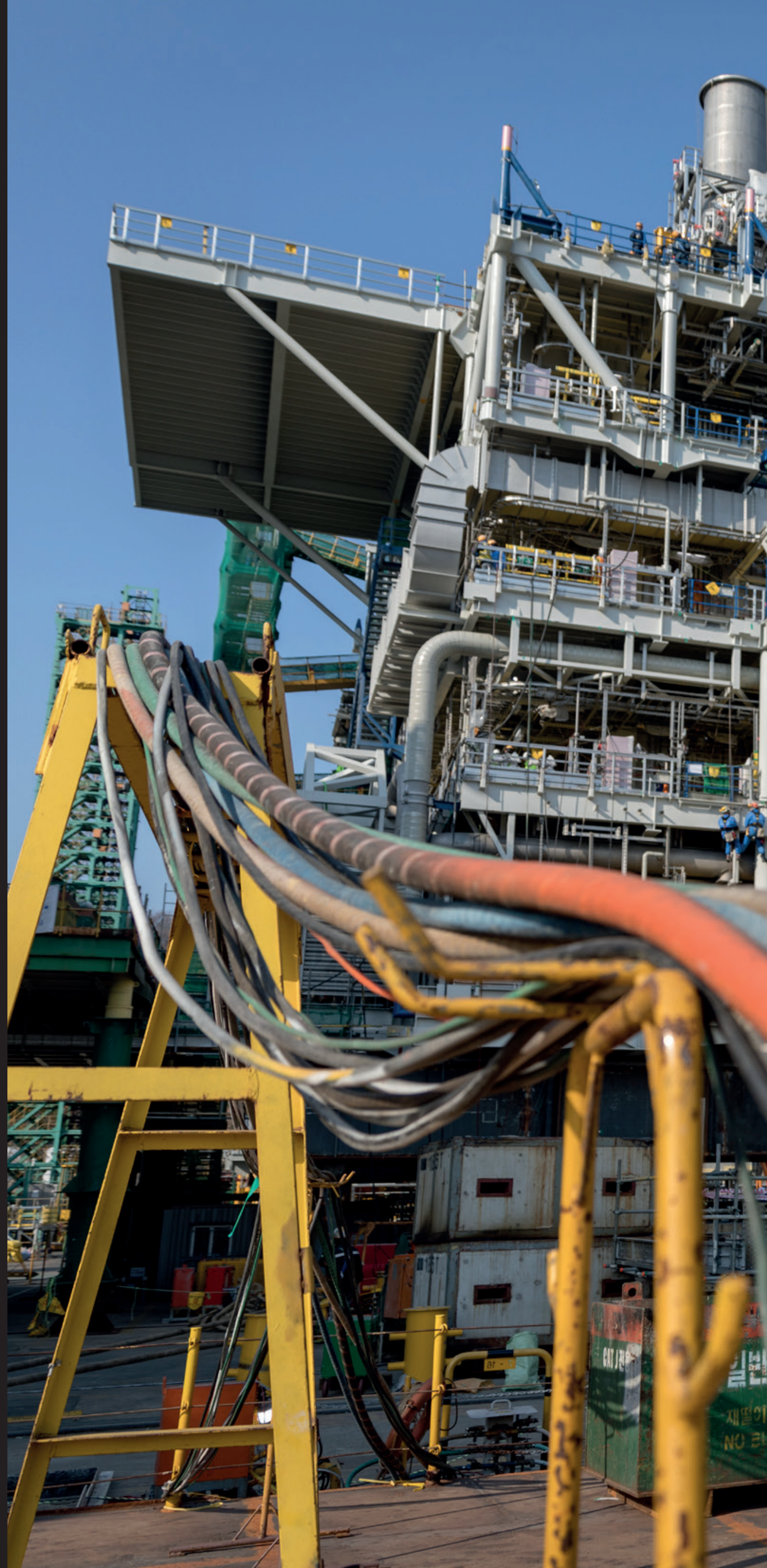
ANNUAL REPORT FOR THE SDFI AND PETORO 2017

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: Troll A
Photo: Harald Pettersen, Statoil
Right: Johan Sverdrup Riser Platform load out
February 2018 Korea Samsung SHI
Photo: Roar Lindefjeld/Woldcam/Statoil

CONTENTS

Grethe K. Moen. Photo: Anne Lise Norheim

2017 PROVED THE POSSIBILITIES - NOW THE GOOD WORK MUST CONTINUE

We live and work in a cyclical industry. Like all primary industries, oil and gas has always been characterised by significant historical fluctuations, and it has learned to live with them. However, some of the major changes in recent years are of a structural nature, rather than cyclical. Firstly, it has become clear that the world has more than enough oil and gas available to cover the next 50 years of consumption. Secondly, digitalisation is proceeding at a furious pace. Digital technologies entail a significant business potential, while simultaneously requiring extensive change processes. Thirdly, the future demands a low-carbon society, which means that our products will be challenged by alternative energy sources. The overall consequence of this is that only the "best" oil and gas will be produced and sold. Not just the cheapest, but also the oil with the smallest climate footprint, produced in the safest manner possible. Here I believe that the Norwegian shelf has a competitive advantage that must be utilised in full.

After a number of difficult years, it became clear in 2017 that the substantial transition has yielded concrete results and new opportunities. Operators and suppliers have done an impressive job by both implementing efficiency measures and thinking outside the box. Now we are seeing the gains from this tough process. Ten new development applications were submitted in 2017, and Petoro is a participant in the two largest ones. This shows that it is possible to create profitable projects on the Norwegian shelf. We are competitive. But as the effect of the implemented improvements is now showing signs of slowing down, we are facing the most difficult job of all; which new instruments can we employ to make sure that we remain competitive in the future?

One of the results of the transition is evident in the radical change that has taken place in how we think about development concepts, a fresh mind-set that yields both additional production and reduced investments. Both Johan Castberg and the Snorre Expansion Project have undergone this process, and both projects have cut costs by more than half without this affecting the future income potential. We are very satisfied with this. Both projects demonstrate the Norwegian shelf's competitiveness and provide a basis for considerable new revenues for the state through Petoro's activities.

The Paris Climate Agreement is still strong, even after the US pulled out. Nevertheless, the implementation in practical policy is challenging for several countries. In the UK, which is a large market for us, we are seeing that gas and renewable energy have contributed to a complete phase-out of coal, which has resulted in considerable emission reductions. Costly measures are needed in order to further reduce the emissions, particularly within transport and heating. Despite these challenges, the goals and ambitions remain firm.

CO_2 emissions from the portfolio are about half the average for the industry on an international basis. Further improvements are still needed, for example through efficiency measures at our facilities.

Petoro, as licensee in the Martin Linge project, experienced the tragic accident at the Samsung shipyard in South Korea on 1 May 2017, where six people lost their lives and 25 were injured. This accident is an important reminder of the major accident risk associated with all parts of our activities. Safety is a cornerstone of the Norwegian oil and gas industry. Following a worrisome development in the autumn of 2016 and a few serious incidents in the spring of 2017, it was gratifying to see a reverse in the trend in the last half of 2017. However, the number of serious incidents is still too high. While we are convinced that digitalisation will help reduce the risk level in our activities, we must simultaneously endeavour to handle digitalisation as a new risk factor in and of itself.

We believe that the use of artificial intelligence, new algorithms and increased use of the industry's vast amounts of data will change the industry structure, and this could happen rapidly. The oil and gas industry has been conservative; other industries have already been quicker to seize the opportunities offered by digitalisation, and here we have much to learn.

Moving forward, the challenge will be to further reduce the cost level in order for the Norwegian shelf to remain attractive in the global competition for investment funds. This is also reflected in the Konkraft report published in January 2018 which points out specific opportunities for improvement within digitalisation and new forms of cooperation. We will have to follow this up in the industry by specifying and implementing measures.

It is otherwise encouraging to note that exploration activity is again on the rise, which is crucial in order to realise future projects. After the major developments on Sverdrup, Castberg and Snorre, there are few major projects after 2022. We need new developments to ensure stable production and a consistent stream of new orders to the supplier industry. Exploration in the Barents Sea in the summer of 2017 was disappointing, but it is important to remember that we have barely started mapping this exciting exploration acreage.

2018 will therefore be an important year for Petoro. We look forward to completing the planned exploration wells and, not least, seeing new examples of innovation and thinking outside the box that can further reduce cost levels, while also increasing production from existing and new fields. The goal is for new forms of cooperation, innovation and digitalisation to result in a declining cost curve, while simultaneously promoting significant improvement in safety results.

"Coming together is a beginning; keeping together is progress; working together is success."
Henry Ford

Grethe K Moen
President and CEO, Petoro AS

Johan Sverdrup riser platform jacket sail away 23 July 2017
Photo: Jan Arne Wold/ Woldcam/Statoil

DIRECTORS' REPORT

PETORO AS AND THE SDFI PORTFOLIO

DIRECTORS' REPORT 2017

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 the SDFI portfolio.

The SDFI scheme was established in 1985. Under this arrangement, the state participates as a direct investor in petroleum activities on the Norwegian continental shelf (NCS), so that the state receives revenues and meets expenses associated with SDFI's ownership interests. Petoro acts as licensee for the state's ownership interests in production licences, fields, pipelines and onshore facilities, and manages this portfolio based on sound business principles. As SDFI manager, Petoro contributed a cash flow of NOK 87 billion in 2017, which represents a significant portion of the state's total revenues from the petroleum activities.

EXTERNAL TRENDS

The last few years have seen considerable changes in the oil and gas industry, including on the Norwegian shelf. Low prices and increased uncertainty as regards supply and demand for oil and gas over the longer term have clarified the need for efficiency and adjustments. In this situation, the industry and players have been able to considerably reduce costs over a relatively short period of time, thus bolstering competitiveness on the Norwegian continental shelf. 2017 was the first year since the financial crisis where the economy grew on all continents. Heading into 2018, the key financial figures are better than has been the case for a number of years, and the overall global financial growth was a positive surprise in 2017 with a total of 3.7 per cent.

After a period of oversupply, the oil market rebalanced over the course of 2017. This is bolstered by broad growth in global demand, which at 1.8 million bbls per day, was the strongest since 2010. On the supply side, OPEC continued the reduction agreement of 1.2 million bbls per day throughout year, and the decision was made in November 2017 to continue this through 2018. US shale oil production is growing again, and the scope of shale oil, alongside geopolitical unrest in the Middle East, are key uncertainty factors for future oil price development. The year started off with an oil price around USD 55 per bbl, but this declined steadily toward the summer and reached a low for the year at USD 44 per bbl in mid-June. The price rebounded over the course of the year and ended the year at USD 66 per bbl. SDFI's average realised oil price was NOK 449 per bbl, NOK 88 higher than in 2016. Measured in USD per bbl, the average price in 2017 was 54.2, compared with 43.1 in 2016.

European demand for gas continued its positive development from 2016 and grew by about 5 per cent in 2017. Some of the growth is attributed to factors such as colder and drier weather conditions in Europe. However, there has also been more structural growth in demand from the power sector driven by higher coal prices and the phasing out of coal power plants. While both Norwegian and Russian gas exports to Europe reached new record levels in 2017, LNG imports also reached their highest level of the last 5 years. This reflects a decline in Europe's own production which, combined with production restrictions on the Groningen field, increased Europe's need for imports. In 2017, gas prices declined seasonally toward the summer and rebounded significantly toward the winter. The average gas price achieved for the portfolio was NOK 1.72 per scm in 2016, compared with NOK 1.62 per scm in 2016.

The Paris Climate Agreement appears to be strong, even after the US decision to withdraw from the agreement. Implementation of the Paris Agreement is challenging for several countries, which is particularly demonstrated by the discussions in the EU and several member states. Germany has taken a leadership role as regards climate and renewable energy, but will most likely not reach its climate goals for 2020. In the UK, renewable energy and gas have replaced coal and contributed to considerable emission reductions. Further reductions will require substantial and costly efforts within transport and heating. Despite various challenges, the long-term goals and ambitions remain firm.

The Norwegian petroleum industry has followed up the national climate goals by establishing a roadmap towards 2030 and 2050 for emission reductions. The goal is to implement CO_2-reducing measures corresponding to 2.5 million tonnes per year from 2020 to 2030 through low-emission solutions in new projects and energy efficiency measures in existing facilities.

The situation with increased uncertainty in future product prices requires financial robustness as regards investment decisions. This means that measures to develop new and existing petroleum deposits are shifted towards projects with lower break-even prices, shorter repayment periods and phased development.

The player landscape on the Norwegian shelf is changing. 2017 saw a continuation of the trend where large international oil companies are reducing their presence, including through the sale of self-operated fields. Industry consolidation through mergers and acquisitions has also included the European industrial and energy companies that, for several years, have strengthened their presence on the Norwegian shelf in both in the development and operations phase. The changes have allowed the small and medium-sized independent oil companies to grow in terms of both size and financial strength. The players that grew in 2017 are primarily financed by Private Equity funds or large industrial players. So far, the industry consolidation and restructuring has not affected operatorships and has only somewhat affected the composition of partnerships in Petoro's producing fields. However, participants in production licences with SDFI participation have been affected, either through mergers and the establishment of larger companies or in that the companies have sold their self-operated activity and associated organisation. Further efficiency and cost improvement measures, in addition to high exploration activity and new discoveries, will be decisive in order for the Norwegian shelf to maintain its competitiveness in the global competition for investment funds.

Although there has been a decline in the number of exploration wells over the last few years, the number of applications and awards in the last licensing rounds show that there is still interest in exploration on the Norwegian shelf. The 2016 Awards in Predefined Areas (APA) totalled 56 production licences, while the 2017 APA set a new record with 75 licenses.

Over the last three years, the industry and players have demonstrated a sound ability to improve, and the challenge moving forward is to maintain the effect of this and, at the same time, have the capacity for further improvement.

An effort was under way in 2017 under the auspices of Konkraft with the aim of promoting global competitiveness for Norwegian oil and gas over the long term. The report was submitted on 4 January 2018, and the committee points out opportunities for improvement, particularly within digitisation and new forms of cooperation. It is important for the industry to follow up and implement these measures in the time ahead.

SUMMARY OF SDFI RESULTS

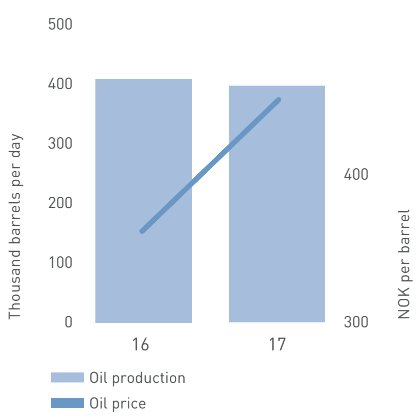
The financial result for 2017 was a net income of NOK 99 billion, NOK 41.5 billion higher than in 2016. Cash flow to the state was NOK 87 billion in 2017, NOK 21 billion higher than in 2016.

The cash flow and financial result are characterised by considerably higher oil and gas prices in 2017 compared with 2016, as well as higher gas volumes. Total production averaged 1.110 million barrels of oil equivalent (boe) per day, up roughly seven per cent from 2016. Gas production reached a record level in 2017, 13 per cent higher than in 2016. The increase is primarily due to increased use of flexible gas production in order to exploit higher prices. Natural production decline from existing wells means that liquids production was nearly three per cent lower than in 2016. Higher regularity and more wells do not fully offset this decline, as has been the case over the last couple of years.

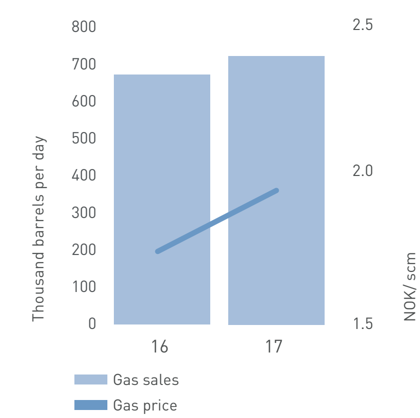
Costs incurred for investment in 2017 totalled NOK 25.5 billion, which is about NOK 3 billion lower than the year before. This reduction is mainly due to lower investment in production drilling as a result of reduced drilling activity on three fields.

The book value of assets at 31 December 2017 was NOK 247 billion. The assets consist of fixed assets related to field installations, pipelines and onshore plants, as well as current debtors. Equity at 31 December came to NOK 168 billion.

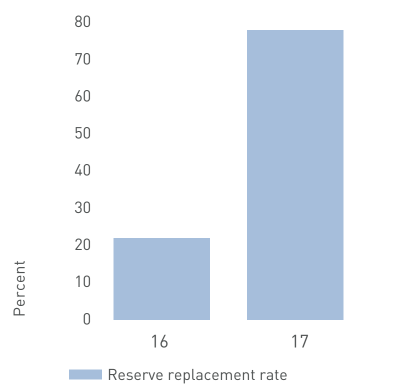
OIL PRODUCTION/PRICE



GAS SALES/-PRICE



RESERVE REPLACEMENT RATE



HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

The HSE results for 2017 show a positive development compared with the previous year, but the number of serious near-miss incidents and personal injuries is still too high. The serious incident frequency (number of serious incidents per million hours worked) declined from 1.0 in 2016 to 0.7 in 2017. The personal injury frequency (number of personal injuries per million hours worked) is at same level as the previous year and came to 4.2 in 2017, compared with 4.1 in 2016. No serious discharges to sea were recorded in 2017.

In 2017, Petoro has been particularly concerned with risk assessments in a major accident perspective linked to effects from efficiency measures in the licenses. Petoro also conducted a number of management visits in 2017, focusing on health, safety and the environment on selected fields and onshore plants.

Beyond the activities on the Norwegian shelf, Petoro, as licensee in the Martin Linge project, experienced the tragic accident at the Samsung shipyard in South Korea on 1 May 2017, where 6 people lost their lives and 25 were injured. This accident is a powerful reminder of the importance of managing major accident risk linked to all parts of our activities.

PRINCIPAL ACTIVITIES IN 2017

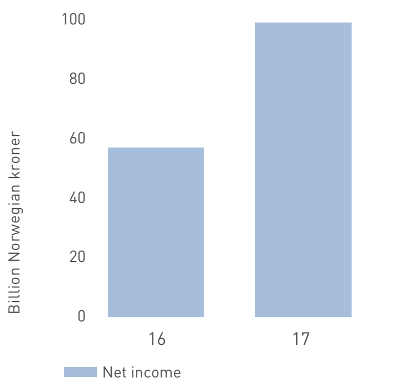
As of the end of 2017, the portfolio consisted of 186 production licences, 6 more than at the beginning of the year. In January 2017, Petoro received participating interests in 13 production licences under the Awards in Predefined Areas (APA) 2016. Petoro also received participating interests in 17 production licences in APA 2017 in January 2018.

Production from mature oil fields continues to dominate liquids production in the SDFI portfolio. The Troll, Oseberg, Åsgard, Heidrun, Grane, Gullfaks and Snorre fields accounted for 70 per cent of total liquids production in 2017. In 2017, gas accounted for 64 per cent of overall production measured in oil equivalent. Just over 70 per cent of gas output came from Troll, Ormen Lange and Åsgard. Three new fields came on stream in 2017: Maria, Sindre and Flyndre. Maria started up in December, nearly one year before the original schedule and development costs were considerably lower than presumed in the Plan for Development and Operation (PDO).

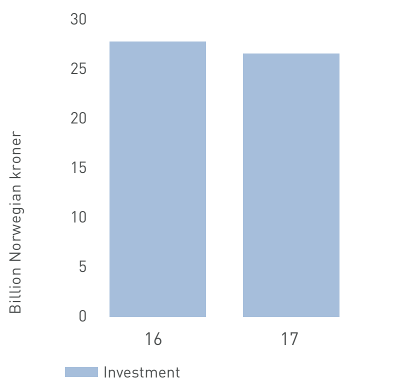
The company's strategy was continued in 2017 and is twofold: Increase the competitiveness of the portfolio and realise value in mature fields. Through focused follow-up, supported by in-depth professional commitment, Petoro works to reinforce value creation opportunities with emphasis on long-term business development. The company's climate policy emphasises that Petoro shall contribute to ensure that the oil and gas industry on the Norwegian shelf is at the forefront as regards addressing the climate challenges. In this area, the company has focused its efforts on energy efficiency measures on the fields in the portfolio with the highest CO_2 emissions.

In 2017, in line with the strategy to realise the values in mature fields, particular efforts have been aimed at the Snorre and Troll fields, in addition to well maturation on selected fields.

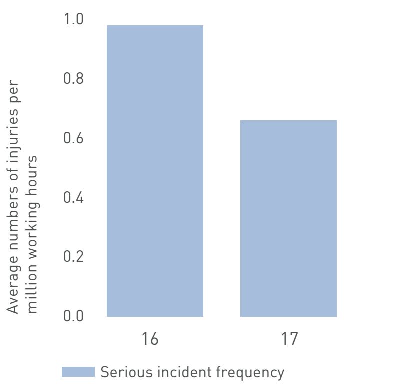
NET INCOME



INVESTMENT



SERIOUS INCIDENT FREQUENCY



On the Snorre field, Petoro has been an active driving force over a number of years in the realisation of additional profitable reserves. Efforts have primarily been aimed at strengthening reserve potential through expansive technical reservoir studies. In December 2017, the license decided to invest in a further development project consisting of 6 seabed templates adapted for 24 new wells. The application for approval of the amended PDO for further development of the Snorre field was submitted to the Ministry of Petroleum and Energy in December. Production start-up is anticipated in 2021, and the project will contribute to considerably increased values from the Snorre field.

