production in order to boost its value. Total output averaged 1 000 000 boe per day, down by about three per cent from 2013. Sales for the year corresponded to production.

Operating expenses including depreciation, amortisation and impairment charges totalled NOK 59.7 billion, down by roughly four per cent from 2013. The cost of operating fields, pipelines and land-based facilities was NOK 19.3 billion,

[2] Type/category 2440.30
[3] Type/category 5440.24
[4] Type/category 5440.80

up by about six per cent from the year before.

Exploration expenses came to NOK 2.6 billion. NOK 1.1 billion was capitalised as possible and confirmed discoveries, with NOK 1.5 billion expensed as dry wells. The corresponding total for 2013 was NOK 3.3 billion, with 2.3 billion expensed. Petoro participated in 20 of the 59 exploration wells completed on the NCS in 2014. Discoveries were made in 10 of the 20 wells which the company was involved in.

Investment in 2014 totalled NOK 35.7 billion, on a par with 2013. Development investment amounted to NOK 13.5 billion and embraced new projects such as Valemon, Martin Linge, fast-track developments, subsea compression on Åsgard and new compressors on Troll. At some NOK 16 billion, capital spending on production drilling was on a par with 2013.

The portfolio's estimated remaining reserves of oil, condensate, NGL and gas totalled 6 145 million boe at 31 December, down by 277 million boe from the year before.

Assets had a book value of NOK 265.6 billion at 31 December. They primarily comprised fixed assets in the shape of field installations, pipelines and land-based facilities as well as current trade debtors. Equity at 31 December came to NOK 171.5 billion. Future decommissioning liabilities are estimated at NOK 77.5 billion. Current liabilities, which comprise provisions for accrued but unpaid expenses, amounted to NOK 14.1 billion at 31 December 2014.

ADDITIONAL INFORMATION

The Office of the Auditor General is the external auditor, and approves the annual accounts for the SDFI. Its auditor's report is expected to be ready during the second quarter of 2015. On completing its annual audit, the Auditor General issues a final audit letter (report) which summarises the conclusion of its audit work. This is published when the Auditor General has reported the results of its audit to the Storting (parliament), pursuant to section 18 of the Act on the Auditing of Governmental Accounts.

Deloitte has been engaged by the board to perform a financial audit of the SDFI as part of the company's internal audit function. Deloitte submits a written report to the board concerning the annual accounts prepared on a cash basis and based on the accounting principles which build on Norwegian auditing standard RS800 concerning special-purpose audits. Deloitte's audit work forms the basis for the Auditor General's review of the annual accounts.

Stavanger, 6 March 2015

Gunn Wærsted
Chair

Hilde Myrberg
Deputy chair

Nils-Henrik M von der Fehr
Director

Per Arvid Schøyen
Director

Per-Olaf Hustad
Director

Lars Kristian Bjørheim
Director*

Marit Ersdal
Director*

Grethe K Moen
President and CEO

*Elected by the employees

ACCOUNTS ON CASH BASIS, SDFI
Appropriation accounts

Specification of appropriation reporting 31 Dec 14 – figures in round NOK

Expense a/c no	Type	Category	Description	Total allocation	Accounts 2014	(Increase)/decrease in expenses
2440	Expenses	30	Investment	37 000 000 000	35 371 970 423	1 628 029 577
5440	Expenses	24.02	Operating expenses	31 600 000 000	34 665 940 102	(3 065 940 102)
5440	Expenses	24.03	Exploration and field development expenses	2 300 000 000	2 619 090 733	(319 090 733)
5440	Expenses	24.04	Depreciation	23 100 000 000	21 837 716 226	1 262 283 774
5440	Expenses	24.05	Interest	4 900 000 000	4 944 561 923	(44 561 923)
Total expensed				**98 900 000 000**	**99 439 279 407**	**(539 279 407)**

Revenue a/c no	Type	Category	Description	Total allocation	Accounts 2014	(Increase)/decrease in expenses
5440	Revenue	24.01	Operating revenue	180 800 000 000	185 514 222 749	4 714 222 749
5440	Expenses	30	Depreciation	23 100 000 000	21 837 716 226	(1 262 283 774)
5440	Expenses	80	Interest on fixed capital	4 900 000 000	4 968 207 169	68 207 169
5440	Expenses	85	Interest on open accounts	0	(23 645 246)	(23 645 246)
Total revenues recorded				**208 800 000 000**	**212 296 500 898**	**3 496 500 898**
5440		**24**	**Operating profit**	**118 900 000 000**	**121 446 913 765**	**2 546 913 765**
Net reported to appropriation accounts					**(112 857 221 491)**	

Capital accounts		
0677.03.04693	Settlement account Bank of Norway – paid in	187 798 670 530
0677.03.08710	Settlement account Bank of Norway – paid in	16 685 151 990
0677.04.05015	Settlement account Bank of Norway – paid out	(93 415 941 493)
	Open accounts 1 Jan 2014	(1 801 770 514)
Open accounts at period end		(3 591 110 979)

Holdings reported to the capital accounts (31 Dec)

Account	2014	2013	Change
Open accounts with the Treasury	(3 591 110 979)	(1 801 770 514)	(1 789 340 464)

