

2016

Statoil Petroleum AS



Statoil

2016

Statoil
Petroleum AS

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Board of directors report

The profitability of the oil and gas industry continues to be challenging and the financial results of Statoil Petroleum AS in 2016 were influenced by the low liquids prices during 2016. However, the company has flexibility to handle different future market scenarios based on its strong financial position and a strong portfolio of development projects.

Net operating income was USD 429 million in 2016 compared to negative USD 329 million in 2015. The increase was mainly attributable to lower net loss from subsidiaries and equity accounted companies, lower depreciation and net impairment losses, and lower operating expenses. The increase was partly offset by lower revenues due to lower prices for liquids and gas sold.

Net loss decreased from a net loss of USD 5,736 million in 2015 to a net loss of USD 2,523 million in 2016, largely affected by the increase in net operating income and a lower effective tax rate.

Operational performance was strong, with ramp up of new fields, increased gas sales, and good operational performance.

Statoil Petroleum AS was founded in 2007 and is domiciled in Norway. Statoil Petroleum's business consists principally of the exploration, production and transportation of petroleum and petroleum-derived products. In accordance with the Norwegian Accounting Act §3-7, Statoil Petroleum AS does not prepare consolidated financial statements. For further information, see the notes to the financial statements and Statoil ASA's annual report 2016.

The financial statements of Statoil Petroleum AS are prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014. The use of simplified IFRS represents a change from previous years' financial statements, where Statoil Petroleum AS used Norwegian Generally Accepted Accounting Principles (NGAAP). At the same time Statoil Petroleum AS has changed its presentation currency for the company's accounts from Norwegian kroner (NOK) to United States dollars (USD). The basis for the change in accounting framework and presentation currency is to seek consistency with the group financial statements.

Our business

Statoil Petroleum AS is a wholly owned subsidiary of Statoil ASA, and operates about 70% of all oil and gas production on the NCS.

Effective 1 January 2009, Statoil Petroleum AS received certain assets and assumed certain liabilities from its parent company. The transfer included all of the parent company's exploration and production assets and liabilities on the Norwegian continental shelf (NCS) and related transportation systems, processing plants and terminals. Following the restructuring of assets and liabilities within the Statoil group, Statoil Petroleum AS has become the co-obligor or guarantor of certain parent company liabilities.

Through its subsidiaries and other equity accounted companies, Statoil Petroleum AS owns additional licenses in oil and gas fields internationally. The company also owns oil and gas processing and transportation facilities in Norway.

Statoil Petroleum AS has no employees, but purchases necessary services from the parent company and other companies in the Statoil group.

Profit and loss analysis

Net operating income was USD 429 million in 2016 compared to negative USD 329 million in 2015. The increase was mainly attributable to lower net loss from subsidiaries and equity accounted companies, lower depreciation and net impairment losses, and lower operating expenses. The increase was partly offset by lower revenues due to lower prices for liquids and gas sold.

Condensed financial statements Simplified IFRS (in USD million)	2016	Full year 2015	Change
Revenues	15,223	20,390	-25%
Net income (loss) from subsidiaries and other equity accounted companies	(3,987)	(8,350)	-52%
Other income	182	193	-6%
Total revenues and other income	11,418	12,232	-7%
Purchases [net of inventory variation]	(465)	(637)	-27%
Operating expenses and selling, general and administrative expenses	(4,267)	(4,837)	-12%
Depreciation, amortisation and net impairment losses	(5,875)	(6,512)	-10%
Exploration expenses	(383)	(576)	-34%
Net operating income	429	(329)	-230%
Net financial items	(560)	(106)	428%
Income before tax	(131)	(435)	-70%
Income tax	(2,392)	(5,301)	-55%
Net income	(2,523)	(5,736)	-56%

Revenues amounted to USD 15,223 million in 2016, compared to USD 20,390 million in 2015. The 25% decrease was mainly due to the drop in liquids and gas prices, partly offset by increased volumes of gas.

Net loss from subsidiaries and other equity accounted companies amounted to USD 3,987 million. This was mainly related to impairment losses in 2016, primarily resulting from reduced long-term commodity price assumptions. Net loss from subsidiaries and other equity accounted companies in 2015 amounted to USD 8,350 million, and was mainly related to impairment losses in 2015, primarily resulting from reduced short-term oil price forecasts impacting subsidiaries in the US.

Other income amounted to USD 182 million, mainly attributable to gains from sales of ownership interests in the Edvard Grieg field on the NCS to Lundin of USD 123 million. Other income in 2015 was mainly related to gains from sales of certain ownership interests on the NCS to Repsol of USD 142 million.