The Troll field is facing important decisions as regards further development of the field. Throughout 2016 and 2017, Petoro has been actively engaged in helping ensure that work on the Troll phase 3 project will ensure the most comprehensive and flexible further development possible. Efforts have primarily been aimed at ensuring that the effect on oil production is understood through comprehensive technical reservoir studies. An investment decision is expected in spring 2018, and start-up in 2021.

On the Heidrun field, Petoro has also been carrying out technical reservoir studies over a longer period of time in order to contribute toward improving the profitability of further development measures. In 2017, the license made an investment decision for phase 1 of the Heidrun Subsea Extension project. This project includes construction of a new production flowline and an upgrade of subsea equipment in the northern part of the field. This will enable the drilling of 11 new wells, which will yield considerably greater values from Heidrun.

In December 2017, along with the other partners in the Johan Castberg license, Petoro made an investment decision and subsequently submitted the application for approval of the PDO for the Johan Castberg project, which comprises 10 seabed templates, two satellites and one production vessel. This project has undergone extensive changes and cost improvement measures, where Petoro has been particularly focused on preserving the opportunities for new profitable additional volumes in the field's operations phase. The change work carried out by the operator Statoil along with the suppliers has yielded very good results and has resulted in a substantial improvement in the project's profitability.

Petoro is highly involved as a partner in the Johan Sverdrup field, where phase 1 of the project is in the implementation phase with two platforms under construction in South Korea and two in Norway. A dedicated facility is also being constructed at Kårstø to supply the field with power from shore.
In addition to following up the implementation of phase 1, Petoro has been involved in preparations for the investment decision in 2018 for phase 2 of the project. Johan Sverdrup has also experienced a positive cost development in 2017, which helps boost the project's profitability.

The authorities approved the PDO for the Dvalin field in 2017. The development plan for Dvalin comprises a subsea template with four wells tied into the Heidrun platform, as well as gas export via Polarled and Nyhamna. Petoro is also a licensee on Ekofisk, where the authorities approved an amended PDO in 2017 for the Ekofisk South Water Injection project. The objective of the project is increased recovery through the installation of a new subsea template with four water injection wells.

The need for efficiency improvements and cost reductions within the drilling and well service area has been an important issue for Petoro over several years. Petoro has followed the development in drilling pace on ten fixed installations on five selected fields in the portfolio over a number of years. The number of completed wells has doubled from 2014 to 2017. The average drilling time and drilling cost was cut in half from 2014 to 2015. The result can mainly be attributed to increased drilling efficiency, simplified well design and increased availability of drilling facilities. The development in drilling time and drilling cost has levelled out since 2015, and was on par with the previous two years in 2017. Further improvements will require new means, e.g. digitisation and new forms of cooperation.

There will be a significant long-term need for drilling new wells to realise the value potential in mature fields. Petoro has been working to increase the maturation of wells on selected fields, in part by carrying out in-depth studies to identify new wells.

As part of this strategy, Petoro has worked to increase the portfolio's competitiveness, and the licenses have achieved comprehensive improvements within all areas of the value chain. The substantial cost reductions achieved through optimisation of the development concepts leading up to concept choice for Snorre and Johan Castberg, were decisive as regards the projects' profitability and being able to make investment decisions in 2017. Even with reduced costs, the recoverable resources have been maintained for these projects, which demonstrates a considerable improvement in competitiveness. These experiences provide a sound basis for maturing new profitable projects in the portfolio.

Another example of results from the improvement efforts is that field costs for fields in operation are still declining. However, after achieving substantial cost reductions in recent years, the effect has slowed down, and field costs in 2017 were four per cent lower than in 2016. Further reductions here will also require new measures. Petoro's efforts have been aimed at ensuring that the measures implemented to reduce costs are sustainable and entail an actual gain in efficiency, without weakening the facilities' integrity over the longer term.

34 exploration wells were completed on the Norwegian shelf in 2017, which is about the same number as the year before. Petoro was a participant in 12 of the wells, 10 of which were wildcat wells that yielded 8 new discoveries. The last two exploration wells were appraisal wells. Even though the new discoveries were generally minor, four of them are located near existing infrastructure and are presumed to be commercial. The results from the exploration campaign in the Barents Sea were disappointing, with the exception of the Kayak discovery where an additional appraisal well is considered with a view towards a potential development tied into Johan Castberg.

The portfolio's estimated remaining reserves of oil, condensate, NGL and gas totalled 5879 million boe at 31 December, down by 89 million boe from the year before. Reserve growth in 2017 primarily came from Johan Castberg, but also from the mature fields Snorre, Åsgard, Heidrun, and Visund. Nevertheless, the growth was not sufficient to offset the reduction in remaining reserves from production in 2017.

RESEARCH AND DEVELOPMENT

Petoro contributes to research and development (R&D) through the SDFI meeting its share of the operator's costs for general research and development pursuant to the Accounting Agreement. The funds are managed by the respective operators. This amounted to NOK 507 million for the SDFI in 2017. Projects aimed at field-specific qualification of new solutions or pilot application of technology in licences, where the costs are charged to the joint ventures, come in addition. Petoro does not initiate its own technology development and research projects.

MARKETING AND SALE OF THE PRODUCTS

All oil and natural gas liquids (NGL) from the portfolio are sold to Statoil. Statoil is responsible for marketing all the SDFI's natural gas together with its own gas as a single portfolio, at the state's expense and risk. Petoro`s task is to monitor that Statoil's marketing and sale of the government's petroleum together with its own production complies with the marketing and sale instruction given to Statoil ASA. The objective of the marketing and sale instruction is to achieve the highest possible value for Statoil's and the state's petroleum and ensure just distribution of the total value creation. In this work, Petoro concentrates on Statoil's marketing and sales strategy, issues of great significance in value terms, matters of principle and questions relating to incentives.

In 2017, Petoro has prioritised following up further development of Statoil's follow-up system for the marketing and sale to ensure that necessary routines are in place, including for the new formula for LPG, which was introduced as of 2017.

The company is concerned with ensuring that the products are marketed and sold in the markets where the highest price can be achieved. In this context, optimal utilisation of the capacity and flexibility of production facilities and infrastructure is of great significance.

Selected verifications have been conducted to ensure that the SDFI receives its rightful share of sales-related costs and revenues. The company is in a dialogue with the Ministry of Petroleum and Energy as regards certain clarifications in the marketing and sale instruction.

WORKING ENVIRONMENT AND EXPERTISE

The company's human resources policy aims to ensure diversity and equal opportunities, develop expertise, facilitate a good working environment, and prevent discrimination on the grounds of age, gender or cultural and geographical background.

Petoro personnel have extensive experience from the petroleum industry and a high level of expertise. The individual employee is crucial to the company's deliveries and success, and the board places emphasis on ensuring that Petoro offers competitive terms and a stimulating working environment that attracts people with the right expertise and positive attitudes. Opportunities for professional and personal development help to retain, develop and attract skilled personnel.

Petoro had 65 employees at 31 December 2017, one more than the year before. Two new employees were hired in 2017 and one employee retired. Women accounted for 37 per cent of the total workforce in 2017, and 43 per cent of the company's directors and executive management. Petoro emphasises equal opportunities for professional and personal development as well as pay. Working conditions at Petoro are customised to allow employment of people with disabilities.

Absence due to illness was to 2.1 per cent in 2017, compared with 1.7 per cent in 2016. The company considers this to be low. Petoro has an inclusive workplace (IA) agreement, and utilises close follow-up and dialogue to promote good health and prevent absence due to illness. No occupational accidents were recorded among Petoro's personnel.

Collaboration with the company's working environment committee (AMU) and works council (SAMU) lays an important foundation for a good working environment. These bodies also functioned well in 2017.

CORPORATE GOVERNANCE

The board emphasises good governance to ensure that the state's 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 "Regulations on Financial Management in Central Government" and in standards for good corporate governance. The board observes the Norwegian state's principles for sound corporate governance as expressed in Meld. St. 27 2013-2014 "Et mangfoldig og verdiskapende eierskap" (Report No. 27 to the Storting (2013-2014) "Diverse and productive ownership") and those sections of the "Norwegian Code of Practice for Corporate Governance" regarded as relevant to Petoro's activities and the frameworks established by its form of organisation and ownership.

The management system is tailored to Petoro's distinctive nature, and enterprise management is based on balanced management by objectives, under which objectives are established that support the company strategy. For further details see the separate section in the annual report.

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Petoro discharges its corporate social responsibility in line with the relevant guidelines, which are tailored to the company's role. Funding for discharging its management duties and for running the company is provided through appropriations from the state, and Petoro is unable to provide monetary support for social purposes.

Measures which ensure that Petoro discharges its CSR include business ethics guidelines, the HSE declaration, climate policy and an HR policy that ensures diversity and equal opportunity. Activity outside Norway is very limited. 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 2017 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 company's established frameworks.

Two internal audit projects were carried out in 2017; they assessed the control and follow-up of cash flows in the SDFI and IT security. The results were summarised in a report to the board describing the audit actions undertaken, findings, as well as proposed and implemented measures for the internal audit projects.

The internal audit projects in 2017 were conducted by PwC, which has also been responsible for the internal financial audit of the SDFI for the 2017 accounting year.

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 board met 8 times in 2017. 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. Balanced scorecards are a key instrument used by the board in following up the company's results.

The board considers major investment decisions in the portfolio. It also follows up activities in the licenses and the monitoring of marketing and sales, including assessments 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. A declaration has been drawn up by the board on remuneration of the chief executive and senior personnel.

Conflicts of interest are a fixed item on the agenda at board meetings and in the consideration of matters, and directors with such a conflict withdraw from the board's consideration of the relevant issue. An annual self-assessment is conducted by the board, which encompasses an evaluation of its own work and mode of working, as well as its collaboration with company management. The self-assessment for 2017 is complete.

The work of the board is based on the "Board Instructions", which describe its responsibilities and mode of working. As an appendix to the Instructions, the board has adopted supplementary provisions for matters which it will consider. The board also reviews the company guidelines on business ethics and CSR, as well as the Board Instructions. Directors must routinely report their ownership of shares or similar interest in other companies which could constitute, or which could be perceived as constituting, a conflict of interest with their position. They are furthermore required to report other relationships with licensees involved in petroleum activities on the NCS or with companies that supply goods or services to licensees.

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 within the business area.

Petoro's board comprises Gunn Wærsted as chair, Brian Bjordal as deputy chair, Per A. Schøyen, Trude J. H. Fjeldstad and Hugo Sandal as shareholder-elected directors. Per-Olaf Hustad withdrew from the board in June 2017, while Hugo Sandal joined as a new director. Directors Ove Skretting and Heidi I. Nes are elected by the employees.

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 partially privatised and management of the SDFI was assigned to Petoro AS. The company's operations are governed by Chapter 11 of the Petroleum Act. Its general meeting is the Ministry of Petroleum and Energy.

Petoro's share capital at 31 December 2017 was NOK 10 million, distributed among 10 000 shares owned by the Ministry of Petroleum and Energy on behalf of the Norwegian state. Petoro's business office is in Stavanger.

PETORO ICELAND AS

Petoro Iceland AS 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 in which the Norwegian state chooses to participate. The company's share capital at 31 December 2017 comprised NOK 2 million, distributed among 2 000 shares. It has no employees and has entered into a management agreement with Petoro AS. The third and last production licence, which was awarded in January 2014, completed the work programme for the first phase in 2017. The operator, CNOOC, deemed that proceeding to the next phase was insufficiently attractive and recommended relinquishment based on a comprehensive assessment. Petoro Iceland AS supported the operator's assessment and conclusion and chose to announce its withdrawal in January 2018.
As a result of relinquishing the last production licence on the Icelandic continental shelf, Petoro Iceland AS is no longer involved in any production licences. Some supplementary work for the most recently relinquished license will continue in 2018.

NET INCOME AND ALLOCATIONS

Petoro AS maintains separate accounts for all transactions relating to participating interests in the joint ventures. Revenue and expenses from the SDFI portfolio are kept separate from day-to-day operation of the company. Cash flow from the portfolio is transferred to the central government's own accounts with Norges Bank. 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 responsible for the contractual obligations incurred by the companies. The consolidated accounts comprise the parent company and Petoro Iceland AS. Amounts related to internal transactions are eliminated in the consolidated accounts.

NOK 342.7 million was appropriated for ordinary operation of Petoro AS in 2017. The appropriation for Petoro Iceland AS was NOK 7.6 million.

Operating expenses in 2017 were in accordance with the board's approved budget, the company's appropriation and allocation letter. The financial result for Petoro AS totalled NOK 6.4 million. The group posted a net income of NOK 6.7 million. The board proposes that the profit in Petoro AS be transferred to other equity. Certain elements in the company's unsecured pension liabilities were not taken into consideration and incorporated into the company's pension liabilities in the annual accounts for 2016. Correction thereof amounted to NOK 6.4 million and resulted in other input equity as of 1 January 2017 totalling NOK 0.9 million. Along with the net income, this resulted in other equity totalling NOK 7.3 million as of 31 December 2017. The group's reserves of NOK 9.5 million comprise other equity in the parent company, NOK 2 million in grants from the Norwegian state related to establishing Petoro Iceland AS and accumulated results in the subsidiary.

Pursuant to Sections 3-3 and 3-2a of the Norwegian Accounting Act, the board affirms that the annual accounts for the portfolio and the company provide a true and fair picture of the company's assets and obligations, financial position and results of the business, and that the annual accounts have been prepared under the assumption that the company is a going concern. The company has satisfactory equity and low financial risk.

PROSPECTS

As regards the oil market, the uncertainty over the intermediate term is primarily linked to future developments in shale oil, how OPEC responds, and how the rest of the oil market will adapt to this dynamic. Over the last year, OPEC and Russia have cut production to stabilise prices, but this has simultaneously given investment signals to US shale oil, which is again experiencing significant growth. This supply dynamic, combined with geopolitical unrest in the OPEC countries, increases the risk of a more volatile oil market over the intermediate term. Over the long term (2030+), the oil market is characterised by increased demand uncertainty driven by climate policy and technology development, while cost competition between regions is expected to further intensify. Both of these factors point toward greater price competition, and where OPEC and shale oil are expected to play a key part in covering the demand.

All long-term forecasts for natural gas show strong growth in global demand. Over the short and intermediate term, the considerable build-up in global LNG capacity is expected to continue over the next few years. So far, the growth in demand in Asia and other emerging economies has helped balance the markets. However, leading up to 2022, there is a certain risk of price pressure linked to the build-up in LNG capacity. Over the longer term, new LNG capacity from the US is expected to be price-setting for the gas market, and other players will have to adapt to this price level to be competitive.
There are several indications that the Paris Climate Agreement will help strengthen the position of gas relative to coal globally. Demand in Europe is expected to remain relatively stable over the intermediate term, while global gas demand will continue to grow, particularly in emerging economies and in regions with considerable local air pollution. This will provide investment signals for new global supply capacity, primarily from the US, Russia and the Middle East, which all have substantial gas resources that can be produced at competitive prices. The European market is characterised by tapering self-production, and Norwegian gas, among other things, will be in demand to guarantee European security of supply. Over the long term, however, the positions of both oil and gas will be challenged in a climate perspective.

These changes in the energy markets also affect the Norwegian shelf, which has undergone a demanding transition in recent years. Good results have been achieved through the efficiency efforts on both the cost and income side, which has made a substantial commercial impact and has helped the Norwegian shelf to emerge as more competitive. This has led to decisions to implement several new, profitable projects in 2017. However, the effect of the efficiency measures undertaken in recent years is starting to level off. Moving forward, the challenge is to ensure that the potential in implemented measures is realised while also initiating new measures.

It is crucial to further strengthen future competitiveness, and four factors are important: cost efficiency, confidence in the reserve base, a functioning and sustainable supplier industry, as well as access to new projects.

Digitisation emerges as the most important instrument to increase income and reduce costs moving forward. The potential is significant and presumes active involvement by the industry to ensure broad implementation of the changes needed in operating models and work processes.

Several important SDFI projects were approved in 2017, such as Johan Castberg and the Snorre Expansion Project. Important investment decisions are planned for 2018 as well, including Johan Sverdrup phase 2 and Troll phase 3. However, there are few new projects in the operators' longer term forecasts. This demonstrates the importance of bolstering competitiveness in order to increase the growth in new projects.

Further development of the Norwegian shelf will require sustained exploration for new resources and maturing attractive investment opportunities that are competitive in a global context. Exploration activity has declined somewhat in recent years, and exploration results have been disappointing. However, the interest surrounding the most recent licensing rounds indicates that the Norwegian shelf is still attractive.

In a situation with rising prices and higher activity, it will be challenging to maintain the cost savings realised in recent years and prevent yet another increase in cost level. Continued focus on efficiency will be important in order to preserve the competitiveness of the Norwegian oil and gas activities.

Stavanger, 7 March 2018

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Trude J. H. Fjeldstad
Director

Per Arvid Schøyen
Director

Hugo Sandal
Director

Ove Skretting
Director
elected by employees

Heidi Iren Nes
Director
elected by employees

Grethe K. Moen
President and CEO

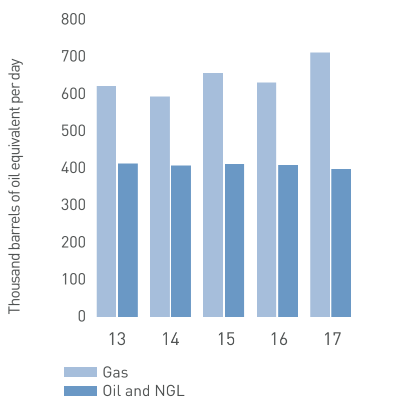
KEY FIGURES 2017 SDFI

Net income in 2017 came to NOK 99 billion, compared with 57 billion in 2016. Total operating revenue in 2017 was NOK 151 billion, compared with NOK 121 billion the year before. Cash flow to the state came to NOK 87 billion in 2017 against NOK 66 billion in 2016. Total production averaged 1 110 000 barrels of oil equivalent per day (boe/d) – an increase of nearly 7 percent from from production in 2016 of 1 040 000 boe/d. Paid investments (in capital accounts) were about NOK 27 billion in 2017.

NGAAP

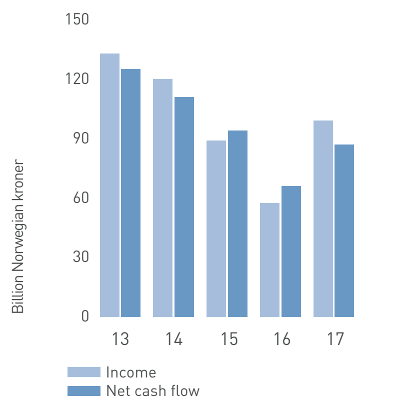
	2017	2016	2015
Operating revenue (in NOK million)	**150 720**	121 224	157 753
Field costs producing fields (in NOK million)	**6 748**	7 057	8 021
Net income for the year (in NOK million)	**98 919**	57 426	88 999
Investment (in NOK million) – cash basis	**26 564**	27 815	28 955
Net cash flow (in NOK million)	**87 157**	65 897	93 639
Production — oil and NGL (1 000 bbl/d)	**398**	409	411
Production - dry gas (million scm/d)	**113**	100	105
Oil, NGL and dry gas production (1 000 boe/d)	**1 110**	1 040	1 068
Remaining reserves (million boe)	**5 879**	5 968	6 276
Reserve replacement rate (annual percentage)	**78**	22	133
Reserves added (million boe)	**316**	82	520
Oil price (USD/bbl)	**54**	43	53
Oil price (NOK/bbl)	**449**	361	420
Gas price (NOK/scm)	**1,72**	1,62	2,14

PRODUCTION



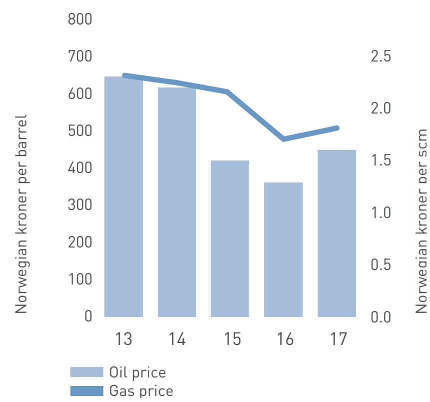
Total production averaged 1.110 million barrels of oil equivalent (boe) per day, up roughly seven per cent from 2016. Gas production reached a record high in 2017 at 113 million scm per day (712 000 boe per day). This was a 13 per cent increase in relation to 2016, and was primarily due to increased use of flexible gas production to take advantage of higher prices. Liquids production totalled 398 000 boe per day. Natural production decline from existing wells means that liquids production was nearly three per cent lower than in 2016.