ACCOUNTS ON CASH BASIS, SDFI
Capital accounts – specified

SDFI CAPITAL ACCOUNTS 2014 – figures in NOK				
	Items			
	Open account government 31 Dec 14		3 591 110 979	(1 801 770 514)
	Fixed assets before impairment		189 811 829 155	
	Impairment		(323 863 722)	
	Fixed asset account		189 487 965 432	189 487 965 432
Total				**193 079 076 411**
	Open account government 1 Jan 14		(1 801 770 514)	
	Total expenses	35 371 970 423		
	Total revenue	(148 229 191 914)		
	Cash flow	(112 857 221 491)	(112 857 221 491)	
	Net transfer to the government		111 067 881 026	
Open account government at 31 Dec 14			**(3 591 110 979)**	**(3 591 110 979)**
	Fixed assets 1 Jan 14		(176 277 574 957)	
	Investments for the year		(35 371 970 423)	
	Depreciation for the year		21 837 716 226	
	Impairment		323 863 722	
	Fixed assets 31 Dec 14		(189 487 965 432)	(189 487 965 432)
Total				**(193 079 076 411)**

Stavanger, 6 March 2015

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President and CEO

*Elected by the employees

ACCOUNTS ON CASH BASIS, SDFI
General ledger accounts report (chart of accounts)

Specification of the general ledger accounts report for the 2014 accounts – figures in round NOK		
	2014	**2013**
Income reported to the appropriation accounts		
Sales and lease income	177 444 779 357	188 176 765 690
Other income	3 853 411 727	3 985 317 669
Payments of financial income	4 216 031 665	5 477 824 936
Total paid in	**185 514 222 749**	**197 639 908 294**
Expenses reported to the appropriation accounts		
Payments for investment	35 374 212 536	33 592 484 393
Other operating payments	34 788 498 688	37 394 349 542
Payments of financial costs	2 494 290 035	2 357 401 055
Total paid out	**72 657 001 259**	**73 344 234 989**
Net reported operating and investment expenses	**(112 857 221 491)**	**(124 295 673 305)**
Net expenses reported to the appropriation accounts	**(112 857 221 491)**	**(124 295 673 305)**
Overview of open accounts with the Treasury		
Assets and liabilities*	**2014**	**2013**
O/U call	1 324 173 642	531 787 429
AP nonop	204 719 795	(544 480 406)
AR nonop	(471 940 376)	127 037 393
Inventory nonop	246 856 708	195 848 912
Prep exp nonop	33 038 031	(30 062 310)
Working cap - nonop	465 959 473	(808 163 163)
VAT	(13 466 808)	(1 545 856)
Agio	(0)	(0)
Total open account with the Treasury	**1 789 340 464**	**(529 578 001)**

*

O/U call	– prepayments calculated net of JV cash call and billing
AP nonop	– accounts payable from JV billing
AR nonop	– accounts receivable from JV billing
Inventory nonop	– inventory from JV billing
Prep exp nonop	– prepayments from JV billing
Working cap	– nonop – primarily accruals from JV billing
VAT	– balance of VAT payments
Agio	– rounding-off related to currency translation (agio/disagio)

Comment on change in open account from 2013 to 2014
The change primarily reflects increased provisions and prepayments in the licences.

ACCOUNTS BASED ON ACCOUNTING ACT
Income statement pursuant to NGAAP

All figures in NOK million	Notes	2014	2013
OPERATING REVENUE			
Operating revenue	3, 4, 9, 11	**179 797**	194 308
Total operating revenue		**179 797**	**194 308**
OPERATING EXPENSES			
Exploration expenses		**1 585**	2 277
Production expenses	5	**19 280**	18 262
Depreciation, amortisation and impairment	2	**24 276**	23 781
Other operating expenses	5, 9, 10	**14 524**	17 534
Total operating expenses		**59 664**	**61 854**
Operating income		**120 133**	**132 455**
FINANCIAL ITEMS			
Financial income		**9 098**	5 566
Financial expenses	12	**9 559**	5 204
Net financial items	8	**(462)**	**362**
NET INCOME FOR THE YEAR	19	**119 671**	**132 817**

ACCOUNTS BASED ON ACCOUNTING ACT
SDFI balance sheet at 31 December

All figures in NOK million	Notes	2014	2013
Intangible fixed assets	2	**510**	610
Tangible fixed assets	1, 2, 18, 21	**238 053**	201 784
Financial fixed assets	2, 11	**101**	393
Fixed assets		**238 663**	**202 787**
Stocks	6	**5 038**	4 466
Trade debtors	9, 10	**21 776**	27 514
Bank deposits		**115**	123
Current assets		**26 929**	**32 102**
TOTAL ASSETS		**265 592**	**234 889**
Equity at 1 January		**162 858**	155 085
Paid from/(to) government during the year		**(111 068)**	(124 825)
Net income		**119 671**	132 817
Equity adjustment		**0**	(219)
Equity	19	**171 461**	**162 858**
Long-term decommissioning liabilities	12, 18	**77 520**	52 580
Other long-term liabilities	13	**2 483**	2 212
Long-term liabilities		**80 003**	**54 792**
Trade creditors		**3 845**	3 260
Other current liabilities	9, 14, 15	**10 283**	13 980
Current liabilities		**14 128**	**17 240**
TOTAL EQUITY AND LIABILITIES		**265 592**	**234 889**

Stavanger, 6 March 2015

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ACCOUNTS BASED ON ACCOUNTING ACT
SDFI cash flow statement

All figures in NOK million	**2014**	**2013**
CASH FLOW FROM OPERATIONAL ACTIVITIES		
Cash receipts from operations	**185 513**	197 590
Cash disbursements to operations	**(37 258)**	(39 738)
Net interest payments	**12**	(30)
Cash flow from operational activities	**148 243**	**157 882**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Pro et contra from government sale		
Investments	**(35 372)**	(33 585)
Cash flow from investment activities	**(35 372)**	**(33 585)**
CASH FLOW FROM FINANCING ACTIVITIES		
Change in working capital in the licences	**(486)**	1086
Change in under/over calls in the licences	**(1 324)**	(532)
Net transfer to the government	**(111 068)**	(124 825)
Cash flow from financing activities	**(112 878)**	**(124 271)**
Increase in bank deposits of partnerships with shared liability	**(7)**	26

NOTES TO THE ACCOUNTS BASED ON ACCOUNTING ACT

GENERAL

Petoro served at 31 December 2014 as the licensee on behalf of the SDFI for interests in 182 production licences and 15 joint ventures for pipelines and terminals – including the company's management of the commercial interests in Mongstad Terminal DA and Vestprosess DA, and of the shares in Norsea Gas AS and Norpipe Oil AS. In addition, the SDFI has the right to possible profits in four production licences with net profit agreements. Petoro has the same rights and obligations as other licensees, and manages the SDFI on the NCS on the basis of sound business principles.