Statoil Petroleum AS purchases natural gas and pipeline transport on a back to back basis from Statoil ASA. Statoil Petroleum AS carries all the risks related to these purchases and they are therefore presented as purchase. Purchases amounted to USD 465 million in 2016 compared to USD 637 million in 2015. The decrease was mainly due to lower volumes of third party gas purchased.

Operating expenses include field production and transport systems costs related to the company's share of oil and natural gas production while selling, general and administrative expenses include expenses related to the sale and marketing of our products. Operating expenses and selling, general and administrative expenses decreased by 12% compared to 2016, mainly as a result of on-going cost improvement initiatives, partly offset by increased transportation costs.

Depreciation, amortisation and net impairment losses include depreciation of production installations and transport systems, depletion of fields in production and amortisation of intangible assets. The 10% decrease from 2015 was mainly due to lower impairments, lower depreciation on mature fields, increased proved reserves on certain fields, the NOK/USD exchange rate development and decreased asset retirement obligations. The decrease was partially offset by ramp-up of new fields.

Exploration expenditures are capitalised to the extent that exploration efforts are considered successful, or pending such assessment. Otherwise, such expenditures are expensed. The exploration expenses consist of the expensed portion of our exploration expenditures in 2016 and exploration

expenditures capitalised in previous years. Exploration expenses decreased by 34% compared to 2015, mainly due to lower drilling activity and more expensive wells being drilled in 2015. The decrease was partially offset by a lower portion of current exploration expenditures being capitalized.

Net operating income was USD 429 million in 2016 compared to negative USD 329 million in 2015. The increase was mainly attributable to lower net loss from subsidiaries and equity accounted companies, lower depreciation and net impairment losses, and lower operating expenses. The increase was partly offset by lower revenues due to lower prices for liquids and gas sold.

Net financial items amounted to a loss of USD 560 million in 2016, compared to a loss of USD 106 million in 2015. The change is mainly caused by increased net foreign exchange loss of USD 328 million and increased interest cost of USD 195 million, partly offset by increased capitalised borrowing costs due to higher capitalisation rate and lower accretion expense with a total of USD 74 million.

Income taxes were USD 2,392 million in 2016, equivalent to a negative tax rate of >(100%), compared to USD 5,301 million in 2015, equivalent to a negative tax rate of >(100%). The higher negative tax rate is mainly explained by low income before tax in 2016, which includes loss in associated companies accounted for using the equity share method with no tax deduction.

The net loss of USD 2,523 million is covered by prior years retained earnings.

In accordance with §3-3 of the Norwegian Accounting Act, the board of directors confirms that the financial statements have been prepared on the basis of the going concern assumption.

Cash flows

Cash flows provided by operating activities contributed with USD 7,226 million, and cash flows used in investing activities amounted to USD 6,748 million in 2016.

The most significant drivers for cash flows provided by operating activities are the level of production and prices for liquids and natural gas that impact revenues, cost of purchases (net of inventory valuation), taxes paid and changes in working capital items. In 2016, **cash flows provided by operating activities** amounted to USD 7,226 million, a decrease of USD 1,122 million compared to USD 8,348 million in 2015. The decrease was mainly related to lower results from subsidiaries and other equity accounted companies in 2015, partly offset by lower taxes paid of USD 3 700 million between the two years. Cash flows provided by operating activities was USD 6,797 million higher than net operating income in 2016, and the main reason for this difference is loss from subsidiaries and other equity accounted companies, depreciation and impairment losses, and taxes paid in 2016.

Cash flows used in investing activities was USD 6,748 million in 2016 compared to USD 17,219 million in 2015. The decrease was mainly related to decreased investments in subsidiaries. The proceeds in 2016 were mainly related to the sale of the assets in Edward Grieg to Lundin and the intercompany sale of shares in Scira.

Cash flows used in financing activities was USD 516 million in 2016, compared to USD 8,986 million provided by financing activities in 2015. The decrease of USD 9 502 million was mainly due to change in cash flows to/from Statoil group companies related to financial receivables and liabilities.

Liquidity and capital resources

Statoil Petroleum AS has maintained a strong financial position through 2016.

Our annual cash flow from operations is highly dependent on oil and gas prices and our levels of production. It is only influenced to a small degree by seasonality and maintenance turnarounds. The financial results of operations largely depend on a number of factors, most significantly those affecting prices received in NOK for sold products.