INCOME / CASH FLOW



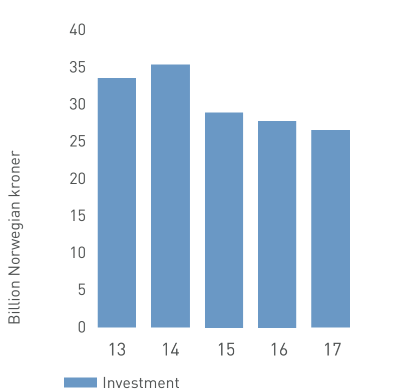
Net income in 2017[1] ended at NOK 99 billion compared with NOK 57 billion in 2016, an increase of NOK 42 billion. This figure was affected by higher oil and gas prices, in addition to a higher volume of gas sales, and yielded a cash flow to the state of NOK 87 billion, compared with NOK 66 billion in 2016.

OIL AND GAS PRICES



The price of oil averaged USD 54 per barrel in 2017, compared with USD 43 per barrel in 2016. Converted to NOK, the average oil price was NOK 449 per barrel, compared with NOK 361 per barrel in 2016. The average price of gas was NOK 1.72 per scm in 2017, compared with NOK 1.62 per scm in 2016.

INVESTMENTS



Investments in 2017 totalled NOK 26.5 billion on a cash basis, which was NOK 1.5 billion lower than in 2016. Production drilling accounts for approximately one-half of the investments.

[1] All figures are presented in accordance with the Norwegian Accounting Act and generally accepted accounting principles (NGAAP)

PUD - Handover Snorre Expansion project – Photo: Arne Reidar Mortensen, Statoil ASA

RESULTS PURSUANT TO THE ASSIGNMENT LETTER

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RESULTS PURSUANT TO THE ASSIGNMENT LETTER

Reference is made to the "Letter of assignment to Petoro AS for 2017", and to the business plan for Petoro AS. The targets set in the letter of assignment and Petoro's performance pursuant to these are presented below.

SAFEGUARDING THE STATE'S DIRECT PARTICIPATING INTERESTS

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

OPERATIONAL TARGETS

"Petoro shall establish operational targets with the aim of maintaining a high level of production in 2017"

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

Total production averaged 1.110 million barrels of oil equivalent (boe) per day, up roughly seven per cent from 2016.

Gas production reached a record high in 2017, totalling 41.3 billion scm. This was a 13 per cent increase in relation to 2016, and was primarily due to increased use of flexible gas production to take advantage of higher prices.

Liquids production was 23.1 million scm o.e. (398 kboed). Natural production decline from existing wells means that liquids production was nearly three per cent lower than in 2016. Mature fields experience a natural decline in production. In recent years, a higher number of new wells per year and higher regularity have been able to offset the decline in production. Given approximately the same number of new wells and about the same regularity in 2017 as in 2016, production therefore declined this year.

In addition to ordinary licence follow-up, where the operator and partners set production targets and the operator is challenged on nonconformity management and mitigating measures, Petoro's efforts were particularly aimed at measures to complete new wells. This represents an important instrument for implementing the planned well programme and maintaining high production.

"Petoro shall prepare operational targets as regards improving efficiency in fields in operation".

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

Cost efficiency measures in the licenses has been an important part of Petoro's work in 2017 as well. Efforts have been particularly focused on drilling, as well as operations and maintenance.

The need for streamlining and cost reductions within the drilling and well service area has been an important issue for Petoro over several years. Petoro has followed the development in drilling pace on ten fixed installations on five selected fields in the portfolio. The average drilling time and drilling cost was cut in half from 2014 to 2015. The result can mainly be attributed to increased drilling efficiency, simplified well design and increased availability of drilling facilities. The development in drilling time and drilling cost has levelled out since 2015, and was on par with the previous two years in 2017.

Field costs for producing fields continue to decline. However, after achieving substantial cost reductions in recent years, the effect has slowed down and field costs in 2017 were four per cent lower than in 2016. Petoro's efforts have been aimed at ensuring that the measures implemented to reduce costs are sustainable and entail an actual gain in efficiency without weakening the facilities' integrity over the longer term.

Petoro has also worked to increase the portfolio's competitiveness, and the licenses have achieved comprehensive improvements within all areas of the value chain. For example, the substantial cost reductions achieved through optimisation of the development concepts leading up to concept choice for Snorre and Johan Castberg, were decisive as regards the projects' profitability and being able to make investment decisions in 2017. Even with reduced costs, the recoverable resources have been maintained for these projects, which demonstrates a considerable improvement in competitiveness.

Costs incurred for investments in 2017 totalled NOK 25.5 billion, which is about NOK 3 billion lower than the year before. This reduction is mainly due to lower investments in production drilling as a result of reduced drilling activity on three fields.

"Petoro shall prepare operational targets as regards safeguarding safety and environmental concerns"
Management parameters: Serious incidents (frequency) and CO_2 emissions (tonnes). Explanation and development over time.

The HSE results for 2017 show a positive development compared with the previous year, but the number of serious near-miss incidents and personal injuries is still too high. The serious incident frequency (number of serious incidents per million hours worked) declined from 1.0 in 2016 to 0.7 in 2017. The personal injury frequency (number of personal injuries per million hours worked) is at same level as the previous year and was 4.2 in 2017, compared with 4.1 in 2016. No serious discharges to sea were recorded in 2017.

In 2017, Petoro has been particularly concerned with risk assessments in a major accident perspective linked to effects from efficiency measures in the licenses. Petoro also conducted a number of management visits in 2017, focusing on health, safety and the environment on selected fields and onshore facilities.

Beyond the activities on the Norwegian shelf, Petoro, as licensee in the Martin Linge project, experienced the tragic accident at the Samsung shipyard in South Korea on 1 May 2017, where 6 people lost their lives and 25 were injured. This accident is a powerful reminder of the importance of managing major accident risk linked to all parts of our activities.

In 2017, Petoro has followed up CO_2 emissions from 8 fields. The emissions totalled 2.21 million tonnes, a reduction of 1.3 per cent compared with 2016. The emissions have varied throughout the year and have been substantially affected by operational interruptions and flaring, particularly on Snøhvit. One important observation has been that the variations in operational regularity are diminishing the effect of energy efficiency measures. Petoro has worked to increase competence within climate and the environment in 2017 and the CO_2 emission target has contributed to greater insight in the factors of significance for the fields' CO_2 emissions, and has better enabled the company to put the climate perspective on the licenses' agenda.

PRIORITY TARGETS AND ACTIVITIES IN 2017

Prioritised goals and tasks are linked to larger ongoing commercial processes in the industry, where Petoro, through its participation, can secure and increase the values in the SDFI portfolio

"Petoro shall contribute to realise projects for improved recovery in mature fields, including the Snorre, Heidrun, Oseberg and Troll fields."
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

In 2017, in line with the strategy to realise the values in mature fields, Petoro has aimed particular efforts at the Snorre and Troll fields, in addition to well maturation on selected fields.

On the Snorre field, Petoro has been an active driving force over a number of years in the realisation of additional profitable reserves. Efforts have primarily been aimed at strengthening reserve potential through comprehensive technical reservoir studies. In December 2017, the license decided to invest in a further development project consisting of 6 seabed templates adapted for 24 new wells. The application for approval of the amended PDO for further development of the Snorre field was submitted to the Ministry of Petroleum and Energy in December. Production start-up is anticipated in 2021, and the project will contribute to considerably increased values from the Snorre field.

On the Heidrun field, Petoro has also been carrying out technical reservoir studies over a longer period of time in order to contribute toward improving the profitability of further development measures. In 2017, the license made an investment decision for phase 1 of the Heidrun Subsea Extension project. This project includes construction of a new production flowline and an upgrade of subsea equipment in the northern part of the field. This will enable the drilling of 11 new wells, which will yield considerably greater values from Heidrun.

The Troll field is facing important decisions as regards further development of the field. Throughout 2016 and 2017, Petoro has been actively engaged in helping ensure that work on the Troll phase 3 project will entail the most comprehensive and flexible further development possible. Efforts have primarily been aimed at ensuring that the effect on oil production is understood through comprehensive technical reservoir studies. An investment decision is expected in spring 2018, and start-up in 2021.

Following a disappointing exploration well on Oseberg in 2016, Petoro been an active driving force to revitalise the Oseberg Future Development-2 project. These efforts have been aimed at identifying additional drilling targets to increase the recovery rate in the southern part of the field. Petoro has also secured acceptance for a well concept that combines production drilling with a cost-effective exploration extension to identify the resource base in the Oseberg Future Development 3 area.

"Petoro shall be a driving force for new well targets, utilising rig capacity and establishing commercial solutions for further development of the fields, including potential opportunities for phasing in nearby discoveries.
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

There will be a significant long-term need for drilling new wells to realise the value potential in mature fields. Drilling efficiency has increased and more wells are continuously being drilled. However, an insufficient number of new well targets have been matured in recent years, which has also entailed an uncertainty linked to future utilisation of rig capacity.

Based on this, Petoro has been a driving force in 2017 for the licenses to increase the portfolio of seabed wells on the mature fields, and Petoro has put the topic of well maturation on the agenda in multiple licenses. On selected fields, Petoro has carried out its own studies to map the potential for new seabed wells. Through this work, Petoro has identified many new drilling targets and has presented these to the operator. This has contributed to a considerable increase in the number of concrete future well targets in the licenses.

In recent years, Petoro has developed comprehensive business cases for further development of fields. For example, in 2017, Petoro has been the driving force to establish a business case for upgrading the processing capacity on Oseberg which safeguards the licenses' own need for further field development, but also the processing needs for other discoveries in the area that want to use the infrastructure. In this context, Petoro has been the driving force for drilling an appraisal well to clarify the resource base in the nearby Tune license.

"Petoro shall contribute to a robust and comprehensive development of the Sverdrup field which preserves the opportunity to implement measures for improved recovery and realising additional resources."
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

Petoro is strongly involved as a partner in the Johan Sverdrup field, where phase 1 of the project is in the implementation phase with two platforms under construction in South Korea and two in Norway. A dedicated facility is also being constructed at Kårstø to supply the field with power from shore.

In addition to following up the implementation of phase 1, Petoro has been involved in preparations for the investment decision in 2018 for phase 2 of the project. Johan Sverdrup has also experienced a positive cost development in 2017, which helps boost the project's profitability. Johan Sverdrup now has a development solution in line with the concept selection , a robust subsea solution where additional wells can be added if necessary. This also includes a sound basis for long-term reservoir management through good seismic coverage.

Petoro shall work toward increased understanding of the resource base in Castberg and Wisting in the Barents Sea.
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

In 2017, Petoro has placed particular emphasis on establishing a business-case for possible permanent reservoir monitoring (PRM) for Johan Castberg to enhance the robustness of the overall resource base. Petoro has also conducted its own assessments of what constitutes an unbiased resource and cost estimate for Johan Castberg, and has presented its view in the license in order to have this reflected in the Plan for Development and Operation which was submitted to the Ministry of Petroleum and Energy in December 2017.

As regards Wisting, Petoro has been devoting particular focus in 2017 to establishing a robust drainage strategy with pressure support to maximise the total resource base that can be recovered from the field. Petoro has been a driving force in the license to document a feasible drainage strategy prior to the DG1 decision. The license has been able to demonstrate that water injection is feasible, despite the existence of multiple associated risk aspects that require additional work. The DG1 decision is planned for in 2018.

Petoro shall contribute to a development of Castberg that secures values and safeguards opportunities for future development.
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

The Johan Castberg project has undergone extensive changes and cost improvement measures, where Petoro has been particularly focused on preserving the opportunities for new profitable additional volumes in the field's operations phase. The change work carried out by the operator Statoil along with the suppliers has yielded very good results and has resulted in a substantial improvement in the project's profitability.

In December 2017, along with the other partners in the Johan Castberg license, Petoro made an investment decision and subsequently submitted the application for approval of the PDO for the Johan Castberg project, which comprises 10 seabed templates, two satellites and one production vessel.

Petoro shall work to promote the use of new technology and innovation to improve the efficiency of activities in the production licenses.
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

Petoro acts as a driving force for early application of technology in the licences. The focus targets five areas: Active reservoir development, advanced recovery methods (EOR), increased drilling pace and reduced well costs, seabed processing and emissions to air. Petoro works to incorporate a technology direction and initiatives in the licenses' plans and budgets, and also requests business cases/business plans. In 2017, efforts have been particularly focused on use of next-generation methods and models for reservoir simulation on Troll, Johan Sverdrup and Snorre, use of 4D seismic on Johan Sverdrup and Johan Castberg, use of digitalisation for increased drilling efficiency in general and particularly on Oseberg, as well as considering compression as part of further development on Ormen Lange and Snøhvit.

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

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

"Monitor the marketing and sale of the state's petroleum, with attention being paid to the changed market conditions as well as to issues of great significance in terms of value or as matters of principle."
Management parameters: Describe which initiatives and activities have been carried out and which considerations form the basis for the company's priorities. What results have been achieved through the activities and what impact have they had as regards value.

"Good follow-up systems for monitoring the marketing and sale of the state's petroleum in accordance with the marketing and sale instruction"
Management parameters: Follow up to ensure that Statoil presents necessary documentation of its compliance with the responsibility under the marketing and sale instruction. Good internal routines for exercising the supervisory role.

All oil and natural gas liquids (NGL) from the portfolio are sold to Statoil. Statoil is responsible for marketing all the SDFI's natural gas together with its own gas as a single portfolio, at the state's expense and risk. Petoro's task is to monitor that Statoil's marketing and sale of the state's petroleum together with its own production complies with the marketing and sale instruction issued to Statoil ASA. The objective of the marketing and sale instruction is to achieve the highest possible value for Statoil's and the state's petroleum and ensure equitable distribution of the total value creation. In this work, Petoro concentrates on Statoil's marketing and sales strategy, issues of great significance in value terms, matters of principle and questions relating to incentives.

In 2017, Petoro has prioritised monitoring further development of Statoil's follow-up system for the marketing and sale activity to ensure that necessary routines are in place, including for the new formula for LPG, which was introduced as of 2017. The company is concerned with ensuring that the products are marketed and sold in the markets where the highest price can be achieved. In this context, optimal utilisation of the capacity and flexibility of production facilities and infrastructure is of great significance. The company is in a dialogue with the Ministry of Petroleum and Energy as regards certain clarifications in the marketing and sale instruction.

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

FINANCIAL MANAGEMENT

"Petoro shall;

- **ensure sound financial management and control of the SDFI pursuant to Regulations on Financial Management in Central Government and instructions for financial management of the SDFI**
- **prepare and follow up budgets and forecasts, conduct accountancy and perform periodic variance analyses and reporting on the SDFI's financial standing and development.**
- **secure good reconciliation routines and follow up to verify that the operators comply with the deadline set for submitting auditor's reports."**

In 2017, Petoro has ensured sound financial management and control of the SDFI in line with the Regulations on Financial Management in Central Government and instructions for financial management of the SDFI.

Petoro has furthermore prepared and followed up budgets and forecasts, conducted accountancy and performed periodic variance analyses and reporting on the SDFI's financial standing and development in accordance with deadlines specified in the Assignment Letter. Petoro has also ensured good reconciliation routines and followed up operators' compliance with deadlines set for submitting auditor's reports.

The company also received a clean bill of health from the Office of the Auditor General for 2016.

RESOURCE ACCOUNTS 2017

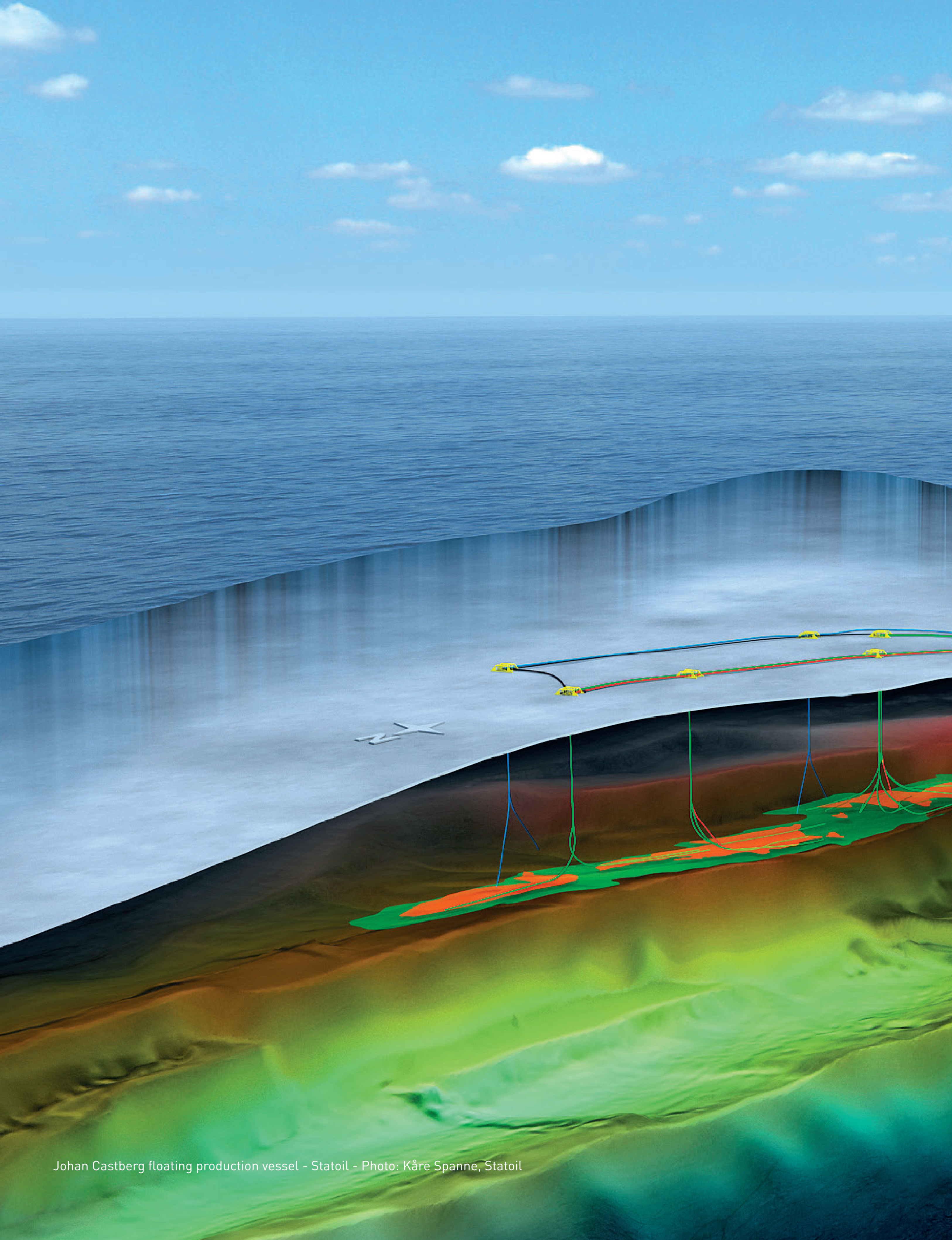
The tables below present remaining reserves in resource classes 1 to 3, as well as resources in classes 4 to 8

	Resource classes 1-8	Remaining recoverable resources Oil, NGL and condensate mill scm	Gas bn scm	Oil equivalent mill scm
RC 1-3	Reserves	256.7	677.6	934.3
RC 4	Resources in the planning phase	40.6	35.0	75.6
RC 5	Recovery likely but not clarified	37.6	42.6	80.2
RC 6	Development unlikely	7.5	8.2	15.7
RC 7	Resources in new discoveries not evaluated and potential future IOR measures	59.9	56.7	116.5
RC 8	Prospects	19.7	15.2	34.9
	Total	**422**	**835**	**1 257**

	Original recoverable reserves			Remaining reserves		
Field	**Oil and NGL*** mill scm	**Gas** mill scm o.e.	**Oil equivalent** mill scm o.e.	**Oil and NGL*** mill scm	**Gas** mill scm o.e.	**Oil equivalent** mill scm o.e.
Atla	0.10	0.42	0.52	0.04	0.03	0.07
Draugen	73.08	0.80	73.88	3.82	0.00	3.82
Dvalin	0.30	6.28	6.58	0.30	6.28	6.58
Ekofisk	28.86	7.95	36.81	4.01	0.62	4.64
Eldfisk	7.25	2.18	9.43	1.27	0.13	1.41
Embla	0.68	0.28	0.95	0.08	0.06	0.14
Flyndre	0.00	0.00	0.00	0.00	0.00	0.00
Gimle	0.93	0.34	1.27	0.14	0.13	0.27
Gjøa	8.80	11.22	20.02	2.05	4.04	6.09
Grane	42.76	0.00	42.76	10.18	0.00	10.18
Gullfaks	115.51	6.92	122.43	4.39	0.00	4.39
Gullfaks Sør	25.40	25.93	51.34	5.96	10.18	16.14
Heidrun	115.91	26.28	142.18	23.89	15.45	39.34
Heimdal	1.34	9.24	10.58	0.00	0.07	0.07
H-Nord	0.08	0.00	0.08	0.01	0.00	0.01