Administration of the portfolio is subject to the 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 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.

ACCOUNTING PRINCIPLES FOR ACCOUNTS BASED ON 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. Differences between the accounts prepared in accordance with the Accounting Act (Norwegian generally accepted accounting principles – NGAAP) and on a cash basis are indicated in the notes below.

The SDFI's interests in limited companies and partnerships with shared liability relating to the production of petroleum are included under the respective items in the income statement and recorded in the 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.

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.

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

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 72.2 per cent of expected remaining oil reserves in 2014, while the corresponding figure for gas fields was 84.1 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

Fourteen production licences were awarded with SDFI participation in 2014. Twelve of these were formally awarded by the Ministry of Petroleum and Energy on 7 February 2014 in connection with the awards in predefined areas for 2013. In addition, two licences were carved out of existing licences with SDFI participation. Eleven production licences were relinquished.

Flyndre was established in 2014, and redetermination of the Vega Unit resulted in an increased participatory interest from 1 January 2015.

NOTE 2 SPECIFICATION OF FIXED ASSETS

All figures in NOK million	Book value at 31 Dec 13	Historical cost at 1 Jan 14	Accumulated depreciation 1 Jan 14	Addition 2014	Impair-ment 2014	Disposal 2014	Transfers 2014	Depreciation 2014	Book value at 31 Dec 14
Fields under development	5 996	5 996	0	5 048	0	0	0	0	11 044
Fields in operation	157 620	445 731	(288 111)	49 961	(106)	(160)	213	(21 946)	185 581
Pipelines and terminals	32 411	64 778	(32 366)	4 494	0	(55)	0	(1 871)	34 979
Capitalised exploration expenses	5 757	5 757	0	1 576	0	(578)	(213)	0	6 541
Total tangible fixed assets	**201 784**	**522 261**	**(320 477)**	**61 077**	**(106)**	**(793)**	**0**	**(23 817)**	**238 146**
Intangible assets	610	778	(168)	0	(163)	0	0	(30)	417
Financial fixed assets	393	393	0	(293)	0	0	0	0	101
Total fixed assets (NGAAP)	**202 787**	**523 433**	**(320 646)**	**60 784**	**(269)**	**(793)**	**0**	**(23 847)**	**238 663**
Translation to cash basis	(26 510)	(57 202)	30 693	(25 412)	(55)	793	0	2 009	(49 175)
Total fixed assets on cash basis	**176 278**	**466 230**	**(289 953)**	**35 372**	**(324)**	**0**	**0**	**(21 838)**	**189 488**

Tangible fixed assets are recorded at NOK 238 053 million in the balance sheet. The difference in the note reflects an impairment charge of NOK 93 million for Aldbrough which is recorded under tangible fixed assets in the accounts but moved to intangible assets in the note. 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 relate mainly to rights in the gas storage facility at Aldbrough, and are recorded at NOK 510 million in the balance sheet. This difference relates to an impairment charge in December 2014 which has been recorded against tangible fixed assets. 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. Impairment of NOK 163 million was charged for Aldbrough in 2014, primarily because of lower prices and reduced volatility as well as higher operating expenses. 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 101 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	**2014**	**2013**
Licence	**172 007**	189 201
Market	**11 503**	8 921
Net profit agreements	**986**	627
Elimination internal sales	**(4 699)**	(4 441)
Total operating revenue (NGAAP)	**179 797**	**194 308**
Conversion to cash basis	**5 718**	3 332
Total cash basis	**185 514**	**197 640**

Market primarily comprises revenue from the onward sale of gas and tariff revenues.

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	**2014**	**2013**
Crude oil, NGL and condensate	**85 642**	92 614
Gas	**81 477**	90 441
Transport and processing revenue	**11 137**	10 421
Other revenue	**554**	205
Net profit agreements	**986**	627
Total operating revenue (NGAAP)	**179 797**	**194 308**
Conversion to cash basis	**5 718**	3 332
Total cash basis	**185 514**	**197 640**

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 four 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	2014	2013
PRODUCTION EXPENSES		
Licence	**17 375**	16 663
Other infrastructure	**1 904**	1 599
Total production expenses	**19 280**	**18 262**
OTHER OPERATING EXPENSES		
Licence	**13 419**	13 441
Market	**5 804**	8 534
Elimination internal purchases	**(4 699)**	(4 441)
Total other operating expenses	**14 524**	**17 534**
Total operating expenses	**33 804**	**35 796**
Conversion to cash basis	862	764
Total cash basis	**34 666**	**36 560**

Market primarily comprises the cost of purchasing gas for onward sale and tariff expenses.

NOTE 6 INVENTORIES

All figures in NOK million	2014	2013
Petroleum products	**2 548**	2 223
Spare parts	**2 490**	2 243
Total inventories	**5 038**	**4 466**

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

Not relevant to the accounts on a cash basis.

NOTE 7 INTEREST INCLUDED IN THE SDFI APPROPRIATION ACCOUNTS

Interest on the state's fixed capital is incorporated in the accounts on a cash basis. Interest amounts are calculated in accordance with the requirements in the 2014 letter of assignment to Petoro from the Ministry of Petroleum and Energy.