Statoil Petroleum AS' liquidity and debt position are managed at Statoil group level.

Risk review

The financial results are largely dependent on a number of factors, most significantly those affecting prices in NOK for sold products.

A prolonged period of low oil and/or natural gas prices would have a material adverse effect on Statoil Petroleum AS

Generally, Statoil Petroleum AS does not and will not have control over the factors that affect the prices of oil and natural gas. These factors include:

- economic and political developments in resource-producing regions;
- global and regional supply and demand;
- the ability of the Organisation of the Petroleum Exporting Countries (Opec) and/or other producing nations to influence global production levels and prices;
- prices of alternative fuels that affect the prices realised under Statoil's long-term gas sales contracts;
- government regulations and actions; including changes in energy and climate policies;
- global economic conditions;
- war or other international conflicts;
- changes in population growth and consumer preferences;
- the price and availability of new technology; and
- weather conditions.

Also, refining margins, increasing costs of oilfield services, supplies and equipment's, increasing competition for exploration opportunities and operatorships, available petroleum reserves, and Statoil Petroleum AS' (as well as its partners') expertise and cooperation in recovering oil and natural gas from those reserves, changes in the portfolio of assets due to acquisitions and disposals and deregulation of the natural gas markets may cause substantial changes to the existing market structures and to the overall volatility of prices.

Statoil Petroleum AS faces foreign exchange risks that could adversely affect the results of Statoil's operations

Statoil Petroleum AS's business faces foreign exchange risks as Statoil Petroleum AS has a large percentage of its revenues and cash receipts denominated in USD and sales of gas and refined products are mainly denominated in EUR and GBP. Further, income taxes, and a share of our operating expenses and capital expenditures, are mainly paid in NOK.

Outlook and market view

Statoil Petroleum AS aims to deepen and prolong its position on the NCS by accessing and maturing opportunities into valuable production. At the same time Statoil Petroleum AS plans to improve the reliability and lifespan of fields already in production.

Higher than usual volatility characterized the oil market in 2016 as it did the previous year, with the price of dated Brent moving in a range between USD 26 per barrel to USD 55 per barrel. Geopolitical shifts, challenges to accessing new oil and gas resources, changing market dynamics, digitalisation and a global transition towards a low carbon economy are increasing uncertainty and volatility. This change in outlook drives the need to build a more resilient, diverse and option-rich portfolio, delivered by an agile organisation that embraces change and empowers its people. To deliver on the sharpened strategy and fulfill the strategic intent of high value, low carbon; Statoil Petroleum AS will continue to build on the unique position to maximize and develop long-term value on the Norwegian Continental Shelf.

Statoil Petroleum AS' income could vary significantly with changes in commodity prices, even if volumes remain stable through the year. There is a small seasonal effect on volumes in the winter and summer seasons due to normally higher off-takes of natural gas during cold periods. There is normally an additional small seasonal effect on volumes as a result of the higher maintenance activity level on offshore production facilities during the second and third quarters each year, since generally better weather conditions allow for more maintenance work.

These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future.

Safety, security and sustainability

Statoil Petroleum AS' ambition is to be an industry leader in safety, security and carbon efficiency.

Safety and security

Statoil Petroleum AS' ambition is to ensure safe and secure operations that protect people, the environment, communities and assets. The company's approach to safety and security entails preventing accidents and incidents, avoiding oil spills, ensuring a healthy work environment and developing a strong security culture.

Everyone working for Statoil Petroleum AS, and in the joint ventures controlled by the company, is required to comply with the company's health, safety and security standards.

Serious incident frequency (SIF) is used as a key performance indicator to monitor safety performance. This indicator (number of serious incidents, including near misses, per million hours worked) combines actual consequences of incidents and the potential for incidents to develop into serious or major accidents and includes both employees and contractors. SIF in 2016 was 1.1 incidents per million hours worked compared to 0.6 incidents per million hours worked in 2015.

Total recordable injuries per million hours worked (TRIF) increased from 4.0 in 2015 to 4.4 in 2016.

In April 2016 13 people were killed in a helicopter accident at Turøy while traveling back from the Gullfaks platform. Our internal audit team proposed eight areas for improvement in flight safety. An internal task force has been established to implement the improvements.

For accidental oil spills the total volume of spilt oil decreased from 26 m³ in 2015 to 21 m³ in 2016. The largest spill in 2016, 7 m³ was from a leak in the Troll B export pipeline.