Field	Original recoverable reserves Oil and NGL* mill scm	Gas mill scm o.e.	Oil equivalent mill scm o.e.	Remaining reserves Oil and NGL* mill scm	Gas mill scm o.e.	Oil equivalent mill scm o.e.
Johan Castberg	17.74	0.00	17.74	17.74	0.00	17.74
Johan Sverdrup	53.35	1.58	54.93	53.35	1.58	54.93
Kristin	7.17	5.70	12.87	0.79	0.87	1.66
Kvitebjørn	15.70	29.17	44.88	4.14	7.25	11.39
Maria	9.42	0.69	10.12	9.42	0.69	10.12
Martin Linge	4.43	7.72	12.15	4.43	7.72	12.15
Norne	52.13	6.83	58.97	2.57	2.92	5.49
Ormen Lange	7.07	111.91	118.98	2.13	42.39	44.52
Oseberg	142.80	37.96	180.76	9.21	21.43	30.65
Oseberg Sør	23.55	7.19	30.74	4.61	3.46	8.07
Oseberg Øst	8.82	0.13	8.95	1.68	0.02	1.70
Sindre	0.07	0.06	0.13	0.07	0.06	0.13
Skirne	0.69	3.18	3.88	0.08	0.02	0.10
Skuld	1.36	0.09	1.45	0.42	0.00	0.42
Snorre	94.50	1.99	96.49	27.96	0.08	28.05
Snøhvit	12.72	67.19	79.91	9.09	53.10	62.20
Statfjord Nord	12.97	0.65	13.61	0.96	-0.07	0.88
Statfjord Øst	12.31	1.32	13.63	0.34	0.09	0.43
Svalin	2.95	0.00	2.95	1.36	0.00	1.36
Sygna	3.38	0.00	3.38	0.25	0.00	0.25
Tordis	21.18	1.45	22.63	2.16	0.17	2.33
Troll	185.39	801.95	987.34	24.38	460.84	485.21
Tune	1.49	7.49	8.98	-0.05	-0.34	-0.39
Urd	2.00	0.07	2.07	0.34	0.00	0.34
Valemon	0.61	4.14	4.75	0.27	2.08	2.35
Vega	6.68	6.07	12.75	3.80	3.62	7.42
Veslefrikk	21.82	2.10	23.92	0.51	0.76	1.27
Vigdis	21.15	0.52	21.67	2.25	-0.03	2.22
Visund	16.08	17.64	33.72	5.84	13.06	18.90
Visund Sør	1.19	1.55	2.75	0.23	0.52	0.75
Åsgard	71.83	80.02	151.85	10.28	18.25	28.53
Totalt	**1253.58**	**1304.22**	**2557.79**	**256.74**	**677.56**	**934.30**

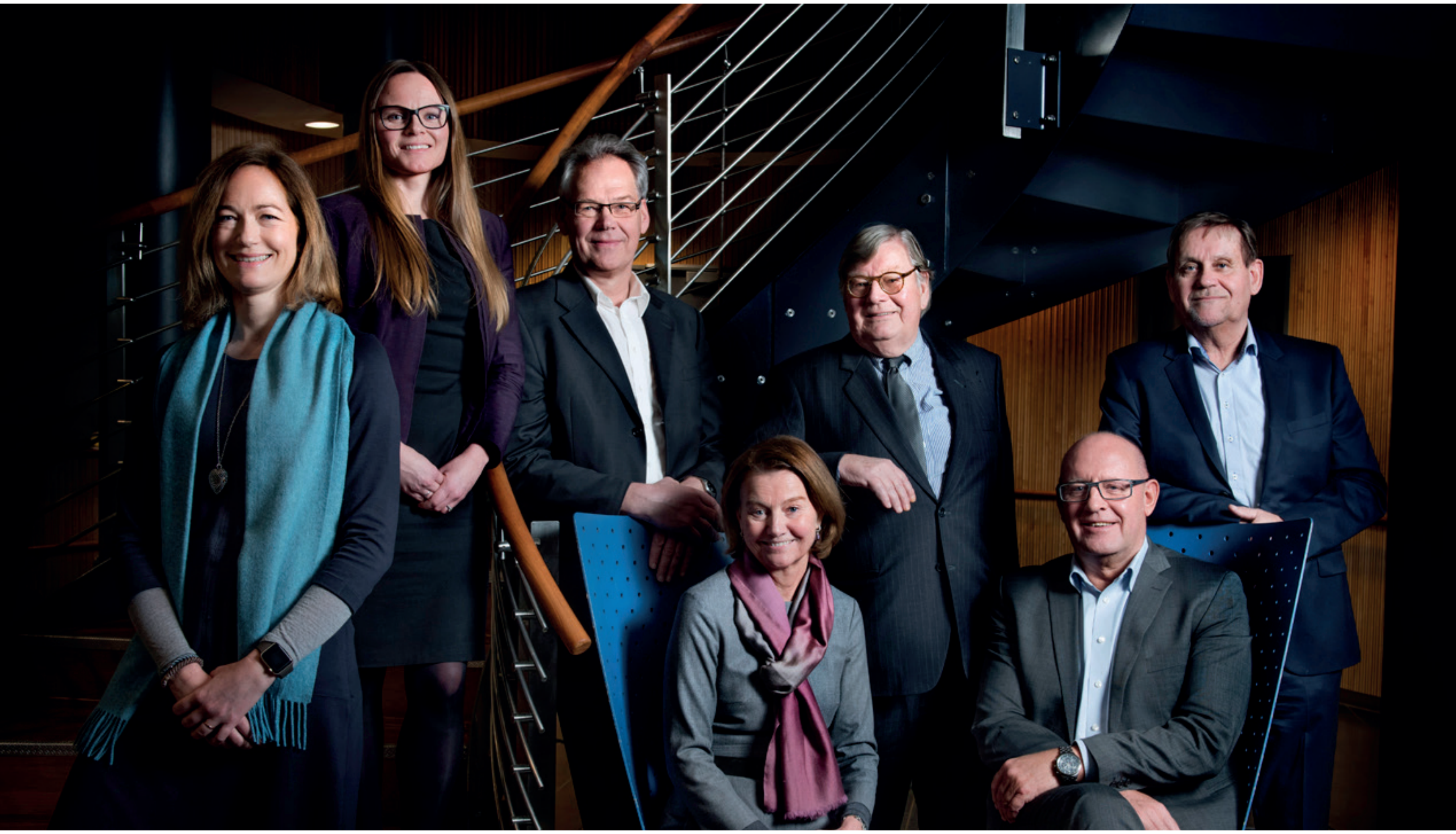
* Including condensate



Johan Castberg floating production vessel - Statoil - Photo: Kåre Spanne, Statoil

MANAGEMENT AND CONTROL

THE BOARD IN PETORO



Standing from left: Trude J. H. Fjeldstad, Heidi I. Nes, Hugo Sandal, Per A. Schøyen nd Ove Skretting. Sitting: Gunn Wærsted nd Brian Bjordal. (Photo: Anne Lise Norheim)

GUNN WÆRSTED
Chair

Year of election: 2014
Other directorships: Chair Telenor; director Nationwide, director Lukris Invest
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, 2002-2007. Global head of wealth management, president of Nordea Bank Norge and member of the corporate executive management of Nordea, 2007-2016.

PER A. SCHØYEN
Director

Year of election: 2007
Occupation: Consultant
Education: Law degree, various management programmes
Career: Partner, Kluge, 2005-2014. With Esso/ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also judge and assistant police attorney as well as scientific assistant, University of Oslo.

TRUDE J. H. FJELDSTAD
Director

Year of election: 2015
Occupation: VP Internal Finance in Statkraft AS
Education: Economics degree, University of Oslo, financial analyst and MBA in corporate finance, Norwegian School of Economics.
Career: Previously chief executive in Statkraft Treasury Centre SA; secretary to the board, Statkraft; senior gas manager, Statkraft; chief executive, Plaine de l'Ain Power SAS and portfolio manager for gas in Norsk Hydro ASA

HEIDI IREN NES
Director
(elected by the employees)

Year of election: 2016
Occupation: Senior consultant, Marketing and sales, Petoro AS
Education: MSc in business economics, Norwegian School of Economics, Bergen.
Career: Controller in the Finance Department in Petoro AS and Subsea 7 Norway

BRIAN BJORDAL
Deputy chair

Year of election: 2016
Occupation: Self-employed
Other directorships: Deputy chair Helse Fonna, director FKH Stadion A/S
Education: Civil engineer, BSc, Heriot Watt University, Edinburgh
Career: 1977-1979: Stoltz Røthing (construction); 1979-1984: Taugbøl & Øverland; 1984-2001: Statoil ASA, Senior Engineer pipelines & structures; head of Pipeline & Platform Inspection, asset owner representative Europipe development, head of early-phase studies Europipe II, Åsgard Transport, Ekofisk by-pass, Franpipe, director of Process plant Kårstø, director Troll / Sleipner area (Development and Production Norway); 2001-2015: Gassco AS, President and CEO.

HUGO SANDAL
Director

Year of election: 2017
Occupation: Self-employed.
Education: Civil engineer from NTH (now NTNU) and Degree of Engineer from Stanford University.
Career: Various positions in Saga Petroleum during the period 1976 -1987. Consultant in Railo International from 1987-1989. Chief executive in Sabico AS 1989-1991, primary activities aquaculture and biotechnology. Worked for Deminex, later DEA from 1991, chief executive since 1996 until reaching retirement age in 2016. Director Saga Petroleum 1983-1985. Chair OLF, (now NOROG), 1999-2003. Member of NHO's executive committee 2000-2004.

OVE SKRETTING
Director
(elected by the employees)

Year of election: 2016
Occupation: Special adviser, Licenses, Petoro AS
Education: Economics degree.
Career: Experience as special adviser in Petoro within Marketing and sales, adviser in ExxonMobil within gas marketing, CEO of Terotech A/S, procurement manager in Norwegian Contractors, Transocean and Mobil Exploration Norway.

EXECUTIVE MANAGEMENT IN PETORO

From left: Kjell Morisbak Lund, Jonny Mæland, Ole Njærheim, Hege Waldenstrøm Manskow, Grethe Kristin Moen, Roy Ruså and Olav Boye Siversten. (Photo: Anne Lise Norheim)

GRETHE KRISTIN MOEN

President and CEO

Education: MSc chemical engineering, Norwegian University of Science and Technology (NTNU)

Career: Extensive experience from Norwegian and international oil and gas activities. Has held a number of management posts in the production, technology and commercial areas in Statoil and in Shell, where her most recent post was head of the E&P business in Norway and head of HSE in Europe.

OLE NJÆRHEIM

Vice president marketing and sales

Education: MBA from the University of Agder, MSc University of Surrey and Certified European Financial Analyst, Norwegian School of Economics (NHH)

Career: Has previously held positions as an adviser in Petoro, investment director in IKM Invest and as CEO of ECON Consulting Group. Has extensive international experience from consultancy assignments within energy and investment activity.

OLAV BOYE SIVERTSEN

Vice president legal affairs

Education: Law degree from the University of Oslo.

Career: Has previously held positions as attorney in ExxonMobil, head of the legal affairs department for Mobil Norway, as well as public administration positions 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.

JONNY MÆLAND

Chief financial officer

Education: MBA from the University of Agder and specialisation in business analytics from the Norwegian School of Economics (NHH) in Bergen

Career: Extensive experience from various positions, both domestically and internationally, in ConocoPhillips since 1998, with the exception of two years as Finance Manager in Norwegian Energy Company ASA. Comes from the position of Director Financial Reporting and Analysis in ConocoPhillips Norge.

ROY RUSÅ

Vice president technology

Education: BSc petroleum, Rogaland Regional College.

Career: Extensive experience in Norwegian oil and gas activities from Statoil and Baker Hughes INTEQ. Previously headed Petoro's technology and ICT department.

KJELL MORISBAK LUND

Vice president licences

Education: MSc marine technology, NTNU.

Career: Broad experience from work in upstream and downstream oil and gas activities. This included positions as a researcher on marine structures in SINTEF, multiple project, staff and management positions in Statoil - most recently as HSE director for midstream and downstream activities.

HEGE WALDENSTRØM MANSKOW

Vice president organisation and business support

Education: Norwegian Air Force officer's training school, Bachelor of Arts and Human Resources Management Master programme

Career: Broad and extensive experience from the Norwegian Armed Forces, Aker hospital, Leif Höegh & Co, Nexans and DONG E&P Norge. Has held positions including chief personnel officer and, most recently, head of HR and business support in DONG E&P Norge.

CORPORATE GOVERNANCE

Petoro's management of substantial assets on behalf of the Norwegian state requires sound enterprise management which fulfils the expectations of its stakeholders and society at large. The State's Direct Financial Interest (SDFI) portfolio comprises one-third of Norway's oil and gas reserves.

The Petoro board adheres to the requirements for governance in the public sector specified in "Regulations on Financial Management in Central Government" and in standards for good corporate governance. The board observes the Norwegian state's principles for sound corporate governance as expressed in Meld. St. 27 2013-2014 "Et mangfoldig og verdiskapende eierskap" (Report No. 27 to the Storting (2013-2014) "Diverse and productive ownership") and those sections of the "Norwegian Code of Practice for Corporate Governance" regarded as relevant to Petoro's activities and the frameworks established by its form of organisation and ownership. A report is provided below on the main topics with relevance for Petoro AS. The management system is tailored to Petoro's distinctive character. Petoro reports on the follow-up of its corporate social responsibility (CSR) in a separate chapter of this annual report.

The board emphasises good corporate governance and management in order to ensure that the state's portfolio is managed in a way which maximises financial value creation, and creates a basis for confidence in the company by the owner, the employees, the oil industry and other stakeholders, as well as society at large. Petoro's enterprise management is founded in balanced management by objectives, where objectives are established that support the company strategy.

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 core values are dynamic, 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 assignment letter.

The objective 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 Financial Involvement in petroleum activities on the Norwegian Continental Shelf (NCS), and associated activities.

Petoro's principal objective is to generate the greatest 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 participating interests in the joint ventures where the state has such interests at any given time
- Monitoring Statoil's marketing and sale of petroleum produced from the state's direct participating interests, pursuant to the marketing and sale instruction issued to Statoil ASA.
- Financial management, which includes preparing and following up budgets as well as accounting and financial reporting, on behalf of the state's direct participating interests.

Petoro's operations are subject to the Norwegian Limited Liability Companies Act and the Norwegian Petroleum Act, as well as the Regulations on Financial Management in Central Government — including the rules on appropriations and accounting. Its management of the SDFI's activities is governed by the Ministry of Petroleum and Energy's instructions for financial management of the SDFI and the annual letter of assignment. 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 Petoro's activities.

Petoro's strategy is based on assessments of the challenges faced by the industry as well as Petoro's ability to create values, and has two strategic directions:

Increase the portfolio's competitiveness
- Reduce uncertainty in the reserve and resource base
- New technology and innovation for efficiency improvements
- Effective climate solutions

Realising the values in mature fields
- Identify remaining reserves
- More wells and more efficient drilling
- Comprehensive business cases

Petoro recognises that climate challenges make it necessary to restrict anthropogenic climate impact. The company wants to contribute to ensuring that the oil and gas industry on the Norwegian Shelf leads the way in addressing climate challenges. Climate is an integrated part of Petoro's governance.

The company is the licensee for the state's portfolio on the NCS, with the same rights and obligations as other licensees. The scope of the SDFI portfolio gives Petoro the overview and insight to be a driving force on the Norwegian Shelf. Through focused follow-up, supported by in-depth professional commitment, Petoro works to reinforce value creation opportunities with emphasis on long-term business development. Petoro's follow-up of activities in fields/licences is differentiated on the basis of its capacity and the commitment required to perform its role. The company endeavours to achieve good governance in the joint ventures, and cooperates with other operators and partners on further development of good performance-management processes in selected licences.

Pursuant to the agreements for petroleum activities, the commercial information Petoro receives is subject to confidentiality. 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 that is not publicly known and/or is expressly defined as "inside information" within the meaning of the Norwegian Securities Trading Act. Information that may have an impact on the stock market must be treated as "inside information".

A special system has also been established for approving external directorships held by employees. Employees must ensure that their ownership of shares does not create any conflict between their personal interests and management of the state's participating interests or the interests of Petoro AS. Senior employees (President and CEO and employees who report directly to the President and CEO) are prohibited from owning shares in licensee companies.

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 state's own accounts with Norges Bank.

SHARE CAPITAL 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 costs are covered by annual appropriations over the fiscal budget. The operating contribution is presented as operating revenue in the limited company's accounts. The company receives appropriations to meet its costs and does not pay a dividend. Shares in the company cannot be traded or 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 ongoing commercial follow-up of Norwegian participating interests in production licences awarded by the Icelandic authorities. Petoro AS' consolidated accounts includes the activity in Petoro Iceland AS. Administration of Petoro Iceland AS and funds for state participation in petroleum activities on the Icelandic Continental Shelf are covered in separate items over the fiscal budget.

EQUAL TREATMENT OF SHAREHOLDERS

Shares in Petoro AS are owned by the state and the company has no personal shareholders. Petoro Iceland AS has entered into a line of credit agreement with Petoro AS.

The state employs a common ownership strategy to maximise the overall value of its ownership interests in Statoil ASA as well as the state's own oil and gas interests. On this 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 Petoro AS' articles of association, Chapter 11 of the Petroleum Act 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 recipients 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 and resolutions are 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 for the subsidiary, Petoro Iceland AS.

ELECTION OF DIRECTORS

The company is subject to the state's procedures for selecting directors. Directors are elected by the general meeting, which also determines the remuneration of all directors. Directors elected by and from among the employees serve two-year terms.

COMPOSITION AND INDEPENDENCE OF THE BOARD

Petoro's board comprises seven directors, five of whom 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 and have no commercial agreements or other financial relationships with the company apart from the directors' fees established by the general meeting and contracts of employment for the directors elected by the employees. All shareholder-elected directors are independent of the owner.

The board considers its composition in terms of expertise, capacity and diversity to be appropriate 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. These include participation in courses and conferences and generally following developments within the business area.

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 instructions which describe its responsibilities and mode of working. The board met 8 times in 2017.

As an appendix to the instructions for its work, the board has adopted supplementary provisions for matters it shall consider. 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 measuring 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 established practice has been for the director concerned to abstain from the board's consideration of the matter. 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, which encompasses an evaluation of its own work and mode of working, as well as its collaboration with company management. The self-assessment for 2017 is complete. The board reviewed the company's CSR, business ethics guidelines and board instructions. The board met 8 times in 2017.

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 emphasises the risks and opportunities that 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 risk management in line with principles for integrated management, and developments in the company's risk picture.

Identification and management of risk and risk exposure make up part of Petoro's business processes. The company works with risk management to handle matters that could affect its ability to attain specified targets and to implement chosen strategies, as well as matters that may affect its ability to submit accurate accounts. Risk management is integrated in Petoro's performance management system.

Internal control in Petoro is founded in an internationally recognised framework for this function which ensures that the activities are conducted in accordance with the established governance model and that authority requirements are observed. The internal control function forms an integrated element in Petoro's management processes, and is responsible for ensuring that integrity and the comprehensive situation 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:

- targeted and cost-effective operations
- reliable reporting of accounts
- compliance with applicable statutes and regulations

Guidelines have been adopted by Petoro to facilitate internal reporting of improprieties in its activities. Whistleblowers who want to preserve their anonymity or who do not wish to raise the matter with their superior for other reasons, can notify the internal auditor directly. The guidelines were adjusted in 2017 as a result of amendments to the Working Environment Act. The company's values and business ethics guidelines clarify principles that shall govern the company's commercial operations and employee conduct.

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 other members of the company's senior management. The board's guidelines for the remuneration of senior employees in Petoro comply with the framework specified in the Guidelines on pay and other remuneration for senior executives in wholly or partly state-owned enterprises and companies, which came into force on 13 February 2015. In 2017, the company introduced a performance-related salary arrangement in accordance with the state's guidelines for senior executive pay. One new employee joined the executive management in 2017, with a starting date in January 2018. Details of the actual remuneration paid in 2017 are provided in a note to the annual accounts.

The company's pension scheme is contribution-based. There is a transition scheme for employees as of 31 December 2015 with less than 15 years left to the retirement age of 67.

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 the company's 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.

AUDITORS

The Office of the Auditor General (OAG) is the external auditor for the SDFI portfolio pursuant to the OAG Act. The OAG verifies 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 OAG submits its report in a final auditor's letter.

In addition, the board has appointed PwC to conduct a financial audit of the SDFI accounts as part of Petoro's internal audit process. PwC conducts a financial audit of the portfolio's accounts and submits an independent statement pursuant to ISA800. This statement details whether the annual accounts pursuant to the accounting principles and on a cash basis were rendered pursuant to the rules of the Accounting Act and rules for state accountancy on a cash basis. The contract with the external auditor company covers both financial auditing and Petoro's internal auditor function. In this role, the company audits the internal control systems in accordance with the instructions and an annual plan approved by the board. The internal auditor handles the company's function for receiving notices.

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 CSR presentation is based 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 comprises the responsibilities companies are expected to fulfil for people, society, climate and the environment affected by their activities. The work on corporate social responsibility is an integral part of the board's efforts. 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 will not provide monetary support for public welfare purposes.