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

The accounts on a cash basis included an open account with the government which represents the difference between charging to type/category in the appropriation accounts and liquidity movements.

Interest on the open account with the government is calculated in accordance with the 2014 letter of assignment to Petoro from the Ministry of Petroleum and Energy. The interest rate applied is related to the interest rate on short-term government securities and corresponds to the interest rate applied to short-term loans to the Treasury, calculated on the basis of the average monthly balance in the open account with the government.

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

NOTE 8 NET FINANCIAL ITEMS

All figures in NOK million	2014	2013
Interest	**1**	50
Other financial revenue	**42**	41
Currency gain	**9 055**	5 474
Currency loss	**(7 251)**	(3 514)
Interest costs	**(397)**	(123)
Interest on decommissioning liability	**(1 910)**	(1 566)
Net financial items	**(462)**	**362**

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 86.4 billion (corresponding to 150 million boe) for 2014 and NOK 92.5 billion (153 million boe) for 2013.

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 461 million in 2014, compared with NOK 484 million in 2013. 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 15.4 billion in 2014, compared with NOK 17.4 billion in 2013. Open accounts with Statoil totalled NOK 5.7 billion in favour of the SDFI, converted at the exchange rate prevailing at 31 December, compared with NOK 10.2 billion in 2013.

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. 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 in 2014. Trade debtors and other debtors are otherwise recorded at face value pursuant to the NGAAP.

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.

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. 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	**2014**	**2013**
Opening balance financial fixed assets (adjusted share)	**393**	1102
Net profit credited before impairment	**(293)**	(709)
Impairment	**0**	0
Closing balance financial fixed assets	**101**	**393**

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 4.9 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 lower discount rate increases the liability by NOK 19.2 billion.

All figures NOK million	**2014**	**2013**
Liability at 1 Jan	**52 580**	58 207
New liabilities/disposals	**130**	1 359
Actual decommissioning	**(1 243)**	(655)
Changes to estimates	**4 853**	3 482
Changes to discount rates	**19 247**	(11 380)
Interest expense	**1 910**	1 566
Liability at 31 Dec	**77 520**	**52 580**

NOK 1 243 million for cessation and decommissioning accrued in 2014, and is included in the accounts on a cash basis.

NOTE 13 OTHER LONG-TERM LIABILITIES

Other long-term liabilities pursuant to the NGAAP comprise:

- debt related to financial leasing of three LNG carriers delivered in 2006
- debt 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 1 438 million. Of this, NOK 168 million falls due for payment in 2015, NOK 674 million in the subsequent four years and the residual NOK 428 million after 2019.

Other long-term liabilities total NOK 1 044 million, of which NOK 792 million falls due longer than five years from the balance sheet date.

Not relevant to the accounts on a cash basis.

NOTE 14 OTHER CURRENT LIABILITIES

Other current liabilities pursuant to the NGAAP falling due in 2015 consist mainly of:

- 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.

Not relevant to the accounts on a cash basis.

NOTE 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Only limited use is made of financial instruments (derivatives) to manage risk in the SDFI portfolio. This is primarily because the SDFI is owned by the state and is accordingly included in the government's overall risk management. The SDFI does not have significant interest-bearing debt, and all crude oil and NGL is sold to Statoil. Instruments used to hedge gas sales relate to forwards and futures. At 31 December 2014, the market value of the financial instruments was NOK 1 959 million in assets and NOK 404 million in liabilities. The comparable figures at the end of 2013 were NOK 289 million and NOK 301 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 1 089 million in assets. The corresponding figures for 2013 were NOK 1 137 million and NOK 31 million in liabilities. No net unrealised gains were recognised pursuant to the NGAAP in 2014. The net unrealised loss for the trading portfolio at 31 December 2013 was recorded as NOK 11.6 million.

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 2014 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
2015	6 553	1 967
2016	6 286	1 829
2017	4 708	1 949
2018	4 115	1 828
2019	3 777	1 563
Beyond	9 660	12 303

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 2014 to participate in eight wells with an expected cost to the SDFI of NOK 948 million. Of this, NOK 763 million is expected to be incurred in 2015.

The company has also accepted contractual liabilities relating to investment in new and existing fields. These obligations total NOK 11.8 billion for 2014 and NOK 15.5 billion for subsequent periods, a total of NOK 27.3 billion. The SDFI is also committed in 2014 through approved licence budgets to operating and investment expenses for subsequent years. The above-mentioned liabilities for 2014 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.

Not relevant to the accounts on a cash basis.

NOTE 17 OTHER LIABILITIES

The SDFI could be affected by possible legal actions and disputes as a participant in production licences, 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.

Not relevant to the accounts on a cash basis.

NOTE 18 SIGNIFICANT ESTIMATES

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

Not relevant to the accounts on a cash basis.

NOTE 19 EQUITY

All figures in NOK million	**2014**	**2013**
Equity at 1 Jan	**162 858**	155 085
Net income for the year	**119 671**	132 817
Cash transfers to the government	**(111 068)**	(124 825)
Items recorded directly against equity		(219)
Equity at 31 Dec	**171 461**	**162 858**

Items recorded directly against equity in 2013 related 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. Equity at 1 January included 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.

Not relevant to the accounts on a cash basis.