Preventing oil and gas leakages is important to avoid major accidents. All leakages are subject to formal investigation in order to capture learning. The total number of serious leakages (leakages above 0.1kg per sec) decreased from 9 in 2015 to 7 in 2016. One of these leakages, occurring in October during drilling in the Troll field with the Songa Endurance drilling rig, had major accident potential. Drill mud containing gas was released.

No security incidents with major consequences for Statoil Petroleum AS were recorded in 2016. During 2016 we continued the improvement programme to further strengthen our security culture and capabilities by 2020

Health and work environment

Statoil Petroleum AS is committed to providing a healthy working environment for its employees. Systematic efforts are made to design and improve working conditions in order to prevent occupational injuries, work-related illness and sickness absence, due to both physical and psychosocial risk factors in the working environment.

The most significant risk factors related to the work environment are noise, ergonomics, chemical risk as well as psychosocial conditions.

Greenhouse gas emissions

Statoil Petroleum AS set a target in 2008, for its operated offshore operations in Norway, to achieve improved energy efficiency by 2020 equivalent to 800 thousand tonnes of CO₂ emissions (the so called Konkraft target). This was already achieved within 2015 through the implementation of efficiency projects. So we have raised the target to a total of 1.2 million tonnes of CO₂ emissions for the period 2008 to 2020.

Direct greenhouse gas emissions remained stable at 10 million tonnes of CO₂ equivalents in 2016 (1). Greenhouse gas emissions include carbon dioxide (CO₂) and methane (CH₄), where CO₂ constitutes the largest part (9.6 million tonnes in 2016 compared to 9.4 million tonnes in 2015). Methane (CH₄) emissions were reduced by 50% from 22 thousand tonnes in 2015 to 12 thousand tonnes in 2016. This reduction is largely a consequence of the changes in the quantification methodologies used to report methane emissions to the Norwegian environment agency.

In 2016, the carbon intensity for Statoil Petroleum AS's offshore assets remained the same as for 2015 at 9 kg CO₂ per boe. This is significantly lower than the industry average of 17 kg CO₂ per boe as measured by the International Association of Oil and Gas Producers (Environmental Performance Indicators, 2015 data).

⁽¹⁾ All environmental data are reported based on operational control boundary (i.e. total emissions from operated assets).

Environmental impact

Statoil Petroleum AS is committed to using resources efficiently and strives to apply high standards in dealing with waste management, emissions to air and impact on ecosystems. Precautionary rules and regulations are followed to minimise potential negative effects of the company's activities.

Nitrogen oxide emissions were 33 thousand tonnes in 2016, up from 32 thousand tonnes in 2015. Sulphur oxide emissions were stable at 0.4 thousand tonnes. Total emissions of non-methane volatile organic compounds were down from 35.4 thousand tonnes in 2015 to 26.7 in 2016. This reduction was mainly a consequence of the change in the methodology for the estimation of fugitives for our operations on the Norwegian Continental Shelf, and updated fugitive emissions measurements for Hammerfest LNG.

In 2016, the total volume of waste was 425 thousand tonnes compared to 292 thousand tonnes in 2015. The main contributor to the increase in waste was drilling and well start-up activities at locations without treatment facilities for contaminated water, requiring this hazardous waste to be sent to shore for treatment.

The hazardous waste recovery rate in 2016 was 86 % compared to 7 % in 2015. A change in the definition of hazardous waste recovery, implemented in 2016, led to this significant increase in the recovery rate. This change has allowed for the inclusion of treated oil contaminated water in the waste recovery calculations. Through this change Statoil is aligned with the reporting practice of our peers and the contractors handling our waste.

In 2016 and the non-hazardous waste recovery rate was 95 % compared to 91 % in 2015. Regular discharges of oil to water were 1.3 thousand tonnes in 2016 compared to 1.4 thousand tonnes in 2015.

Working with suppliers

Statoil Petroleum AS is committed to using suppliers who operate consistently in accordance with the company's values and who maintain high standards of safety, security and sustainability. These aspects are incorporated in all phases of the procurement process. All potential suppliers must meet Statoil Petroleum AS' minimum requirements in order to qualify as a supplier and these include safety, security and sustainability criteria.

Human rights

Statoil Petroleum AS seeks to conduct its business in a way that is consistent with the UN Guiding Principles on Business and Human Rights (the UN Guiding Principles), the ten UN Global Compact principles and the Voluntary Principles on Security and Human Rights. Statoil Petroleum AS is committed to respecting internationally recognised human rights as laid out in the International Bill of Human Rights, the International Labour Organization's 1998 Declaration on Fundamental Rights and Principles at Work, and applicable standards of international humanitarian law.