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

Petoro undertakes to pursue its business activities in an ethically prudent, sustainable and responsible manner. The board emphasises that the company's CSR forms an integral part of its activities and strategies, and is reflected through its values. These include dynamic, responsible, inclusive and bold. The company's guidelines on business ethics support these values.

Petoro exercises its activities in accordance with good corporate governance. This 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 governance requirements for 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 management system.

By exercising its supervisory duty, Petoro will contribute to continuous improvement of HSE results for fields and facilities where Petoro is a licensee. The Petroleum Safety Authority Norway's annual analysis of the risk level on the Norwegian shelf is used as a basis for Petoro's prioritisations, and in 2017, the company therefore aimed particular focus on robustness in organisational and operational barriers in the prevention of major accidents. Petoro has emphasised learning from investigations of serious incidents across licenses, and carrying out major accident workshops as an important part of the licenses' safety work. Petoro participates every year in HSE management inspections on selected fields and installations.

Petoro exercises its activities in a sustainable manner which minimises negative impact on nature and the environment. Petoro recognises that climate challenges make it necessary to restrict anthropogenic climate impact. The company wants to contribute to ensuring that the oil and gas industry on the Norwegian Shelf leads the way in addressing climate challenges. Climate is an integrated part of Petoro's governance.

The company established and followed up a separate target for CO_2 emissions from the production of oil and gas on selected fields in 2017. The target for 2017 has contributed to increased knowledge about the drivers of CO_2 emissions and strengthened follow-up of CO_2 emissions on the part of Petoro in the licenses.

Electrification will be able to provide considerable reductions in CO_2 emissions, given a technically feasible solution within an acceptable cost framework. Petoro is a licensee in Martin Linge and phase 1 of Johan Sverdrup, which are both being developed with power from shore. This also forms part of the proposed solution for the next development phase of Johan Sverdrup. Assessments are also under way as regards opportunities for electrification in the portfolio of fields in operation.

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 contributes to creating environmental awareness among all its employees through an incentive scheme to encourage increased use of public and environmentally friendly transport. Petoro emphasises efficient ICT solutions and good communication systems that can replace travel to meetings with videoconferencing.

Petoro does not tolerate any form of corruption or other improprieties, and employees are not permitted to accept 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 are addressed specifically. No breaches of these guidelines have been recorded.

Petoro's employees shall not accept or offer unlawful monetary gifts or other benefits to secure an advantage for themselves, for Petoro or for others. Employee directorships and secondary employment must be approved by the CEO 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 conduct. All employees sign the company's ethical guidelines each year. These guidelines set requirements for the individual to exercise conduct that does not raise questions, based on the requirement to maintain high ethical standards. It follows from the guidelines that the individual is expected to contribute to an inclusive work environment. The individual has a shared responsibility to ensure a good environment in terms of health and safety. The guidelines also address matters such as the duty of confidentiality, potential conflicts of interest and questions linked to accepting gifts and services. Senior employees (President and CEO and employees who report directly to the President and CEO) are prohibited from owning shares in licensee companies. Petoro has established requirements for information and ICT security in its activities.

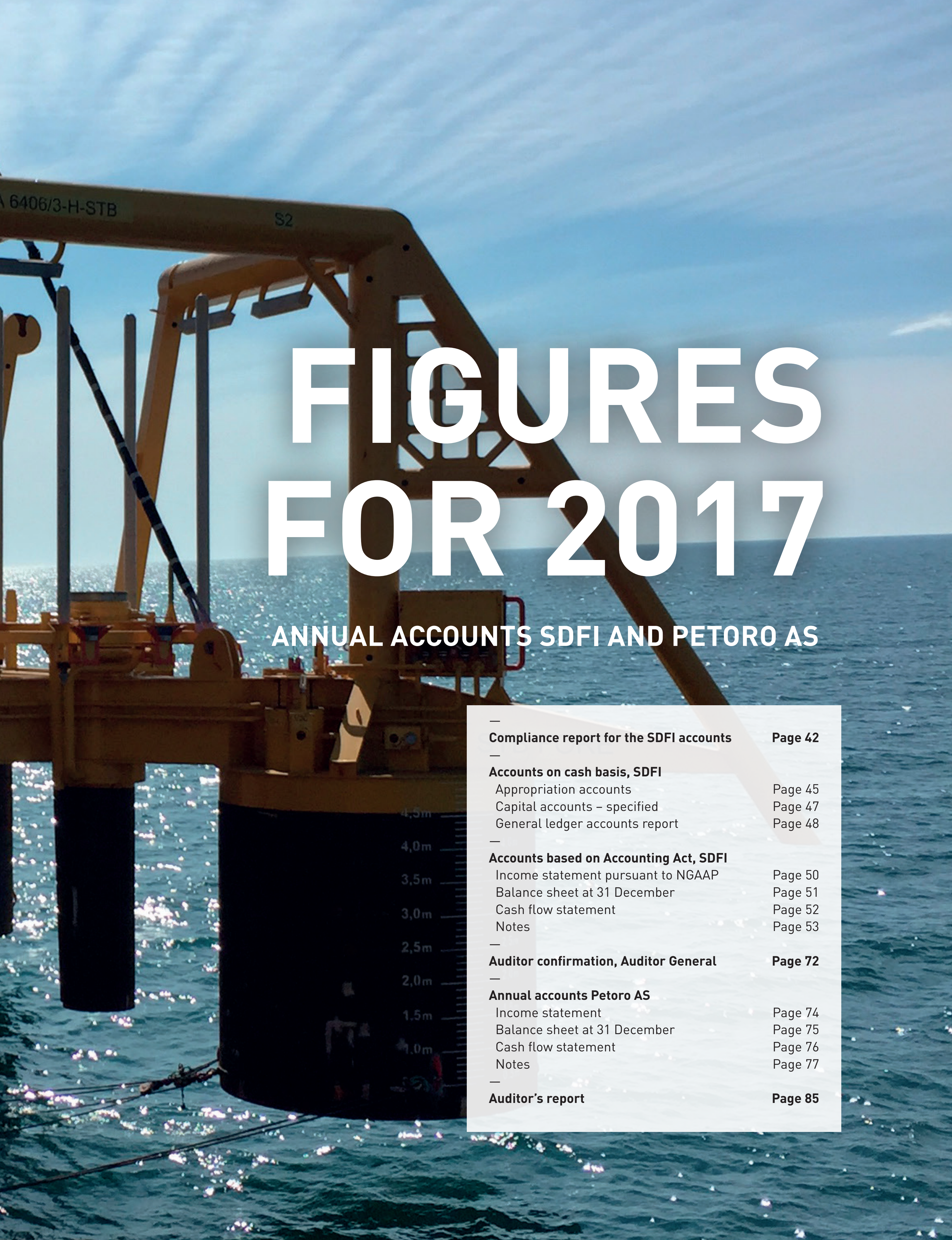
Petoro's employees discharge their duties with a high level of integrity and honesty, and show respect for other people, public authorities and business contacts, as well as health, safety and the environment.
Through its HSE declaration, the company has a shared objective regarding a sound psychological and physical work environment for all employees. The company shall have a corporate structure that promotes good results within health, safety and the environment. Petoro shall actively encourage continuous HSE improvement and believes that all incidents can be prevented. PetroAktiv organises a number of social, cultural and athletic 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 emphasises equal opportunities for both genders as regards professional and personal development, pay and promotion. The company facilitates a flexible customising of working hours. When determining wages and in wage negotiations, Petoro is conscious of ensuring 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 employment of people with disabilities.

The company has routines for reporting improprieties.
The board encourages the company's employees to raise ethical issues and to report any breaches of the rules they encounter. The internal audit function is an independent whistleblowing channel with the right and duty to report to the board. The guidelines were adjusted in 2017 as a result of amendments to the Working Environment Act in that contracted employees are also entitled to report improprieties in the activities.

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 from the company's guidelines on business ethics is incorporated into all Petoro's standard contracts as a normative standard. The management committee in each joint venture is responsible for considering and deciding issues related to the procurement and contract strategy.

Maria - Wintershall – Photo: Wintershall/Rolf Skjong



FIGURES FOR 2017

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 participating interests in production licences, fields, pipelines and land-based facilities. Petoro is charged with managing the SDFI portfolio on the basis of sound business principles. As of the end of 2017, the portfolio consisted of 186 production licences, six more than at the beginning of the year. In January 2018, Petoro received participating interests for management in 17 production licences under the Awards in Predefined Areas (APA) 2017.

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

The board confirms that the company accounts have been prepared in accordance with the Accounting Act and Norwegian generally-accepted accounting principles (NGAAP), and provide a true and fair picture of the SDFI's assets, obligations and financial results at 31 December 2017.

ASSESSMENT OF SIGNIFICANT FACTORS

APPROPRIATION AND CAPITAL ACCOUNTS
According to the supplementary allocation letter dated 21 June 2017, the SDFI's appropriation for investments totalled[1] NOK 27.0 billion. Pursuant to the supplementary allocation letter dated 14 December 2017, the appropriation for operating profit was[2] NOK 86.9 billion. The appropriation for interest on the state's capital[3] was NOK 3.7 billion. Operating income in accordance with the cash basis is affected first and foremost by the price of oil and gas and the volume of the SDFI's production sold. Statoil is responsible for marketing and sale of the SDFI's products under standing instructions for marketing and sale.

THE GENERAL LEDGER ACCOUNTS REPORT in accordance with the cash basis presents net reported revenue including financial income of NOK 145 billion in 2017, compared with NOK 127.9 billion the previous year. This consists mainly of revenue from the sale of oil and gas. The revenue is affected by higher oil and gas prices in 2017, in addition to a higher gas volume. Expenses reported in the appropriation accounts comprise payments of NOK 26.6 billion as investments and NOK 28.8 billion as operating expenses. Payments in 2016 amounted to NOK 27.8 billion related to investments and NOK 31.2 billion related to operations. Payments to operations were primarily related to the operation of fields and facilities, processing and transport costs, as well as exploration and field development expenses. This is in addition to payments of financial expenses. Depreciation on fields and facilities amounted to NOK 24.6 billion in 2017, compared with NOK 23.3 billion the previous year.

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

The financial result for 2017 was a net income of NOK 98.9 billion, NOK 41.5 billion higher than in 2016. Net cash flow transferred to the state amounted to NOK 87.2 billion, compared with NOK 65.9 billion the previous year. Significantly higher oil and gas prices in 2017, compared with 2016, impacted both the cash flow and the financial result for the year. The price of oil averaged NOK 449 per bbl in 2017, compared with NOK 361 the previous year. The average price of gas was NOK 1.72 per scm in 2017, compared with NOK 1.62 per scm in 2016. Total production amounted to 1.110 million bbls of oil equivalent (o.e) per day, which was approx. 7 per cent higher than production in 2016. Gas production reached a record level in 2017, 13 per cent higher than in 2016. The increase is primarily due to higher, flexible gas production

[1] Ch./item 2440.30
[2] Ch./item 5440.24
[3] Ch./item 5440.80

in order to exploit higher prices. Natural production decline from existing wells means that liquids production was nearly three per cent lower than in 2016.

Total operating expenses came to NOK 50.9 billion, compared with NOK 61.5 billion in 2016, as a result of lower depreciation and impairment. The cost of operating fields, pipelines and onshore facilities came to NOK 14.3 billion, on par with the previous year. Depreciation and impairment amounted to NOK 21.2 billion, NOK 9.4 billion lower than the previous year. This reduction is primarily due to the reversing of previous impairment linked to Draugen and Martin Linge as a result of cost efficiency measures and an increased reserve base, respectively, as well as an expectation of higher prices. Impairment has been undertaken for Valemon as a result of a reduced reserve base. Petoro was a participant in 12 of the 34 exploration wells completed on the Norwegian Shelf in 2017. A total of 8 new discoveries were made.

Costs incurred for investment in 2017 totalled NOK 25.5 billion, about NOK 3 billion lower than the year before. The reduction was greatest within production drilling as a result of reduced drilling activity linked to Troll, Martin Linge and Gullfaks.

The portfolio's estimated remaining reserves of oil, condensate, NGL and gas totalled 5879 million boe at 31 December, down by 89 million boe from the year before. Reserve growth in 2017 primarily came from Johan Castberg, but also from the mature fields Snorre, Åsgard, Heidrun, and Visund. Nevertheless, the growth was not sufficient to offset the reduction in remaining reserves from production in 2017.

The book value of assets at 31 December 2017 was NOK 247 billion. The assets mainly consist of fixed assets related to field installations, pipelines and onshore plants, as well as current debtors. Previous impairment of the assets were reversed by about NOK 4.7 billion on the basis of higher price expectations and an increased reserve base. This was partially offset by impairment to fair value for a field totalling NOK 1 billion. The assets were impaired by about NOK 5 billion in 2016. Equity at 31 December came to NOK 168 billion. A previous error in the calculation of income not yet earned for a net profit agreement linked to an expected decommissioning liability for Valhall was corrected against equity. This correction amounted to NOK 3.2 billion. Future decommissioning liabilities are estimated at NOK 67.6 billion, which was on par with the previous year.

ADDITIONAL INFORMATION

The Office of the Auditor General (OAG) is the external auditor, and approves the annual accounts for the SDFI. On completing its annual audit, the OAG issues a final audit letter (report) which summarises the conclusion of its audit work. The result of the audit will be reported by 1 May 2018.

In addition, the board has appointed PwC to conduct a financial audit of the SDFI accounts as part of Petoro's internal audit process. PwC submits a written report to the board concerning the annual accounts prepared on a cash basis and based on the accounting principles founded on Norwegian auditing standard RS800 "Special considerations in the auditing of accounts prepared pursuant to a special-purpose framework". PwC's audit work forms the basis for the OAG's review of the annual accounts.

Stavanger, 7 March 2018

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Chair

Brian Bjordal
Deputy chair

Per Arvid Schøyen
Director

Hugo Sandal
Director

Trude J. H. Fjeldstad
Director

Ove Skretting
Director
elected by the employees

Heidi Iren Nes
Director
elected by the employees

Grethe K. Moen
President and CEO

ACCOUNTS ON CASH BASIS, SDFI
Note on accounting principles for the accounts on a cash basis

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

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

a) the accounting year matches the calendar year
b) the accounts present all reported expenses and revenues for the accounting year
c) expenses and revenues are shown gross in the accounts
d) the accounts are prepared in accordance with the cash basis.

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

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

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

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

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

ACCOUNTS ON CASH BASIS, SDFI
Appropriation accounts

Presentation of appropriation accounts reporting 31 Dec. 2017

Expense chapter	Type	Category	Description	Total allocation	2017 accounts	Overspend (-) and underspend
2440	Expenses	30	Investments	27 000 000 000	26 564 054 732	435 945 268
5440	Expenses	24.02	Operating expenses	26 300 000 000	28 774 708 704	(2 474 708 704)
5440	Expenses	24.03	Exploration and field development expenses	1 300 000 000	1 432 243 822	(132 243 822)
5440	Expenses	24.04	Depreciation	23 500 000 000	24 648 044 133	(1 148 044 133)
5440	Expenses	24.05	Interest	3 700 000 000	3 567 970 153	132 029 847
Total expensed				**81 800 000 000**	**84 987 021 543**	**(3 187 021 543)**

Revenue chapter	Type	Category	Description	Total allocation	2017 accounts	Excess revenue and lower revenue (-)
5440	Revenues	24.01	Operating revenue	141 700 000 000	145 043 041 110	3 343 041 110
5440	Expenses	30	Depreciation	23 500 000 000	24 648 044 133	1 148 044 133
5440	Expenses	80	Interest on fixed capital	3 700 000 000	3 580 822 461	(119 177 539)
5440	Expenses	85	Interest on open accounts	0	(12 852 308)	(12 852 308)
Total recognised				**168 900 000 000**	**173 259 055 395**	**4 359 055 395**
5440		**24**	**Operating profit**	**86 900 000 000**	**86 620 074 299**	**(279 925 701)**
Net reported to appropriation accounts					**(88 272 033 852)**	

Capital accounts			
0677.03.04693	Settlement account Norges Bank - paid in	139 409 429 575	
0677.03.08710	Settlement account Norges Bank - paid in	15 634 299 814	
0677.04.05015	Settlement account Bank of Norway - paid out	(67 886 811 652)	
	Change in open accounts	1 115 116 115	
Total reported		0	

Holdings reported to the capital accounts (31 Dec)

Account	Text	2017	2016	Change
	Open accounts with the Treasury	(4 342 444 649)	(3 227 328 534)	1 115 116 115

Comment on change in open account from 2016 to 2017
The change is mainly due to changes in advance payments and working capital in the licenses.

ACCOUNTS ON CASH BASIS, SDFI
Appropriation accounts

NOTE A Explanation of total allocation

Type and category	Transferred from last year	Allocation for the year	Total allocation
2440.30		27 000 000 000	27 000 000 000
5440.24.02		26 300 000 000	26 300 000 000
5440.24.03		1 300 000 000	1 300 000 000
5440.24.04		23 500 000 000	23 500 000 000
5440.24.05		3 700 000 000	3 700 000 000
5440.24.01		141 700 000 000	141 700 000 000
5440.30		23 500 000 000	23 500 000 000
5440.80		3 700 000 000	3 700 000 000
5440.85		0	0
5440.24		86 900 000 000	86 900 000 000

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

Not relevant for the SDFI, which receives estimated appropriations.

ACCOUNTS ON CASH BASIS, SDFI
Capital accounts – specified

SDFI CAPITAL ACCOUNTS 2017 – FIGURES IN NOK				
	Items			
	Open account government			4 342 444 649
	Fixed assets before impairment		193 634 339 248	
	Impairment (-) / reversal (+)		1 186 987 038	
	Fixed asset account		194 821 326 286	194 821 326 286
Total				**199 163 770 935**
	Open account state at 1 Jan. 2017		(3 227 328 534)	
	Total expenses	26 564 054 732		
	Total revenue	(114 836 088 584)		
	Cash flow	(88 272 033 852)	(88 272 033 852)	
	Net transfer to the state		87 156 917 737	
Open account state at 31 Dec. 2017			**(4 342 444 649)**	**(4 342 444 649)**
	Fixed assets 1 Jan. 2017		(191 718 328 649)	
	Investments for the year		(26 564 054 732)	
	Depreciation for the year		24 648 044 133	
	Impairment / reversal		(1 186 987 038)	
	Fixed assets 31 Dec. 2017		(194 821 326 286)	(194 821 326 286)
Total				**(199 163 770 935)**

Stavanger, 7 March 2018

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President and CEO

ACCOUNTS ON CASH BASIS, SDFI
General ledger accounts report

Specification of the general ledger accounts report 31 Dec. 2017		
	2017	**2016**
Operating revenues reported to the appropriation accounts		
Sales and lease payments received	132 997 435 409	116 916 966 237
Other amounts paid in	12 881 184 463	11 518 725 781
Total paid in from operations	**145 878 619 872**	**128 435 692 018**
Operating expenses reported to the appropriation accounts		
Depreciation	24 648 044 133	23 276 647 734
Other disbursements for operations	28 658 993 411	31 997 464 222
Total disbursed to operations	53 307 037 544	55 274 111 956
Net reported operating expenses	**(92 571 582 328)**	**(73 161 580 062)**
Investment and financial income reported to the appropriation accounts		
Financial income paid in	(835 578 762)	(527 088 497)
Total investment and financial income	**(835 578 762)**	**(527 088 497)**
Investment and financial expenses reported to the appropriation accounts		
Paid out for investment	26 658 459 248	27 725 735 798
Paid out for share purchases	(90 945 423)	90 825 760
Paid out for financial expenses	5 112 470 175	5 445 073 553
Total investment and financial expenses	**31 679 983 999**	**33 261 635 110**
Net reported investment and financial expenses	**32 515 562 761**	**33 788 723 607**
Revenues and expenses reported under common chapters		
Depreciation (see Ch. 5440 revenue)	(24 648 044 133)	(23 276 647 734)
Interest on the government's capital and open accounts with the Treasury (see Ch. 5440 revenue)	(3 567 970 153)	(3 805 803 940)
Net reported expenses under joint chapters	**(28 216 014 285)**	**(27 082 451 674)**
Net expenses reported to the appropriation accounts	**(88 272 033 852)**	**(66 455 308 130)**

ACCOUNTS ON CASH BASIS, SDFI
General ledger accounts report

Overview of open accounts with the Treasury

Assets and liabilities *	**2017**	**2016**
O/U call	(353 144 900)	2 296 729 921
AP nonop	56 487 435	(331 626 638)
AR nonop	(1 133 674 872)	(417 271 621)
Inventory nonop	(159 124 367)	(250 731 282)
Prep exp nonop	936 171 349	17 232 618
Working cap - nonop	1 752 400 542	(758 899 586)
VAT	16 000 927	2 708 978
Agio	-	-
Total open accounts with the Treasury	**1 115 116 115**	**558 142 390**

*)
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 in monthly settlements from JV billing
VAT - balance of VAT payments
Agio - rounding-off related to currency translation (agio/disagio)

Comment on change in open account from 2016 to 2017
The change primarily reflects changes to provisions and prepayments in the licences.