NOTE 20 AUDITOR

Petoro is subject to the regulations on appropriations and the government's financial regulations. 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

	2014		2013		2012		2011	
Oil* in mill bbl Gas in bn scm	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**
Expected reserves at 1 Jan	1395	799	1458	821	1429	847	1397	817
Corrections for earlier years**								(1)
Change in estimates	68	1	41	6	62	8	43	(3)
Extensions and discoveries	4	1	12	3	34	6	74	7
Improved recovery	0	0	35	5	89	1	86	61
Purchase of reserves								
Sale of reserves							(10)	(1)
Production	(148)	(34)	(151)	(36)	(157)	(41)	(161)	(33)
Expected reserves at 31 Dec	**1318**	**767**	**1395**	**799**	**1458**	**821**	**1429**	**847**

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

At 31 December 2014, the portfolio's expected remaining oil, condensate, NGL and gas reserves totalled 6 145 million boe. This represented a decline of 277 million boe from the end of 2013.

Net reserves rose by 88 million boe in 2014. This low figure reflected few decisions on investing in new developments and improved recovery measures on existing SDFI fields during the year. Most of the increase arose from more uniform reporting of reserves for new wells on fields operated by Statoil. At the same time, reserves were downgraded on some fields.

A total of 365 million boe were produced in 2014, giving a net reserve replacement rate of 24 per cent for the year. The corresponding rate in 2013 was 47 per cent.

NOTE 22 SDFI OVERVIEW OF INTERESTS

Production licence	At 31 Dec 14 – interest (%)	At 31 Dec 13 – interest (%)
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	30.0000
038	30.0000	30.0000
038 C	30.0000	30.0000
038 D	30.0000	30.0000
038 E	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	At 31 Dec 14 – interest (%)	At 31 Dec 13 – interest (%)
093 C	47.8800	47.8800
093 D	47.8800	-
093 E	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 G	30.0000	30.0000
103 B	30.0000	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
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
171 B	33.6000	33.6000
176	47.8800	47.8800
190	40.0000	40.0000
190 B	40.0000	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

Production licence	At 31 Dec 14 – interest (%)	At 31 Dec 13 – interest (%)
208	30.0000	30.0000
209	35.0000	35.0000
237	35.6900	35.6900
248	40.0000	40.0000
248 B	40.0000	40.0000
248 C	40.0000	40.0000
248 D	40.0000	-
248 E	40.0000	-
250	45.0000	45.0000
255	30.0000	30.0000
263C	19.9500	19.9500
265	30.0000	30.0000
275	5.0000	5.0000
277	30.0000	30.0000
309 B	-	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
393	20.0000	20.0000
393 B	20.0000	20.0000
395	-	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
489	20.0000	20.0000
502	33.3333	33.3333
504	52.4070	52.4070
504 BS	4.2860	4.2860
504 CS	46.0430	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
516	24.5455	24.5455
522	-	20.0000
527	20.0000	20.0000
532	20.0000	20.0000
537	20.0000	20.0000
552	-	30.0000
558	20.0000	20.0000
566 S	-	20.0000

Production licence	At 31 Dec 14 – interest (%)	At 31 Dec 13 – interest (%)
568	-	20.0000
598	20.0000	20.0000
602	20.0000	20.0000
605	-	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	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	20.0000
663	20.0000	20.0000
676 S	20.0000	20.0000
681	20.0000	20.0000
682	20.0000	20.0000
684	30.0000	30.0000
685	20.0000	20.0000
686	20.0000	20.0000
687	20.0000	20.0000
694	20.0000	20.0000
695	20.0000	20.0000
696	20.0000	20.0000
698	36.4750	36.4750
699	36.4750	36.4750
706	20.0000	20.0000
712	20.0000	20.0000
714	20.0000	20.0000
716	20.0000	20.0000
718	20.0000	20.0000
720	20.0000	20.0000
723	20.0000	20.0000
726	20.0000	-
728	20.0000	-
739 S	20.0000	-
741	30.0000	-
745 S	20.0000	-
749	20.0000	-
751	20.0000	-
762		-
768	20.0000	-

Net profit licences*		
027		
028		
029		
033		

Unitised fields	At 31 Dec 14 Interest (%)	At 31 Dec 13 Interest (%)	Remaining production period	Licence term
Fram H-Nord Unit	11.2000	11.2000	2022	2024
Gimle Unit	24.1863	24.1863	2022	2023
Grane Unit	28.9425	28.9425	2043	2030
Haltenbanken Vest Unit (Kristin)	19.5770	19.5770	2032	2027
Heidrun Unit	57.7934	57.7934	2044	2024
Huldra Unit	31.9553	31.9553	-	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	36.4850	2039	2040
Oseberg Area Unit	33.6000	33.6000	2041	2031
Snorre Unit	30.0000	30.0000	2039	2015
Snøhvit Unit	30.0000	30.0000	2054	2035
Statfjord Øst Unit	30.0000	30.0000	2025	2024
Sygna Unit	30.0000	30.0000	2025	2024
Tor Unit	3.6874	3.6874	2047	2028
Troll Unit	56.0000	56.0000	2072	2030
Valemon Unit	30.0000	30.0000	2042	2031
Vega Unit (new participatory interest from 1 Jan 15)	28.3200	25.4000	2026	2024
Visund Inside	30.0000	30.0000	2034	2034
Åsgard Unit	35.6900	35.6900	2032	2027

Fields	At 31 Dec 14 Interest (%)	At 31 Dec 13 Interest (%)	Remaining production period	Licence term
Atla	30.0000	30.0000	2017	2025
Draugen	47.8800	47.8800	2027	2024
Ekofisk	5.0000	5.0000	2049	2028
Eldfisk	5.0000	5.0000	2049	2028
Embla	5.0000	5.0000	2050	2028
Flyndre (participatory interest Norwegian side)	5.0000	0.0000	2029	2028
Gjøa	30.0000	30.0000	2026	2028
Gullfaks	30.0000	30.0000	2032	2036
Gullfaks Sør	30.0000	30.0000	2038	2036
Heimdal	20.0000	20.0000	-	2021
Kvitebjørn	30.0000	30.0000	2045	2031
Rev	30.0000	30.0000	-	2021
Skirne	30.0000	30.0000	2021	2025
Skuld	24.5455	24.5455	2030	2026

Statfjord Nord	30.0000	30.0000	2025	2026
Svalin	30.0000	30.0000	2044	2030
Tordis	30.0000	30.0000	2030	2024
Tune	40.0000	40.0000	2019	2020
Urd	24.5455	24.5455	2030	2026
Varg	30.0000	30.0000	2020	2021
Veslefrikk	37.0000	37.0000	2023	2020
Vigdis	30.0000	30.0000	2029	2024
Yttergryta	19.9500	19.9500	-	2027

PIPELINES AND LAND-BASED PLANTS

Oil pipelines	**At 31 Dec 14 Interest (%)**	**At 31 Dec 13 Interest (%)**	**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 JV	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.

	At 31 Dec 14 Interest (%)	**At 31 Dec 13 Interest (%)**
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	46.6975 %	46.6975 %

Riksrevisjonen

Office of the Auditor General of Norway

Executive officer
Lene Simonsen +47 21540887

Our date	Our reference
20.02.2015	2014/00946-7
Your date	Your reference

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

Audit of the 2014 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

Jan Fredrik Lied
Acting Director General

Lars Christian Møller
Deputy Director General

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PETORO AS INCOME STATEMENT

PARENT COMPANY				GROUP		
2013	**2014**	**NOTES**	**All figures in NOK 1 000**	**NOTES**	**2014**	**2013**
260 654	**277 230**	1	Invoiced government contribution	1	**288 843**	264 995
4 338	**5 504**	1, 16, 17	Other revenue	1, 16, 17	**3 712**	1 313
1 378	**(11)**	2	Net deferred revenue recorded	2	**(11)**	1 378
266 370	**282 723**		**Total operating revenue**		**292 544**	**267 686**
135 395	**149 474**	3, 11	Payroll expenses	3, 11	**149 474**	135 395
2 722	**2 739**	4	Depreciation	4	**2 739**	2 722
16 180	**16 241**	13, 15, 16	Accounting and business management fees	13, 15, 16	**16 241**	16 180
9 268	**9 555**	14	Office expenses	14	**9 555**	9 268
21 463	**23 434**	15	ICT expenses	15	**23 434**	21 463
85 349	**90 301**	13, 16	Other operating expenses	13, 16, 18	**100 099**	86 666
270 377	**291 744**		**Total operating expenses**		**301 541**	**271 694**
(4 007)	**(9 021)**		**Operating loss**		**(8 997)**	**(4 008)**
3 790	**3 448**	5	Financial income	5	**3 560**	3 860
(366)	**(442)**	5	Financial expenses	5	**(482)**	(371)
3 424	**3 006**		**Net financial result**		**3 078**	**3 489**
(584)	**(6 015)**		**Loss before tax expense**		**(5 919)**	(519)
			Tax expense on ordinary loss	19	**34**	18
(584)	**(6 015)**		**Net loss**		**(5 953)**	**(537)**
			TRANSFERS			
(584)	**(6 015)**		Transferred from other equity			
(584)	**(6 015)**		**Total transfers**			

PETORO AS BALANCE SHEET AT 31 DECEMBER

PARENT COMPANY					GROUP	
2013	**2014**	**NOTES**	**All figures in NOK 1 000**	**NOTES**	**2014**	**2013**
			ASSETS			
			Fixed assets			
			Tangible fixed assets			
3 432	**3 442**	4	Operating equipment, fixtures, etc	4	**3 442**	3 432
3 432	**3 442**		**Tangible fixed assets**		**3 442**	**3 432**
			Financial assets			
0	**0**	6	Shares in subsidiaries		**0**	0
0	**0**		**Total financial assets**		**0**	0
3 432	**3 432**		**Total fixed assets**		**3 432**	**3 432**
			Current assets			
1 435	**1 998**	17	Trade debtors		**1 920**	1 322
9 836	**11 088**	7	Other debtors	7	**11 089**	9 844
171 411	**173 484**	8	Bank deposits	8	**178 328**	177 864
182 682	**186 569**		**Total current assets**		**191 337**	189 030
186 113	**190 011**		**TOTAL ASSETS**		**194 780**	**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**	10 000
			Retained earnings			
12 764	**6 749**	10	Other equity	10	**8 858**	14 829
22 764	**16 749**		**Total equity**		**18 858**	**24 829**
			Liabilities			
			Provisions			
103 886	**112 983**	11	Pension liabilities	11	**112 983**	103 886
3 432	**3 442**	2	Deferred revenue government contribution	2	**3 442**	3 432
107 318	**116 425**		**Total provisions**		**116 425**	**107 318**
			Current liabilities			
21 122	**19 898**		Trade creditors		**19 901**	22 416
0	**0**		Tax payable	19	**26**	0
8 719	**9 450**		Withheld taxes and social security		**9 450**	8 719
26 191	**27 490**	12	Other current liabilities	12	**30 119**	29 180
56 032	**56 838**		**Total current liabilities**		**59 497**	60 315
163 349	**173 263**		**Total liabilities**		**175 922**	167 633
186 113	**190 011**		**TOTAL EQUITY AND LIABILITIES**		**194 780**	**192 462**

Stavanger, 6 March 2015

Gunn Wærsted Chair	**Hilde Myrberg** Deputy chair	**Nils-Henrik M von der Fehr** Director	**Per Arvid Schøyen** Director
Per-Olaf Hustad Director	**Lars Kristian Bjørheim** Director*	**Marit Ersdal** Director*	**Grethe K Moen** President and CEO