ACCOUNTS BASED ON ACCOUNTING ACT
Income statement pursuant to NGAAP

All figures in NOK million	Notes	2017	2016
OPERATING REVENUE			
Operating revenue	3, 4, 9, 11	**150 720**	121 224
Total operating revenue		**150 720**	**121 224**
OPERATING EXPENSES			
Exploration expenses		**1 554**	1 371
Production expenses	5	**14 262**	14 616
Transport and processing expenses	5	**9 078**	8 955
Depreciation and impairment	2	**21 209**	30 652
Other operating expenses	5, 9, 10	**4 770**	5 867
Total operating expenses		**50 874**	**61 460**
Operating profit		**99 846**	**59 765**
FINANCIAL ITEMS			
Financial income		**1 989**	5 057
Financial expenses	12	**2 916**	7 396
Net financial items	8	**(928)**	**(2 339)**
NET INCOME FOR THE YEAR	19	**98 919**	**57 426**

ACCOUNTS BASED ON ACCOUNTING ACT
SDFI balance sheet at 31 December

All figures in NOK million	Notes	2017	2016
Intangible assets	2	**68**	72
Tangible fixed assets	1, 2, 18, 21	**224 161**	220 996
Financial assets	2, 11	**238**	362
Fixed assets		**224 467**	**221 430**
Inventory	6	**2 534**	2 737
Trade debtors	9, 10	**20 249**	16 839
Bank deposits		**176**	149
Current assets		**22 958**	**19 726**
TOTAL ASSETS		**247 426**	**241 156**
Equity at 1 January		**156 302**	164 773
Paid from/(to) the state during the year		**(87 157)**	(65 897)
Net income		**98 919**	57 426
Equity adjustments		**0**	0
Equity	19	**168 063**	**156 302**
Long-term decommissioning liabilities	12, 18	**67 647**	67 546
Other long-term liabilities	13	**3 629**	4 020
Long-term liabilities		**71 276**	**71 566**
Trade creditors		**1 987**	2 411
Other current liabilities	9, 14, 15	**6 100**	10 878
Current liabilities		**8 087**	**13 289**
TOTAL EQUITY AND LIABILITIES		**247 426**	**241 156**

Stavanger, 7 March 2018

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ACCOUNTS BASED ON ACCOUNTING ACT
SDFI Cash flow statement

All figures in NOK million	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from operations	3, 4	145 043	127 828
Cash disbursements from operations	5	(30 222)	(33 634)
Change in working capital in the licences		(1 426)	1 807
Change over/under call in the licenses		353	(2 297)
Net interest payments		0	75
Cash flows from operating activities		**113 747**	**93 778**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments	2, 11	(26 564)	(27 815)
Cash flow from investment activities		**(26 564)**	**(27 815)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net transfer to the state		(87 157)	(65 897)
Cash flow from financing activities		**(87 157)**	**(65 897)**
Change in bank deposits of apportioned liability partnerships (DA)		26	66

NOTES TO THE COMPANY ACCOUNTS

GENERAL

As of 31 December 2017, Petoro AS acted as licensee on behalf of the SDFI for interests in 186 production licences and 16 joint ventures for pipelines and terminals, including the company's management of commercial interests in Mongstad Terminal DA and Vestprosess DA, and the shares in Norsea Gas AS and Norpipe Oil AS. The SDFI is also entitled to potential profits in production licences with net profit agreements. Petoro has the same rights and obligations as other licensees, and manages the SDFI on the NCS on the basis of sound business principles.

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

ACCOUNTING PRINCIPLES FOR THE COMPANY ACCOUNTS

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

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

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

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

The functional currency is the Norwegian krone.

Revenue recognition principles

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

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

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

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

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

Purchases and sales between fields and/or transport systems

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

Foreign currencies

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

Classification of assets and liabilities
Assets intended for 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 classification of current and long-term liabilities.

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

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

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

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

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

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

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

Petoro determines the reserve base for depreciation purposes on the basis of estimated remaining reserves per field, which are adjusted by a factor calculated as the ratio between the Norwegian Petroleum Directorate's total of low reserves in production and the sum of basis reserves in production. This is done for both oil and gas reserves. This reserve adjustment totalled 77.8 per cent of expected remaining oil reserves in 2017, while the corresponding figure for gas reserves was 88.2 per cent. The reserve estimates are revised annually, and any changes affect only future depreciation expenses.

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

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

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

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

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

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

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

and capitalised in the same manner and depreciated over the remaining economic life of the assets. The discount rate applied when calculating the fair value of a decommissioning liability is based on the interest rate for Norwegian government bonds with maturity matching that of the decommissioning obligation.

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.

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

Accounts receivable
Accounts receivable are recognised at face value in the balance sheet 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 state on a daily basis. Booked bank deposits thus include the SDFI's share of bank deposits in companies with apportioned liability in which the SDFI has an interest, and in which the proportionate consolidation method is used.

Current liabilities
Current liabilities are recognised at face value.

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

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

Financial instruments are valued according to the lowest value principle, unless stated criteria have been met. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are recorded as income if all the following criteria are met: the instrument is classified as a current asset, is part of a trading portfolio as regards resale, is traded on an exchange, authorised marketplace or similar regulated market abroad, and has diverse ownership and liquidity. Portfolio valuations are used as a basis where this, based on the financial instruments, is considered to be the most sensible approach, and where the portfolio is balanced in volume and time. Eliminations are carried out where legal rights exist to offset unrealised losses and gains, or where deposits/margins that correspond with the market value of the derivatives have been paid and capitalised. Gains are otherwise recognised upon realisation.

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

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

NOTE 1 ASSET TRANSFERS AND CHANGES

In January 2017, the Ministry of Petroleum and Energy completed its Awards in Predefined Areas (APA 2016), where 13 production licenses were awarded with SDFI participation. Over the course of 2017, four production licenses were carved out from existing licences with SDFI participation, and 11 production licenses were relinquished. In January 2018, the Ministry of Petroleum and Energy completed its Awards in Predefined Areas (APA 2017), where an additional 17 production licenses were awarded with SDFI participation.

NOTE 2 SPECIFICATION OF FIXED ASSETS

All figures in NOK million	Book value at 31 Dec 16	Historical cost at 1 Jan 17	Accumulated depreciation 1 Jan 16	Addition 2017	Impair-ment 2017	Disposal 2017	Transfers 2017	Depreciation 2016	Book value at 31 Dec 17
Fields under development	16 625	16 625	0	11 278	2 568	0	381	0	30 852
Fields in operation	166 791	528 347	-361 556	10 575	943	0	564	-19 810	159 064
Pipelines and terminals	32 307	71 060	-38 753	723	-362	0	0	-2 582	30 086
Capitalised exploration expenses	5 273	5 273	0	784	0	-952	-945	0	4 159
Total tangible fixed assets	**220 996**	**621 306**	**-400 309**	**23 360**	**3 149**	**-952**	**0**	**-22 392**	**224 161**
Intangible assets	72	287	-215	0	0	0	0	-4	68
Financial fixed assets	362	362	0	-123	0	0	0	0	238
Total fixed assets (NGAAP)	**221 430**	**621 955**	**-400 524**	**23 236**	**3 149**	**-952**	**0**	**-22 396**	**224 467**
Translation to cash basis	-29 712	-69 046	39 334	3 328	-1 962	952	0	-2 252	-29 646
Total fixed assets on cash basis	**191 718**	**552 908**	**-361 190**	**26 564**	**1 187**	**0**	**0**	**-24 648**	**194 821**

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 are being depreciated over 20 years, which is the duration of the charter.

Previous impairment for certain assets linked to Draugen and Martin Linge were reversed in 2017 as a result of cost efficiency measures and an increased reserve base, respectively, in addition to an expectation of higher prices. Impairment has been undertaken for Valemon as a result of a reduced reserve base. The utility value is calculated using discounted future cash flows, which are discounted using a discount rate based on the weighted average cost of capital (WACC). Impairment tests are based on Petoro's best estimate of cash flows (market prices, production, costs and exchange rate assumptions). When the utility value is assessed to be lower than the book value, the assets are written down to their utility value.

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

Financial fixed assets of NOK 238 million include the following:

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

NOTE 3 SPECIFICATION OF OPERATING REVENUE BY AREA

All figures in NOK million	**2017**	**2016**
License	**131 937**	110 766
Market	**23 120**	15 165
Net profit agreements	**428**	8
Elimination internal sales	**(4 765)**	(4 715)
Total operating revenue (NGAAP)	**150 720**	**121 224**
Conversion to cash basis	**(5 677)**	6 684
Total cash basis	**145 043**	**127 909**

Market primarily comprises revenue from the resale of gas, tariff revenues, unrealised losses and revenue from trading inventory. Trading inventory mainly relates to physical volumes. As of 2017, Gassled and other gas infrastructure is placed under Market, as regards organisation. The comparative figures for 2016 have been corrected correspondingly.

NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	**2017**	**2016**
Crude oil, NGL and condensate	**61 171**	49 322
Gas	**77 398**	60 927
Transport and processing revenue	**10 674**	10 597
Other revenue	**1 050**	369
Net profit agreements	**428**	8
Total operating revenue (NGAAP)	**150 720**	**121 224**
Conversion to cash basis	**(5 677)**	6 684
Total cash basis	**145 043**	**127 909**

All crude oil, NGL and condensate from the SDFI are sold to Statoil, and all gas is sold by Statoil (under the sale instructions issued to Statoil) at the SDFI's expense and risk. Virtually all gas is sold to customers in Europe under bilateral contracts, or over the trading desk. About 30 per cent of annual gas volumes is purchased by the four largest customers.

NOTE 5 SPECIFICATION OF PRODUCTION AND OTHER OPERATING EXPENSES BY AREA

All figures in NOK million	2017	2016
PRODUCTION EXPENSES		
License	**11 204**	11 947
Other infrastructure	**3 058**	2 668
Total production expenses	**14 262**	**14 616**
TRANSPORT AND PROCESSING EXPENSES		
License	**13 634**	13 352
Market	**209**	318
Elimination internal purchases	**(4 765)**	(4 715)
Total transport and processing expenses	**9 078**	**8 955**
OTHER OPERATING EXPENSES		
Market	**4 770**	5 866
Total other operating expenses	**4 770**	**5 866**
Total operating expenses	**28 110**	**29 437**
Conversion to cash basis	664	1 723
Total cash basis	**28 775**	**31 160**

Market primarily comprises the cost of purchasing gas for resale and purchases for inventory to optimise gas sales. As of 2017, Gassled and other gas infrastructure is placed under Market, as regards organisation. The comparative figures for 2016 have been corrected correspondingly.

NOTE 6 INVENTORIES

All figures in NOK million	2017	2016
Petroleum products	**1 028**	1 072
Spare parts	**1 506**	1 665
Total inventories	**2 534**	**2 737**

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

Not relevant to the accounts on a cash basis.

NOTE 7 INTEREST INCLUDED IN THE SDFI'S 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 2017 letter of assignment to Petoro from the Ministry of Petroleum and Energy.

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

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

Interest on the open account with the government is calculated in accordance with the 2017 letter of assignment to Petoro from the Ministry of Petroleum and Energy. The interest rate applied is linked to the interest rate on short-term government securities and corresponds to the interest rate applied to short-term loans to the Treasury, calculated on the basis of the average monthly balance in the open account with the government.

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

NOTE 8 NET FINANCIAL ITEMS

All figures in NOK million	**2017**	**2016**
Interest income	**2**	81
Other financial revenue	**1**	72
Currency gain - realised	**1 986**	4 904
Currency loss - realised	**(1 595)**	(4 091)
Currency loss/gain - unrealised	**33**	(1 797)
Interest expenses	**45**	(122)
Interest on decommissioning liability	**(1 400)**	(1 386)
Net financial items	**(928)**	**(2 339)**

Not relevant to the accounts on a cash basis.

NOTE 9 CLOSE ASSOCIATES

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

Statoil is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL from the SDFI to Statoil totalled NOK 61.2 billion (corresponding to 145 million boe) for 2017, compared with NOK 49.3 billion (147 million boe) for 2016.
Statoil markets and sells the state's natural gas at the government's expense and risk, but in Statoil's name and along with its own production. The state receives the market value for these sales. The state sold dry gas directly to Statoil at a value of NOK 311 million in 2017, compared with NOK 369 million in 2016. Statoil is reimbursed by the state for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for resale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 11.7 billion in 2017, compared with NOK 12.6 billion in 2016. Open accounts with Statoil totalled NOK 8.4 billion in favour of the SDFI, converted at the exchange rate on the balance sheet date, compared with NOK 5.2 billion in 2016.

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

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

NOTE 10 ACCOUNTS RECEIVABLE

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

NOTE 11 INVESTMENTS IN ASSOCIATED COMPANIES

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

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

The SDFI participates in SNG under the marketing and sale instruction with regard to activities related to the marketing and sale of the state's LNG from Snøhvit. Cash flows from SNG are settled continuously on a monthly basis in connection with the purchase and sale of LNG.

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

All figures in NOK million	**2017**	**2016**
Opening balance financial fixed assets	**362**	280
Share of profit for the year	**(123)**	82
Closing balance financial fixed assets	**238**	**362**

NOTE 12 SHUT-DOWN/DECOMMISSIONING

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

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

Interest expense on the liability is classified as a financial expense in the income statement. The discount rate is based on the interest rate for Norwegian treasury 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.

New liabilities mainly include the Johan Sverdrup, Martin Linge and Maria fields and constitute about NOK 2.5 billion. At the same time, the estimate for decommissioning costs has been reduced by NOK 3.5 billion as a result of changes in future estimated costs from operators and alterations to cessation and decommissioning dates. This change includes reduced estimates for plugging and abandoning wells and for shutting down installations.

All figures in NOK million	**2017**	**2016**
Liability at 1 Jan	**67 546**	70 129
New liabilities/disposals	**2 565**	0
Actual decommissioning	**(298)**	(584)
Changes to estimates	**(3 501)**	(2 717)
Changes to discount rates	**130**	(666)
Changes to participating interests	**(195)**	(2)
Interest expense	**1 400**	1 386
Liability at 31 Dec	**67 647**	**67 546**

NOK 298 million for cessation and decommissioning accrued in 2017, and is included in the accounts on a cash basis.

NOTE 13 OTHER LONG-TERM LIABILITIES

Other long-term liabilities pursuant to NGAAP comprise:
- debt related to financial leasing of three LNG carriers delivered in 2006
- debt related to the final settlement of commercial arrangements concerning the transition to company-based gas sales
- income not yet earned in anticipated repayment of profit shares in licenses with net profit agreements

Three financial leasing contracts were entered into in 2006 on the delivery of three ships to transport LNG from Snøhvit. These contracts run for 20 years, with two options for five-year extensions. Future discounted minimum payment for financial leasing totals NOK 1 145 million as of 31 December 2017. Of this, NOK 119 million falls due for payment in 2018, NOK 475 million in the subsequent four years and the residual NOK 551 million after 2023.

Repayment liabilities for previously paid-up profit shares in licences with net profit agreements linked to decommissioning is included in long-term liabilities and amounts to NOK 1 624 million.

Other long-term liabilities total NOK 860 million, of which NOK 266 million falls due within more 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 NGAAP falling due in 2017 consist mainly of:
- provisions for accrued unpaid costs at December, adjusted for cash calls in December
- other provisions for accrued unpaid costs not included in the accounts received from operators

Not relevant to the accounts on a cash basis.

NOTE 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Only limited use is made of derivative 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 state's overall risk management. The SDFI does not have significant interest-bearing debt, and sells primarily oil, gas and NGL at current prices. Instruments used to manage price risk for sales at fixed prices or for deferred gas production relate to forwards and futures. At 31 December 2017, the market value of the derivatives was NOK 596 million in assets and NOK 2 275 million in liabilities. The comparable figures at the end of 2016 were NOK 277 million in assets and NOK 4 899 million in liabilities. These figures include the market value of listed futures and unlisted instruments. The market value of built-in derivatives related to end-user customers in continental Europe. In 2017, this amounted to NOK 498 million in assets. The comparable figures in 2016 were NOK 199 million in assets and NOK 83 million in liabilities. Net unrealised loss on outstanding positions as of 31 December 2017 is carried to expense.

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

Currency risk
The majority of the company's revenue from the sale of oil and gas is invoiced in USD, EUR or GBP. Parts of its operating expenses and investments are also billed in equivalent currencies. When converting to NOK, currency fluctuations will affect the SDFI's income statement and balance sheet. The SDFI does not utilise currency hedging in relation to future sales of the SDFI's petroleum, and its exposure in the balance sheet at 31 December 2017 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, NGL and condensate 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 risk in current transactions is accordingly regarded as limited.

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

NOTE 16 LEASES/CONTRACTUAL LIABILITIES

All figures in NOK million	Leases	Transport capacity and other liabilities
2018	5 219	2 096
2019	4 444	1 562
2020	3 915	1 392
2021	2 994	1 321
2022	2 525	1 297
Beyond	1 391	5 382

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

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

Other liabilities
In connection with the award of licences to explore for and produce petroleum, licensees may be required to commit to drill a certain number of wells. Licensees are also committed to undertake exploration activities through approved budgets and work programmes. Petoro was committed at year-end to participate in 23 wells with an expected cost to the SDFI in 2018 of NOK 1.4 billion.

The SDFI has also accepted contractual liabilities relating to investments in new and existing fields. Overall, this amounts to NOK 9.0 billion for 2018 and NOK 22.5 billion for subsequent periods, totalling NOK 31.5 billion. Through approved budgets and work programmes, the SDFI was also committed to operating and investment expenses for 2018. The mentioned liabilities for 2018 are included in this total.

In connection with the sale of the SDFI's oil and gas, Statoil has issued guarantees to suppliers and owners of transport infrastructure, as well as in connection with operations in the US, the UK and continental Europe. Guarantees issued in connection with trading activities are provided as security for lack of financial settlement. In total, the guarantees amount to NOK 1.8 billion for the SDFI's share.

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

Not relevant to the accounts on a cash basis.

NOTE 17 OTHER LIABILITIES

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

Legal action has been taken by COSL Offshore Management, which is currently being adjudicated as the annual accounts for the SDFI are submitted. The case concerns the termination of a rig contract linked to Troll, where the SDFI has a 56 per cent ownership interest.

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 significant effect on the accounts. Where the SDFI portfolio is concerned, it is presumed that assessments of the book value of tangible fixed assets, reserves, decommissioning of installations, exploration expenses and financial instruments could have the greatest significance.

Recoverable reserves include volumes of crude oil, NGL (including condensate) and dry gas as reported in resource classes 1-3 in the classification system used by the Norwegian Petroleum Directorate (NPD). Only reserves for which the licensees' PDO has been sanctioned in the management committee and submitted to the authorities are included in the portfolio's expected reserves. A share of the field's remaining reserves in production (resource class 1) provides the basis for depreciation. A share of oil and gas, respectively, is calculated annually for the portfolio to represent the relationship between low and basis reserves. This common share is used to calculate the depreciation basis for each field. The downwardly adjusted basis reserves which make up the foundation for depreciation expenses are of great significance for the result, and adjustments to the reserve base can cause major changes in 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 prepared, these investments are reviewed for indications of a decline in value. The assessment of whether an asset must be written down is primarily based on judgements and assumptions about future market prices.

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

Not relevant to the accounts on a cash basis.

NOTE 19 EQUITY

All figures in NOK million	**2017**	**2016**
Equity at 1 Jan.	**156 302**	161 524
Items recognised directly in equity at 1 Jan. 2016		3 248
Net income	**98 919**	57 426
Cash transfers to the state	**(87 157)**	(65 897)
Equity at 31 Dec.	**168 063**	**156 302**

Items recognised directly in equity concern the correction of a previous error in the calculation of income not yet earned for a net profit agreement linked to an anticipated decommissioning liability for Valhall.

Not relevant to the accounts on a cash basis.

NOTE 20 AUDITORS

The SDFI is subject to the Appropriations Regulations, as well as the Regulations and Provisions on Financial Management in Central Government. In accordance with the Act relating to the Office of the Auditor General (OAG) of 7 May 2004, the OAG is the external auditor for the SDFI. The audit takes place during the period from 1 May 2017 – 30 April 2018, and the result of the audit will be reported in the form of an auditor's report by 1 May 2018.

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

NOTE 21 EXPECTED REMAINING OIL AND GAS RESERVES – UNAUDITED

	2017		2016		2015	
Oil* in mill bbl, Gas in bn scm	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**
Expected remaining reserves at 1 Jan	1489	712	1599	743	1318	767
Corrections for earlier years**			(3)	(1)	(10)	
Change in estimates	30	3	18	(1)	17	7
Extensions and discoveries	112	0	1	0	367	2
Improved recovery	129	4	20	1	57	4
Purchase of reserves			2	6		
Sale of reserves						
Production	(145)	(41)	(150)	(37)	(150)	(38)
Expected remaining reserves at 31 Dec	**1615**	**678**	**1489**	**712**	**1599**	**743**

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

The portfolio's estimated remaining reserves of oil, condensate, NGL and gas totalled 5879 million boe at 31 December, down by 89 million boe from the year before. Reserve growth in 2017 primarily came from Johan Castberg, but also from the mature fields Snorre, Åsgard, Heidrun, and Visund. Nevertheless, the growth was not sufficient to offset the reduction in remaining reserves from production in 2017.