* Elected by the employees

PETORO AS CASH FLOW STATEMENT

PARENT COMPANY				GROUP	
2013	**2014**		**All figures in NOK 1 000**	**2014**	**2013**
			LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES		
(584)	**(6 015)**		Income before tax	**(5 919)**	(519)
2 722	**2 739**	+	Depreciation	**2 739**	2 722
0	**0**	+	Tax paid	**(26)**	0
6 552	**(563)**	+/-	Change in trade debtors	**(563)**	6 664
759	**(1 224)**	+/-	Change in trade creditors	**(2 515)**	2 053
8 622	**9 885**	+/-	Change in accrued items	**9 515**	11 578
18 071	**4 822**		**Net change in liquidity from operating activities**	**3 231**	**22 498**
			LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES		
(1 344)	**(2 750)**	-	Invested in tangible fixed assets	**(2 750)**	(1 344)
(1 344)	**2 750**		**Net change in liquidity from investing activities**	**(2 750)**	**(1 344)**
			LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES		
0	**0**	+	Proceeds from share issue	**0**	0
0	**0**	-	Correction to equity 1 Jan	**(18)**	0
0	**0**		**Correction to equity 1 Jan**	**(18)**	**0**
16 727	**2 072**		Net change in liquid assets	**464**	21 154
154 684	**171 411**	+	Cash and cash equivalents at 1 Jan	**177 864**	156 710
171 411	**173 483**		**Cash and cash equivalents at 31 Dec**	**178 328**	**177 864**

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 2012 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.

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

DEFINED BENEFIT PLAN

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.

DEFINED CONTRIBUTION PLAN

Premiums for the defined contribution plan are expensed on a continuous basis.

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 277.2 million excluding VAT as income in 2014. For the group, the amount was NOK 288.8 million. The appropriation for the year, excluding VAT, was NOK 278.3 million for Petoro AS and NOK 15.3 million for Petoro Iceland AS, giving a total amount of NOK 293.6 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 29.5 million excluding VAT for 2014.

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 2.75 million in investment made during 2014 as well as NOK 2.74 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)	**2014**	**2013**
Pay	**99 806**	90 535
Directors' fees	**1 690**	1 657
Payroll taxes	**13 998**	12 801
Pensions (note 11)	**30 227**	26 356
Other benefits	**3 753**	4 046
Total	**149 474**	**135 395**

* Directors' fees are specified in the table.

Employees at 31 Dec, including the CEO and senior executives	67	64
Employees with a signed contract who had not started work at 31 Dec	0	4
Average number of work-years employed	66	65

Remuneration of senior executives (all figures in NOK 1 000)	**Pay**	**Other benefits**	**Total benefits**	**Expensed pension**
Grethe Moen, president and CEO	3 231	187	3 418	1 961
Rest of the management team (seven people)				
Olav Boye Sivertsen	1 727	153	1 880	776
Marion Svihus	2 244	158	2 402	1 031
Laurits Haga	2 394	148	2 542	1 197
Roy Tore Ruså	2 304	151	2 455	969
Jan Terje Mathisen	2 188	146	2 334	996
Nashater Solheim, from March	1 485	126	1 611	701
Kjell Morisbak Lund, from February	1 980	137	2 117	800
Rest of the management team (seven people)	**14 322**	**1 019**	**15 341**	**6 471**

Expensed 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.

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. New guidelines for pay and other remuneration for senior executives in enterprises and companies with a state ownership interest were established by the Ministry of Trade, Industry and Fisheries with effect from 13 February 2015. These guidelines primarily affect pension schemes above 12 times the National Insurance base rate (G), and the company has begun work to review and understand these provisions.

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. All employees 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. Also embracing the management team, the scheme involves allocating a sum equivalent to five per cent of annual pay up to a maximum of 24G annually at 1 January. 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. The first pay-out will be made in January 2016 to employees who meet the conditions. 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 oil and gas industry 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 president 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. Assessments of senior executives other than the president in 2014 took place during the second quarter. The board considered the president's pay assessment at its meeting of 5 September 2014. The president's pay is adjusted at 1 July 2015.

NOTE 4 TANGIBLE FIXED ASSETS

All figures in NOK 1 000	Fixed fittings	Equipment, etc	ICT	Total
Purchase cost 1 Jan 14	4 021	8 320	24 282	36 623
Addition fixed assets	288	201	2 261	2 750
Disposal/obsolescence fixed assets	-	-	-	-
Purchase cost 31 Dec 14	4 310	8 520	26 543	39 373
Accumulated depreciation 1 Jan 14	3 727	7 509	21 956	33 192
Reversed accumulated depreciation				-
Depreciation for the year	337	198	2 203	2 739
Accumulated depreciation 31 Dec 14	4 064	7 707	24 160	35 931
Book value at 31 Dec 14	**246**	**813**	**2 383**	**3 442**

Economic life	Until lease expires in 2020	3-5 years	3 years
Depreciation plan	Linear	Linear	Linear

Operational leasing contracts include office equipment and machines. The initial hire period is three-five years.

NOTE 5 FINANCIAL ITEMS

All figures in NOK 1 000	2014	2013
Financial income		
Interest income	3 399	3 770
Currency gain	49	20
Financial expenses		
Interest expenses	3	78
Currency loss	436	287
Other financial expenses	3	0
Net financial items Petoro AS	**3 006**	**3 424**
Net financial items Petoro Iceland AS	**72**	**65**
Net financial items group	**3 078**	**3 489**

NOTE 6 INVESTMENT IN SUBSIDIARY

Company	Acquisition date	Business office	Interest	Voting share	Equity 31 Dec	Profit 2014
Petoro Iceland AS	11 Dec 2012	Stavanger	100%	100%	2 109	62

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. The facility remained undrawn at 31 December 2014.

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 178.3 million, Petoro AS accounts for NOK 173.5 million. That includes NOK 130.7 million in withheld tax and pension plan assets.

NOTE 9 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital of the company at 31 December 2014 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 14	**10 000**	12 764	22 764
Change in equity for the year			
Net income		(6 015)	(6 015)
Equity at 31 Dec 14	**10 000**	**6 749**	**16 749**

Group (All figures in NOK 1 000)	**Share capital**	**Other equity**	**Total**
Equity at 1 Jan 14	**10 000**	14 829	24 829
Corrected equity at 1 Jan 14		(18)	(18)
Change in equity for the year			
Net income		(5 953)	(5 953)
Equity at 31 Dec 14	**10 000**	**8 858**	**18 858**

Consolidated reserves include 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 plans comply with the requirements of this Act.

The company has defined benefit pension plans covering all its employees, with the exception one person who has a defined contribution plan. The plans confer 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)	**2014**	**2013**
Present value of benefits earned during the year	**22 486**	21 799
Interest expense on pension obligation	**8 798**	8 056
Return on pension plan assets	**(3 609)**	(3 775)
Recorded change in estimates	**(693)**	(2 726)
Payroll tax	**3 171**	3 002
Pension cost, defined benefit plans	**30 154**	**26 356**
Pension cost, defined contribution plan	**73**	0
Net pension cost	**30 227**	**26 356**

Capitalised pension obligation	**2014**	**2013**
Estimated pension obligation at 31 Dec	**293 218**	203 561
Pension plan assets (market value)	**(105 821)**	(90 255)
Net pension obligations before payroll tax	**187 397**	113 306
Unrecorded change in estimates	**(88 493)**	(22 374)
Payroll tax	**14 078**	12 954
Capitalised pension obligation	**112 983**	**103 886**

Financial assumptions applied in calculating net pension expense for the year relate to the preceding year for net pension costs and to the present year for the net pension obligation:

	2014	**2013**
Discount rate		4.1 %
Expected return on plan assets	**3.2 %**	4.4 %
Expected increase in pay	**2.75 %**	3.75 %
Expected increase in pensions	**0.0 %**	0.6 %
Expected change in NI base rate	**2.5 %**	3.5 %

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 2014 totalled NOK 0.37 million. The figure for Petoro AS was NOK 0.26 million.

In accordance with the Act on Government Auditing of 7 May 2004, the Auditor General is the external auditor for the SDFI. Deloitte AS has also been engaged to conduct a financial audit of the SDFI as part of the company's internal audit function. Deloitte charged NOK 0.77 million for this service in 2014, and also executed internal audit projects and delivered services related to partner audits for a total of NOK 2.3 million.

NOTE 14 LEASES

Petoro AS entered into a lease with Smedvig Eiendom AS for office premises in the autumn of 2003. The ordinary term of the lease expired at 31 December 2014. Petoro chose to exercise its option to extend the lease to 31 December 2020.

The remaining term of the lease is now five years, with an option to renew for a further five-year period. Rent for the year was NOK 8.95 million, which included all management and shared expenses.

NOTE 15 SIGNIFICANT CONTRACTS

Petoro has entered into a new agreement with Upstream Accounting Excellence (Upax) on the delivery of accounting and associated ICT services related to the SDFI accounts. This agreement applies from 1 March 2014 and runs for five years with an option for Petoro to extend it for a further year. Evry is the sub-contractor for ICT services. The recorded accounting fee for Upax in 2014 was NOK 15 million. Other services purchased from the contractor totalled NOK 2.2 million.

NOTE 16 CLOSE ASSOCIATES

Statoil ASA and Petoro AS have the same owner in the Ministry of Petroleum and Energy, and are accordingly close associates. Petoro purchased services in 2014 relating to the audit of licence accounts, insurance services for the Norwegian Government Petroleum Insurance Fund and other minor services. NOK 0.91 million was recorded in 2014 for the purchase of services from Statoil ASA. These were purchased at market price on the basis of hours worked. NOK 3.94 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 17 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 1.79 million was invoiced in 2014 for the purchase of hours and services, including NOK 0.05 million for travel. These services are purchased at market price, based on hours worked and the government's scale for travel expenses. The parent company has a credit of NOK 0.08 million with the subsidiary. The amounts have been eliminated in the accounts.

NOTE 18 LICENCES/INTERESTS

The Icelandic government awarded two licences on 4 January 2013 to explore for and produce hydrocarbons on the Icelandic continental shelf. A third licence was awarded in January 2014. 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 phase for one licence expired at 4 January 2015. The work programme was fulfilled in 2014. In line with the operator's recommendation, the government has resolved that Norwegian state participation in this licence will not continue into the next phase.

NOTE 19 TAX – CONSOLIDATED

Tax expense for the year breaks down as	**2014**	**2013**
Tax payable	26	18
Excess provision for tax 2013	(6)	0
Icelandic tax	13	1
Total tax expense	**34**	**19**

Calculation of tax base for the year		
Profit before tax expense	96	65
Permanent differences	0	0
Change in temporary differences	0	0
Tax base for the year	96	65
Tax payable	**18**	**18**

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To the general meeting for Petoro AS

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Petoro AS, which comprise the financial statements of the parent company, showing a loss of NOK 6 015 000, and the financial statements of the group, showing a loss of NOK 5 953 000 . The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at December 31, 2014, 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, 2014, 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, 06 March 2015

Sven Erga
State Authorised PublicAccountant (Norway)

[Translation has been made for information purposes only]

PETORO'S FINANCIAL CALENDAR 2015

13 March	Annual result 2014/fourth quarter report 2014
5 May	First quarter report 2015
6 August	Second quarter report/first-half report 2015
29 October	Third quarter report 2015

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