A total of 405 million boe were produced in 2017, giving a reserve replacement rate of 78 per cent for the year. The corresponding rate in 2016 was 22 per cent.

NOTE 22 RESEARCH AND DEVELOPMENT

Petoro contributes to research and development (R&D) through the SDFI meeting its share of the operator's costs for general research and development pursuant to the Accounting Agreement. NOK 507 million was expensed by the SDFI for R&D in 2017 as regards charges from the operators during the year.

NOTE 23 SDFI OVERVIEW OF INTERESTS

Production licence	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)
018	5.00000	5.00000
018 B	5.00000	5.00000
018 C	5.00000	5.00000
018 DS	5.00000	5.00000
028 C	30.00000	30.00000
034	40.00000	40.00000
036 BS	20.00000	20.00000
036 E	20.00000	-
037	30.00000	30.00000
037 B	30.00000	30.00000
037 E	30.00000	30.00000
038	30.00000	30.00000
038 C	30.00000	30.00000
038 D	30.00000	30.00000
040	30.00000	30.00000
043	30.00000	30.00000
043 BS	30.00000	30.00000
050	30.00000	30.00000
050 B	30.00000	30.00000
050 C	30.00000	30.00000
050 D	30.00000	30.00000
050 DS	30.00000	30.00000
050 ES	30.00000	30.00000
050 FS	30.00000	30.00000
050 GS	30.00000	30.00000
050 HS	30.00000	30.00000
050 IS	30.00000	30.00000
052	37.00000	37.00000
053	33.60000	33.60000
053 C	33.60000	-
054	40.80000	40.80000
055 C	33.60000	33.60000
057	30.00000	30.00000
062	19.95000	19.95000
064	30.00000	30.00000
074	19.95000	19.95000
074 B	19.95000	19.95000
077	30.00000	30.00000
078	30.00000	30.00000
079	33.60000	33.60000
085	62.91866	62.91866
085 B	62.91866	62.91866
085 C	56.00000	56.00000
089	30.00000	30.00000
093	47.88000	47.88000
093 B	47.88000	47.88000
093 C	47.88000	47.88000

Production licence	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)
093 D	47.88000	47.88000
093 E	-	47.88000
094	14.95000	14.95000
094 B	35.69000	35.69000
095	59.00000	59.00000
097	30.00000	30.00000
099	30.00000	30.00000
100	30.00000	30.00000
102	30.00000	30.00000
102 C	30.00000	30.00000
102 D	30.00000	30.00000
102 E	30.00000	30.00000
102 F	30.00000	30.00000
102 G	30.00000	30.00000
104	33.60000	33.60000
104 B	33.60000	33.60000
107 B	7.50000	7.50000
107 D	7.50000	7.50000
110	30.00000	30.00000
110 B	30.00000	30.00000
120	16.93548	16.93548
120 B	16.93548	16.93548
120 CS	16.93548	-
124	27.09000	27.09000
128	24.54546	24.54546
128 B	54.00000	54.00000
128 D	24.54546	24.54546
128 E	24.54546	-
134	13.55000	13.55000
152	30.00000	30.00000
153	30.00000	30.00000
153 B	30.00000	30.00000
158	47.88000	47.88000
169	30.00000	30.00000
169 B1	37.50000	37.50000
169 B2	30.00000	30.00000
169 C	50.00000	50.00000
171 B	33.60000	33.60000
176	47.88000	47.88000
190	40.00000	40.00000
193	30.00000	30.00000
193 B	30.00000	30.00000
193 C	30.00000	30.00000
193 D	30.00000	30.00000
193 E	30.00000	30.00000
193 FS	30.00000	-
195	35.00000	35.00000
195 B	35.00000	35.00000

Production licence	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)
199	27.00000	27.00000
208	30.00000	30.00000
209	35.00000	35.00000
237	35.69000	35.69000
248	40.00000	40.00000
248 B	40.00000	40.00000
248 C	40.00000	40.00000
248 D	40.00000	40.00000
248 E	40.00000	40.00000
248 F	40.00000	40.00000
248 GS	40.00000	40.00000
248 HS	40.00000	40.00000
248 I	40.00000	-
250	45.00000	45.00000
255	30.00000	30.00000
255 B	30.00000	30.00000
255 C	30.00000	-
263 C	19.95000	19.95000
265	30.00000	30.00000
275	5.00000	5.00000
277	30.00000	30.00000
309 C	33.60000	33.60000
318	20.00000	20.00000
318 B	20.00000	20.00000
318 C	20.00000	20.00000
327	20.00000	20.00000
327 B	20.00000	20.00000
393	20.00000	20.00000
435	35.00000	35.00000
448	30.00000	30.00000
473	19.95000	19.95000
475 BS	30.00000	30.00000
475 CS	30.00000	30.00000
479	14.95000	14.95000
489	20.00000	20.00000
502	33.33333	33.33333
504	52.40700	52.40700
516	24.54545	24.54545
532	20.00000	20.00000
537	20.00000	20.00000
602	20.00000	20.00000
608	20.00000	20.00000
611	-	20.00000
612	20.00000	20.00000
615	20.00000	20.00000
615 B	20.00000	20.00000
618	20.00000	20.00000
625	-	20.00000

Production licence	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)
638	-	20.00000
659	30.00000	30.00000
682	20.00000	20.00000
685	20.00000	20.00000
694	-	20.00000
695	20.00000	20.00000
714	-	20.00000
716	-	20.00000
718	20.00000	20.00000
720	20.00000	20.00000
728	20.00000	20.00000
728 B	20.00000	20.00000
739 S	-	30.00000
745 S	30.00000	30.00000
749	20.00000	20.00000
751	20.00000	20.00000
762	20.00000	20.00000
768	20.00000	20.00000
768 B	20.00000	20.00000
775	20.00000	20.00000
776	20.00000	20.00000
777	20.00000	20.00000
777 B	20.00000	20.00000
777 C	20.00000	-
789	-	20.00000
793	20.00000	20.00000
795	20.00000	20.00000
797	-	20.00000
805	20.00000	20.00000
806	-	20.00000
815	20.00000	20.00000
829	20.00000	20.00000
830	20.00000	20.00000
831	20.00000	20.00000
832	20.00000	20.00000
837	20.00000	20.00000
841	20.00000	20.00000
844	20.00000	20.00000
848	20.00000	20.00000
849	20.00000	20.00000
854	20.00000	20.00000
855	20.00000	20.00000
857	20.00000	20.00000
858	20.00000	20.00000
859	20.00000	20.00000
860	20.00000	-
864	20.00000	-
885	20.00000	-

Production licence	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)
886	20.00000	-
892	20.00000	-
894	20.00000	-
896	20.00000	-
899	20.00000	-
902	20.00000	-

Net profit licences*		
027		
027 B		
027 C		
027 FS		
028		
028 B		
028 S		
029		
029 B		
029 C		
033		
033 B		

Unitised fields	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)	Remaining production period	License period
Flyndre Unit**	0.35400	5.00000	2022	2028
Fram H-Nord Unit	11.20000	11.20000	2024	2031
Gimle Unit	24.18630	24.18630	2034	2023
Grane Unit	28.90500	28.90500	2042	2030
Gullfaks Unit	30.00000	30.00000	2034	2036
Haltenbanken Vest Unit (Kristin)	19.57700	19.57700	2034	2027
Heidrun Unit	57.79339	57.79339	2044	2024
Johan Sverdrup Unit	17.36000	17.36000	2058	2036
Martin Linge Unit	30.00000	30.00000	2032	2027
Norne Inside	54.00000	54.00000	2035	2026
Ormen Lange Unit	36.48500	36.48500	2047	2040
Oseberg Area Unit	33.60000	33.60000	2039	2031
Sindre Unit	27.09000	0.00000	2034	2023
Snorre Unit	30.00000	30.00000	2040	2018
Snøhvit Unit	30.00000	30.00000	2051	2035
Statfjord Øst Unit	30.00000	30.00000	2025	2024
Sygna Unit	30.00000	30.00000	2025	2024
Troll Unit	56.00000	56.00000	2054	2030
Valemon Unit	30.00000	30.00000	2028	2031
Vega Unit	28.32000	28.32000	2029	2024
Visund Inside	30.00000	30.00000	2036	2034
Åsgard Unit	35.69000	35.69000	2032	2027

Field	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)	Remaining production period	License period
Atla	30.00000	30.00000	2018	2025
Draugen	47.88000	47.88000	2027	2024
Dvalin	35.00000	0.00000	2032	2041
Ekofisk	5.00000	5.00000	2049	2028
Eldfisk	5.00000	5.00000	2049	2028
Embla	5.00000	5.00000	2049	2028
Gjøa	30.00000	30.00000	2026	2028
Heimdal	20.00000	20.00000	2028	2021
Johan Castberg	20.00000	0.00000	2052	2018
Kvitebjørn	30.00000	30.00000	2032	2031
Maria	30.00000	30.00000	2045	2036
Rev	30.00000	30.00000	2018	2021
Skirne	30.00000	30.00000	2019	2025
Skuld	24.54546	24.54546	2035	2026
Statfjord Nord	30.00000	30.00000	2025	2026
Svalin	30.00000	30.00000	2043	2030
Tordis	30.00000	30.00000	2029	2024
Tune	40.00000	40.00000	2019	2020
Urd	24.54546	24.54546	2035	2026
Veslefrikk	37.00000	37.00000	2025	2020
Vigdis	30.00000	30.00000	2029	2024

Fields no longer producing	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)	License period
Huldra Unit	31.95534	31.95534	2015
Jette Unit	30.00000	30.00000	2021
Jotun (027 B)	-	-	-
Tor Unit	3.68744	3.68740	2028
Varg	30.00000	30.00000	2021
Yttergryta	19.95000	19.95000	2027

PIPELINES AND ONSHORE FACILITIES

Oil infrastructure	At 31 Dec 2017 Participating interest (%)	At 31 Dec 2016 Participating interest (%)	License period
Oseberg Transport System (OTS)	48.38379	48.38379	2031
Troll Oil Pipeline I + II	55.76808	55.76808	2023
Grane Oil Pipeline	42.06310	42.06310	2030
Kvitebjørn Oil Pipeline	30.00000	30.00000	2020
Norpipe Oil AS (interest)	5.00000	5.00000	2028
Mongstad Terminal DA	35.00000	35.00000	-

Gas infrastructure			
Gassled***	46.69700	45.79300	2028
Haltenpipe	57.81250	57.81250	2020
Mongstad Gas Pipeline (EMV)	56.00000	56.00000	2030
Nyhamna	26.13840	0.00000	2041
Polarled (NSGI)	11.94600	11.94600	2041
Valemon Gassrør	30.00000	30.00000	2031
Dunkerque Terminal DA	30.35317	29.76519	2028
Zeepipe Terminal J.V.	22.88161	22.43837	2028
Vestprosess DA	41.00000	41.00000	-
Norsea Gas AS (interest)	40.00600	40.00600	2028
Ormen Lange Eiendom DA	36.48500	36.48500	2035

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

* Production licences where the SDFI is not a licensee, but is entitled to a share of possible profit.
** Interest in Flyndre in 2016 listed with Norwegian share
*** Gassled has multiple transport licenses with various licence periods

Vår referanse 2017/00694-6

Riksrevisjonen

STATENS DIREKTE ØKONOMISKE
ENGASJEMENT SDØE
Org. nr.: 980977269

Riksrevisjonens beretning

Til Statens direkte økonomiske engasjement

Uttalelse om revisjonen av årsregnskapet

Konklusjon

Riksrevisjonen har revidert Statens direkte økonomiske engasjements årsregnskap for 2017. Årsregnskapet består av ledelseskommentarer og oppstilling av bevilgningsrapportering inklusiv noter, artskontorapportering og virksomhetsregnskap inklusiv noter til årsregnskapet for regnskapsåret avsluttet per 31. desember 2017.

Bevilgnings- og artskontorapporteringen viser at 88 272 033 852 kroner er rapportert netto til bevilgningsregnskapet.

Etter Riksrevisjonens mening gir Statens direkte økonomiske engasjements årsregnskap et dekkende bilde av virksomhetens disponible bevilgninger, inntekter og utgifter i 2017 og av mellomværende med statskassen per 31. desember 2017, i samsvar med regelverk for statlig økonomistyring.

Grunnlag for konklusjonen

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

Øvrig informasjon i årsrapporten

Styret er ansvarlig for årsrapporten, som består av årsregnskapet (del VI) og øvrig informasjon (del I–V). Riksrevisjonens uttalelse omfatter revisjon av årsregnskapet og virksomhetens etterlevelse av administrative regelverk for økonomistyring, ikke øvrig informasjon i årsrapporten (del I–V). Vi attesterer ikke den øvrige informasjonen.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese den øvrige informasjonen i årsrapporten. Formålet er å vurdere om det foreligger vesentlig inkonsistens mellom den øvrige informasjonen, årsregnskapet og kunnskapen vi har opparbeidet oss under revisjonen. Vi vurderer også om den øvrige informasjonen ser ut til å inneholde vesentlig feilinformasjon. Dersom vi konkluderer med at den øvrige informasjonen inneholder vesentlig feilinformasjon, er vi pålagt å rapportere dette i revisjonsberetningen.

Det er ingenting å rapportere i så måte.

Styrets og det overordnede departementets ansvar for årsregnskapet

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

Det overordnede departementet og styret har det overordnede ansvaret for at virksomheten rapporterer relevant og pålitelig resultat- og regnskapsinformasjon og har forsvarlig internkontroll.

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

Vi utøver profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen, i samsvar med *lov om Riksrevisjonen*, *instruks om Riksrevisjonens virksomhet* og ISSAI 1000–2999.

Vi identifiserer og anslår risikoene for vesentlig feilinformasjon i årsregnskapet, enten den skyldes misligheter eller utilsiktede feil. Videre utformer og gjennomfører vi revisjonshandlinger for å håndtere slike risikoer og innhenter tilstrekkelig og hensiktsmessig revisjonsbevis som grunnlag for vår konklusjon. Risikoen for at vesentlig feilinformasjon ikke blir avdekket, er høyere for feilinformasjon som skyldes misligheter, enn for feilinformasjon som skyldes utilsiktede feil. Grunnen til det er at misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, feilpresentasjoner eller overstyring av intern kontroll.

Vi gjør også følgende:
- opparbeider oss en forståelse av den interne kontrollen som er relevant for revisjonen, for å utforme revisjonshandlinger som er hensiktsmessige ut fra omstendighetene, men ikke for å gi uttrykk for en mening om hvor effektiv virksomhetens interne kontroll er
- evaluerer om regnskapsprinsippene som er brukt, er hensiktsmessige, og om tilhørende opplysninger som er utarbeidet av ledelsen, er rimelige
- evaluerer den totale presentasjonen, strukturen og innholdet i årsregnskapet, inkludert tilleggsopplysningene
- evaluerer om årsregnskapet representerer de underliggende transaksjonene og hendelsene på en måte som gir et dekkende bilde

Vi kommuniserer med ledelsen og informerer det overordnede departementet, blant annet om det planlagte omfanget av revisjonen og når revisjonsarbeidet skal utføres. Vi vil også ta opp forhold av betydning som er avdekket i løpet av revisjonen, for eksempel svakheter av betydning i den interne kontrollen.

Når det gjelder forholdene som vi tar opp med ledelsen og informerer det overordnede departementet om, tar vi standpunkt til hvilke som er av størst betydning ved revisjonen av årsregnskapet, og avgjør om disse skal regnes som sentrale forhold ved revisjonen. De beskrives i så fall i et eget avsnitt i revisjonsberetningen, med mindre lov eller forskrift hindrer offentliggjøring. Forholdene omtales ikke i beretningen hvis Riksrevisjonen beslutter at det er rimelig å forvente at de negative konsekvensene av en slik offentliggjøring vil være større enn offentlighetens interesse av at saken blir omtalt. Dette vil bare være aktuelt i ytterst sjeldne tilfeller.

Dersom vi gjennom revisjonen av årsregnskapet får indikasjoner på vesentlige brudd på administrative regelverk for økonomistyring, gjennomfører vi utvalgte revisjonshandlinger for å kunne uttale oss om hvorvidt det er vesentlige brudd på slike regelverk.

Uttalelse om øvrige forhold

Konklusjon knyttet til administrative regelverk for økonomistyring
Vi uttaler oss med moderat sikkerhet om hvorvidt vi er kjent med forhold som tilsier at virksomheten har disponert bevilgningene på en måte som i vesentlig grad strider mot administrative regelverk for økonomistyring. Uttalelsen bygger på ISSAI 4000-serien for etterlevelsesrevisjon. Moderat sikkerhet for uttalelsen oppnår vi gjennom revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi finner nødvendige.

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

Oslo; 29.04.2018

Etter fullmakt

Tora Struve Jarlsby
ekspedisjonssjef

Lars Christian Møller
avdelingsdirektør

Brevet er ekspedert digitalt og har derfor ingen håndskreven signatur

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PETORO AS INCOME STATEMENT

PARENT COMPANY				GROUP		
2016*	**2017**	**NOTES**	**All figures in NOK 1 000**	**NOTES**	**2017**	**2016***
273 625	**274 148**	1	Invoiced government contribution	1	**280 248**	283 925
640	**3 283**	1,16,17	Other revenue	1,16,17	**2 660**	353
660	**(1 898)**	2	Change in deferred revenue recorded	2	**(1 898)**	660
274 925	**275 533**		**Total operating revenue**		**281 009**	**284 938**
150 243	**160 620**	3,11	Payroll expenses	3,11	**160 620**	150 243
2 759	**3 082**	4	Depreciation	4	**3 082**	2 759
13 401	**15 789**	13,15,16	Accounting fee	13,15,16	**15 789**	13 586
9 316	**10 528**	14	Office expenses	14	**10 535**	9 316
33 436	**23 868**	15	ICT costs	15	**23 868**	33 440
69 691	**56 478**	13,16,18	Other operating expenses	13,16,18	**61 682**	79 083
278 846	**270 365**		**Total operating expenses**		**275 577**	**288 427**
(3 921)	**5 168**		**Operating profit**		**5 432**	**(3 489)**
1 075	**1 320**	5	Financial income	5	**1 368**	1 114
(152)	**(110)**	5	Financial expenses	5	**(140)**	(161)
923	**1 210**		**Net financial result**		**1 228**	**953**
(2 999)	**6 378**		**Profit before tax expense**		**6 660**	**(2 536)**
			Tax expense on ordinary profit/loss	19	**(10)**	69
(2 999)	**6 378**		**NET INCOME FOR THE YEAR**		**6 670**	**(2 605)**
			TRANSFERS			
(2 999)	**6 378**		Transferred to/ from other equity		**6 670**	(2 605)
(2 999)	**6 378**		**Total transfers**		**6 670**	**(2 605)**

*2016 accounting figures converted pursuant to Notes 10 and 11

PETORO AS BALANCE SHEET AT 31 DECEMBER

PARENT COMPANY					GROUP	
2016*	**2017**	**NOTES**	**All figures in NOK 1 000**	**NOTES**	**2017**	**2016***
			ASSETS			
			Fixed assets			
			Tangible fixed assets			
4 198	**6 097**	4	Operating equipment, fixtures, etc	4	**6 097**	4 198
4 198	**6 097**		**Tangible fixed assets**		**6 097**	**4 198**
			Financial assets			
0	**0**	6	Shares in subsidiaries	6	**0**	0
0	**0**		**Total financial assets**		**0**	0
4 198	**6 097**		**Total fixed assets**		**6 097**	**4 198**
			Current assets			
414	**5 369**	17	Trade debtors		**5 077**	272
11 666	**11 525**	7	Other debtors	7	**12 653**	12 254
192 627	**211 867**	8	Bank deposits	8	**213 430**	194 425
204 706	**228 760**		**Total current assets**		**231 160**	206 951
208 905	**234 857**		**TOTAL ASSETS**		**237 256**	**211 149**
			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			
873	**7 251**	10	Other equity	10	**9 525**	2 855
10 873	**17 251**		**Total equity**		**19 525**	**12 855**
			Liabilities			
			Provisions			
148 880	**159 062**	11	Pension liabilities	11	**159 062**	148 880
4 198	**6 097**	2	Deferred revenue government contribution	2	**6 097**	4 198
153 078	**165 159**		**Total provisions**		**165 159**	**153 078**
			Current liabilities			
12 694	**19 111**		Trade creditors		**19 111**	12 694
			Tax payable	19	**61**	0
9 583	**10 415**		Withheld taxes and social security		**10 415**	9 583
22 676	**22 921**	12	Other current liabilities	12	**22 985**	22 939
44 953	**52 447**		**Total current liabilities**		**52 572**	45 216
198 032	**217 606**		**Total liabilities**		**217 730**	198 294
208 905	**234 857**		**TOTAL EQUITY AND LIABILITIES**		**237 256**	**211 149**

*2016 accounting figures converted pursuant to Notes 10 and 11

Stavanger, 7 Marh 2018

Gunn Wærsted
Chair

Bjørn Bjordal
Deputy Chair

Per Arvid Schøyen
Director

Trude J. H. Fjeldstad
Director

Hugo Sandal
Director

Ove Skretting
Director elected by employees

Heidi Iren Nes
Director elected by employees

Grethe K. Moen
President and CEO

PETORO AS CASH FLOW STATEMENT

PARENT COMPANY				GROUP	
2016*	**2017**		**All figures in NOK 1 000**	**2017**	**2016***
			LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES		
(2 999)	**6 378**		Profit/loss before tax expense	**6 660**	(2 536)
2 759	**3 082**	+	Depreciation	**3 082**	2 759
0	**0**	+	Tax paid	**10**	(69)
(6)	**(4 956)**	+/-	Change in trade debtors	**(4 805)**	33
(7 053)	**6 417**	+/-	Change in trade creditors	**6 417**	(7 057)
4 359	**13 299**	+/-	Change in accrued items	**12 619**	4 344
(2 939)	**24 220**		**Net change in liquidity from operating activities**	**23 984**	**(2 525)**
			LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES		
(2 099)	**(4 980)**	-	Invested in tangible fixed assets	**(4 980)**	(2 099)
(2 099)	**(4 980)**		**Net change in liquidity from investing activities**	**(4 980)**	**(2 099)**
			LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES		
0	**0**	+	Equity paid	**0**	0
0	**0**		**Net change in liquidity from financing activities**	**0**	**0**
(5 038)	**19 240**		Net change in liquid assets through the year	**19 005**	(4 624)
197 665	**192 627**	+	Cash and cash equivalents at 1 Jan	**194 425**	199 049
192 627	**211 867**		**Cash and cash equivalents at 31 Jan**	**213 430**	**194 425**

*2016 accounting figures converted pursuant to Notes 10 and 11

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 state on 9 May 2001. The company's objective is to be responsible, on behalf of the state, for managing the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum activities on the Norwegian Continental Shelf, and associated activities.

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

Petoro AS 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. Through a branch registered in Iceland, it is a licensee and participant in production licences in which the Norwegian state chooses to participate. The company's share capital at 31 December 2017 comprised NOK 2 million, distributed among 2 000 shares. It has no employees and has entered into a management agreement with Petoro AS. The third and last production licence, which was awarded in January 2014, completed the work programme for the first phase in 2017. The operator, CNOOC, deemed that proceeding to the next phase was insufficiently attractive and recommended relinquishment based on a comprehensive assessment. Petoro Iceland AS supported the operator's assessment and conclusion and chose to announce its withdrawal in January 2018.

As a result of relinquishing the last production licence on the Icelandic continental shelf, Petoro Iceland AS is no longer involved in any production licences. Some supplementary work for the most recently relinquished license will continue in 2018.

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 where transactions and accounts between the companies are 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 over a longer period are classified as fixed assets. Other assets are classed as current assets. Receivables due within one year are classified as current assets. Equivalent criteria are applied for classification of current and long-term liabilities.

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

Investments in subsidiaries are assessed in accordance with the cost method.

ACCOUNTS RECEIVABLE

Accounts receivable and other receivables 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

Petoro implemented a new pension plan for employees with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act with maximum rates. The company has a transitional arrangement for employees who are less than 15 years from retirement age. Premiums for the defined contribution plan are expensed on a continuous basis.

The capitalised obligation relating to the defined benefit plan for employees who remain in the defined benefit scheme, is the present value of the defined obligation on the balance sheet date 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 liability includes payroll tax.

The period's 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 from the benefit-based scheme, as well as premiums for the contribution-based scheme.

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.

Correction of errors in previous years' pension liabilities has reduced equity as of 1 January 2016, ref. Note 10.

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 appropriations from the government for services provided to the Ministry of Petroleum and Energy in accordance with the company's objective. 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 costs expended in the projects (matching principle).

The contribution applied to investment for the year is accrued as deferred revenue and recorded 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 on the transaction date. Receivables and liabilities in foreign currencies are recorded at the exchange rate on the balance sheet date.

CASH FLOW STATEMENT

The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalents include cash in hand and at bank, as well as other current liquid assets.

NOTE 1 GOVERNMENT CONTRIBUTION AND OTHER REVENUE

The appropriation for the year, excluding VAT, was NOK 274.1 million for Petoro AS and NOK 7.4 million for Petoro Iceland AS, giving a total amount of NOK 281.5 million for the group. The company recorded an operating contribution from the Norwegian government totalling NOK 274.1 million excluding VAT as income in 2017. For the group, the amount was NOK 280.2 million.

Other revenue primarily relates to invoicing of services provided to operators of joint ventures and other joint venture partners.

NOTE 2 DEFERRED REVENUE

The change in deferred revenue recorded in the income statement comprises deferred revenue related to NOK 5 million in investments made during 2017, as well as NOK 3.1 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)	**2017**	**2016**
Wages and salaries	**107 223**	97 225
Directors' fees	**1 787**	1 778
Payroll tax	**16 038**	15 214
Pensions (note 11)	**31 222**	31 389
Other benefits	**4 350**	4 637
Total	**160 620**	**150 243**

Employees at 31 December.	65	64
Employees with a signed contract who had not started work at 31 Dec.	1	1
Average number of full-time equivalents employed	64.4	62.7

Remuneration of senior executives (all figures in NOK 1 000)	**Fixed salaries[1]**	**Loyalty scheme[2]**	**Cash allowance[3]**	**Other taxable benefits[4]**	**Taxable pay**	**Expensed pension**
Grethe K. Moen	3 184	0	291	176	3 651	2 113
Rest of the management team:						
Olav Boye Sivertsen	1 838	180	241	162	2 422	421
Marion Svihus	2 234	200	70	153	2 658	1 070
Roy Ruså	2 267	202	74	165	2 708	782
Kjell Morisbak Lund[5]	2 626	133	71	153	2 983	185
Hege Manskow	1 290	0	182	157	1 629	183
Ole Njærheim[6]	1 751	0	0	147	1 898	159
Laurits Haga[7]	1 940	344	74	80	2 438	413
Rest of the management team:	**13 946**	**1 059**	**712**	**1 017**	**16 736**	**3 213**

1. Fixed salaries consist of basic salary and holiday pay.
2. The company's loyalty scheme made disbursements in 2017 to five managers who satisfied the terms for the scheme. This disbursement is not included in pensionable income. This scheme was discontinued in 2017.
3. Cash allowance not included in pensionable income.
4. Other administratively set remuneration.
5. Fixed salaries include cash allowance as compensation for loss of the defined benefit pension scheme calculated based on actuarial assumptions and pensionable income.
6. Remuneration since 20 February.
7. Remuneration through 30 June.

Expensed pension represents the current year's estimated cost of the overall pension liability for the CEO plus the rest of the management team, including calculated premium in the defined contribution scheme for managers covered by this. The loyalty scheme was discontinued in 2017. The first discontinuation rate was disbursed in June 2017.

DECLARATION ON SENIOR EXECUTIVE PAY FOR PETORO AS

The declaration on remuneration for the CEO and other senior executives is in line with the provisions of the Norwegian Public Limited Liability Companies Act and the guidelines for state ownership, including the Guidelines on pay and other remuneration for senior executives in wholly or partly state-owned enterprises and companies, which came into force on 13 February 2015.

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 shall be predictable, motivational, clear and easy to communicate. Petoro has a uniform 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 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. The board determines compensation for the CEO, who in turn determines the compensation for other members of the company's senior management within the approved framework.

Main principles for remuneration
Petoro's wage policy is to be competitive without being a pacesetter on overall remuneration, including the company's pension schemes.

The compensation package for the CEO and the other senior executives shall 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 in accordance with the principles for good corporate governance.

Basic pay is the main component in Petoro's compensation scheme. Senior executives are also entitled to benefits on an equal footing with others in the company, including car allowance as well as pension and insurance benefits and a system for communication allowance.

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.

On 29 March 2017, the board approved the introduction of a performance-related salary scheme. The principle and framework for performance-related salary have been stipulated by the board within the applicable "Guidelines on pay and other remuneration for senior executives in wholly or partly state-owned enterprises and companies", which came into force on 13 February 2015. This scheme covers all employees, including the CEO, with an equal percentage of basic salary. The performance-related salary scheme is entrenched in the senior executive pay guidelines, which e.g. state: "Performance-related salary shall be based on objective, definable and measurable criteria that the executive can influence. Multiple relevant measurement criteria should be used as a basis". There must be a clear connection between the goals forming the basis for performance-related salary and the company's goals. The board will stipulate the annual goals based on criteria in the senior executive pay guidelines. The board will assess goal attainment and stipulate performance-related salary in accordance with the assessed goal attainment within the framework of 10 per cent of basic salary.

On 4 May 2017, the board decided to discontinue the loyalty scheme for employees. The CEO was not covered by this scheme, which was established in 2013 to aid the competitive situation. No allocation was made to the scheme in 2016. Disbursement from the scheme first took place in January 2016 for employees who fulfilled the terms, and the next disbursement took place in January 2017. The discontinuation will be implemented such that employees who were part of the scheme at the date of discontinuation will be paid amounts due in 3 equal rates. The first discontinuation rate was disbursed in June 2017, the second other rate was disbursed in January 2018 and the last rate will be disbursed in January 2019.

Share programmes, options and other option-like arrangements are not used by the company.

Petoro implemented a new pension plan with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act. From the same date, Petoro has no collective pension plan for employees with pay above 12 G. Petoro has a transitional scheme that is still defined-benefit for pay above 12 G. This is the same for executives as for other employees less than 15 years from retirement age (67) at 1 January 2016. Senior executives with employment contracts entered into before 13 February 2015 are covered by the same transitional scheme as other employees.

The CEO's retirement age is 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 can choose to resign at age 65 with reduced benefits. The remaining executives retire at 67. These pension agreements were established before the new guidelines of 13 February 2015 on employment terms for senior executives in state-owned companies came into force.

Senior executives appointed after the new guidelines came into force will only be covered by the company's defined contribution plan for pay below 12 G. Consequently, after these new guidelines came into force, Petoro will have no new senior executives with a defined benefit pension and no pension expenses over and above those which follow from the tax-favoured defined benefit plan.

Remuneration principles and their implementation in the preceding year
The annual evaluation of the basic pay of the CEO and other senior executives is conducted with effect from 1 July. The board addressed the wage evaluation of the CEO in the board meeting on 14 September 2017. In 2017, the evaluation of other executives was carried out in the third quarter.

NOTE 4 TANGIBLE FIXED ASSETS

All figures in NOK 1 000	Fixtures and fittings	Operating equipment	ICT	Total
Acquisition cost 1 January 2017	4 434	8 553	31 892	44 879
Additions fixed assets	544	-	4 436	4 980
Disposal fixed assets/obsolescence	-	-	-	-
Acquisition cost 31 December 2017	4 979	8 553	36 327	49 859
Accumulated depreciation 1 January 2017	4 231	8 143	28 306	40 680
Reversed accumulated depreciation				-
Depreciation for the year	141	228	2 712	3 082
Accumulated depreciation 31 December 2017	4 372	8 372	31 018	43 762
Book value 31 December 2017	**607**	**181**	**5 309**	**6 097**
Economic life	Until lease expires in 2020	3/5 år	3 år	
Depreciation schedule	Straight line	Straight line	Straight line	

Operational leasing contracts include office equipment and machines. The initial lease period is 3-5 years.

NOTE 5 FINANCIAL ITEMS

Financial items (All figures in NOK 1 000)	2017	2016
Financial income		
Interest income	860	933
Currency gain	460	142
Financial expenses		
Interest expenses	-	-
Currency loss	110	152
Other financial expenses	-	-
Net financial items Petoro AS	**1 210**	**923**
Net financial items from subsidiary	**18**	**30**
Net financial items group	**1 228**	**953**

NOTE 6 INVESTMENTS IN SUBSIDIARY

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 AS 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 according to 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 2017.

NOTE 7 OTHER RECEIVABLES

Other receivables 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 213.4 million, Petoro AS accounts for NOK 211.9 million. This includes NOK 155.0 million in withheld tax and pension plan assets.

NOTE 9 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The company's share capital at 31 December 2017 comprised 10 000 shares with a nominal value of NOK 1 000 each. All shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian state, and all have the same rights.

NOTE 10 EQUITY

Petoro AS (All figures in NOK 1 000)	**Share capital**	**Other equity**	**Total**
Equity at 31 Dec 2015	**10 000**	11 789	21 789
Correction of errors as at 1 Jan 2016		(7 918)	(7 918)
Corrected equity at 1 Jan 2016	**10 000**	3 871	13 871
Result for 2016		(4 461)	(4 461)
Correction pension cost 2016		1 463	1 463
Corrected equity at 31 Dec 2016	**10 000**	873	10 873
Result for 2017		6 378	6 378
Equity at 31 Dec 2017	**10 000**	**7 251**	**17 251**

Certain elements in the company's unsecured pension liabilities were not taken into consideration and incorporated into the company's pension liabilities in the annual accounts for 2016. The correction is aimed at input equity for 2016 and the comparative figures have been reworked.

	2016 accounts	**Rework**	**Comparative figures**
Pension liabilities at 1 Jan 2016	**130 426**	7 918	138 344
Recorded pension cost 2016	**32 852**	(1 463)	31 389
Pension liabilities at 31 Dec 2016	**142 425**	6 455	148 880
Other equity at 1 Jan 2016	**11 789**	(7 918)	3 871
Other equity at 31 Dec 2016	**7 328**	6 455	873

Group (All figures in NOK 1 000)	**Share capital**	**Other equity**	**Total**
Equity at 1 Jan 2017	**10 000**	2 855	12 855
Change in equity for the year			
Net profit		6 670	6 670
Equity at 31 Dec 2017	**10 000**	**9 525**	**19 525**

Consolidated reserves include a contribution of NOK 2 million from the Norwegian government in connection with establishment of Petoro Iceland AS.

NOTE 11 PENSION COSTS, ASSETS AND LIABILITIES

The company is obliged to offer an occupational pension scheme under the Norwegian Act on Mandatory Occupational Pension Schemes. The company's pension plans comply with the requirements of this Act.

Petoro implemented a new pension plan with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act. The company has a transitional arrangement for employees who are less than 15 years from retirement age on 1 January 2016. Premiums for the defined contribution plan are expensed on a continuous basis.

Certain elements in the company's unsecured pension liabilities were not taken into consideration and incorporated into the company's pension liabilities in the annual accounts for 2016. The correction is aimed at input equity for 2016. Comparative figures have been corrected. Cf. Note 10.

Net pension cost (Figures in NOK 1 000)	**2017**	**2016**
Present value of benefits earned during the year	**15 614**	16 314
Interest expense on pension obligation	**7 237**	7 240
Return on pension plan assets	**(2 852)**	(3 428)
Recorded change in estimates	**3 260**	5 912
Recorded change in pension plan	**0**	(213)
Payroll tax	**2 045**	2 300
Pension cost, defined benefit scheme	**25 304**	28 125
Pension cost, defined contribution plan	**5 918**	4 727
Net pension cost before change 2016		**32 852**
Change (reduction) in pension cost 2016		(1 463)
Net pension cost	**31 222**	**31 389**

Capitalised pension obligation	**2017**	**2016**
Estimated pension obligation at 31 Dec.	**313 665**	274 435
Pension plan assets (market value)	**(92 900)**	(83 035)
Net pension obligations before payroll tax	**220 765**	191 400
Unrecorded change in estimates	**(61 703)**	(48 975)
Correction of errors 2016		6 455
Capitalised pension obligation	**159 062**	**148 880**

Calculation of the year's net pension cost is based on the assumptions of previous years. The net pension liability is calculated on basis of assumptions in the present year.

	2017	**2016**
Discount rate	**2.50%**	2.60%
Expected return on plan assets	**4.00%**	3.30%
Expected increase in pay	**2.50%**	2.25%
Expected increase in pensions	**0.40%**	0.00%
Expected adjustment of the National Insurance Scheme's Basic Amount (G)	**2.25%**	2.00%

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 chosen auditor. Fees charged for external auditing of the group's financial statements in 2017 totalled NOK 0.4 million. The figure for Petoro AS was NOK 0.3 million. NOK 0.1 million has also been invoiced for additional services in 2017.

In accordance with the Act relating to the Office of the Auditor General of 7 May 2004, the OAG is the external auditor for the SDFI. PricewaterhouseCoopers AS (PwC) has been engaged as the company's financial accountant in order to prepare a financial audit of the SDFI accounts as part of the company's internal auditing. PwC invoiced NOK 1.2 million for financial auditing in 2017. PwC has also delivered services within partner auditing totalling NOK 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 on 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 three years, with an option to renew for a further five-year period. Rent for the year totalled NOK 10.4 million, which included all operating and shared expenses.

NOTE 15 SIGNIFICANT CONTRACTS

Petoro has entered into an agreement with Upstream Accounting Excellence (UPAX) for the delivery of accounting and associated ICT services related to the SDFI. This agreement entered into force on 1 March 2014 and runs for five years with an option for Petoro to extend it for a further year. Petoro has exercised the option for a one-year extension. Evry is the sub-contractor for ICT services. The recorded accounting fee for UPAX in 2017 amounted to NOK 14.9 million. Other services purchased from the contractor totalled NOK 1.4 million.

NOTE 16 CLOSE ASSOCIATES

Statoil ASA and Petoro AS have the same owner, the Ministry of Petroleum and Energy, and are close associates. Petoro AS purchased services in 2017 relating to the audit of licence accounts, as well as other minor services. These were purchased at market price on the basis of hours worked. NOK 4.3 million has been invoiced for services rendered to Statoil ASA at market price, based on hours worked by Petoro personnel and external personnel.

NOTE 17 INTRA-GROUP TRANSACTIONS

Petoro Iceland AS has entered into a management agreement with Petoro AS. The objective of the agreement is for Petoro AS to manage the operations of Petoro Iceland AS on the terms and conditions specified in the agreement. NOK 0.6 million was invoiced in 2017 for the purchase of hours and services. These services are calculated at market price on the basis of hours worked and the government rates for travel expenses. The parent company has a credit of NOK 0.3 million with the subsidiary. The amounts have been eliminated in the consolidated accounts.

NOTE 18 LICENCES/INTERESTS

The Petoro Iceland AS branch on Iceland manages the Norwegian participating interest of 25 per cent in production licences awarded by the Icelandic authorities. The work programme 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 production licence, IS2013/2 awarded in 2013, expired on 4 January 2017, and the production licence was relinquished pursuant to the operator's recommendation, following the decision that state participation will not be continued for Petoro Iceland AS. The third and last production licence, which was awarded in January 2014, completed the work programme for the first phase in 2017. The operator, CNOOC, deemed that proceeding to the next phase was insufficiently attractive and recommended relinquishment based on a comprehensive assessment. Petoro Iceland AS supported the operator's assessment and conclusion and chose to announce its withdrawal in January 2018.

As a result of relinquishing the last production licence on the Icelandic continental shelf, Petoro Iceland AS is no longer involved in any production licences. Some supplementary work for the most recently relinquished license will continue in 2018.

NOTE 19 TAX - CONSOLIDATED

Tax expense for the year, broken down as follows:	**2017**	**2016**
Tax payable	61	0
Icelandic tax	(71)	69
Total tax expense	**(10)**	**69**

Calculation of tax base for the year		
Profit before tax expense	283	463
Permanent differences	0	0
Change in temporary differences	0	0
Loss carried forward	(30)	(463)
Tax base for the year	253	0
Tax payable	**61**	**0**

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Tlf: +47 51 51 03 70
Fax: +47 51 51 03 71
Jens Zetlitzgt.47
Postboks 672
N-4003 Stavanger
Org. nr. 980 024 679 - mva
Statsautorisert revisor
medlem av Den norske Revisorforening

To the Shareholders' Meeting of Petoro AS

Independent auditor`s report (translated from Norwegian)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Petoro AS (the Company), showing a profit of NOK 6 378 000 in the financial statements of the parent company and a profit of NOK 6 670 000 in the financial statements of the group, in our opinion:

- The financial statements are prepared in accordance with laws and regulations
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at December 31, 2017, and of 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.
- The accompanying financial statements give a true and fair view of the financial position of the group as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at December 31, 2017, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at December 31, 2017, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Other Information

Management is responsible for the other information. The other information comprises the information included in the Board of Directors` report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

In preparing the financial statements, management is responsible for assessing the Groups's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Refer to https://revisorforeningen.no/revisjonsberetninger which contains a description of Auditor's responsibilities.

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 allocation of the profit 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, 7 March 2018
Erga Revisjon as

Sven Erga
State Authorized Public Accountant (Norway)

PETORO'S FINANCIAL CALENDAR 2018

14 March	Annual result 2017/fourth quarter report 2017
9 May	First quarter report 2018
2 August	Second quarter report/first-half report 2018
1 November	Third quarter report 2018

ADDRESSES

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

EDITORIAL TEAM/PRODUCTION

Editorial team: Marianne Eskeland og Sissel Smith
English translation: TX:Translation
Production: Megabite
Photos: Christian Romberg, DEA, Kjetil Eide / Statoil, Øyvind Hagen / Statoil, Harald Pettersen / Statoil and Anne Lise Norheim

PETORO AS, Postboks 300 Sentrum, 4002 Stavanger. Telefon 51 50 20 00. post@petoro.no **www.petoro.no**