Human rights aspects are integrated into relevant internal management processes, tools and training. On-going activities, business relationships and new business opportunities are assessed for potential human rights impacts and aspects, following a risk-based approach.

Transparency, ethics and anti-corruption

Statoil Petroleum AS believes that responsible and ethical behaviour is a prerequisite for sustainable business. The company is opposed to all forms of corruption, including facilitation payments. A company-wide anti-corruption compliance programme has been established to ensure implementation of our zero-tolerance policy. This entails mandatory procedures designed to comply with applicable laws and regulations. Compliance officers, who are responsible for ensuring that ethics and anti-corruption considerations are integrated into business activities, constitute an important part of the programme.

Statoil Petroleum AS seeks to work with others who share the company's commitment to ethics and compliance. Risk is managed through knowledge of suppliers, business partners and markets. Before entering into a new business relationship, or extending an existing one, the relationship has to satisfy Statoil Petroleum AS' integrity due diligence requirements.

All employees have to confirm annually, electronically, that they understand and will comply with the company's Code of Conduct. Disciplinary measures are in place for anyone working for Statoil Petroleum AS who does not comply with the code. This may entail termination of their contract. The Code of Conduct requires reporting of suspected misconduct. Concerns can be reported through internal channels or through the publicly available Statoil Ethics Helpline, which ensures confidentiality.

People and organisation

Statoil Petroleum AS has no employees, and relies on the services provided by other companies in the Statoil group and the Statoil group's principles and practices pertaining to people and organisation.

Research and development

Statoil is a technology intensive group of companies and research and development is an integral part of its strategy.

Improved oil and gas recovery and improved drilling and well solutions are important to successfully fight declining production from mature fields. The research and development work is managed at Statoil group level, and is in close cooperation with universities and research institutions. Statoil has achieved some of the petroleum industry's highest recovery factors on the NCS by combining scientific and engineering capabilities and boldly introducing new technology. As a part of the Statoil group, we contribute to the group's intention to further advance the most important technologies to meet forthcoming improved oil recovery ambitions.

Research and development expenditures were USD 268 million in 2016, compared to USD 274 million in 2015.

Board developments

At present, Statoil Petroleum AS' board of directors consists of 5 members.

The board held four meetings in 2016, in addition to eleven extraordinary meetings. The average meeting attendance at these board meetings was 77%.

STAVANGER, 7 APRIL 2017

THE BOARD OF DIRECTORS OF STATOIL PETROLEUM AS



HANS JAKOB HEGGE
CHAIR



KJELL BYBERG
MANAGING DIRECTOR



BENT RUNE SOLHEIM



GEIR AALHUS



HANS HENRIK KLOUMAN

Financial statements

With effect from 1 January 2016 Statoil Petroleum AS changed the accounting principles from NGAAP to simplified IFRS and changed the presentation currency from Norwegian Kroner (NOK) to US dollars (USD). Comparative data has been converted from NGAAP to Simplified IFRS and from NOK to USD accordingly. For more information concerning this presentation see note 23 Transition to Simplified IFRS and USD presentation currency.

STATEMENT OF INCOME STATOIL PETROLEUM AS

(in USD million)	Note	2016	Full year 2015
Revenues	5	15,223	20,390
Net income (loss) from subsidiaries and other equity accounted companies	13	(3,987)	(8,350)
Other income	3	182	193
Total revenues and other income		11,418	12,232
Purchases [net of inventory variation]		(465)	(637)
Operating expenses		(4,168)	(4,696)
Selling, general and administrative expenses		(100)	(140)
Depreciation, amortisation and net impairment losses	11, 12	(5,875)	(6,512)
Exploration expenses		(383)	(576)
Net operating income		429	(329)
Net financial items	9	(560)	(106)
Income before tax		(131)	(435)
Income tax	10	(2,392)	(5,301)
Net income		(2,523)	(5,736)

STATEMENT OF COMPREHENSIVE INCOME

(in USD million)	Note	2016	Full year 2015
Net income		(2,523)	(5,736)
Currency translation adjustments		146	(1,716)
Items that may be subsequently reclassified to the Statement of income		146	(1,716)
Other comprehensive income		146	(1,716)
Total comprehensive income		(2,376)	(7,452)
Attributable to the equity holders of the company		(2,376)	(7,452)
Attributable to non-controlling interests		0	0

BALANCE SHEET STATOIL PETROLEUM AS

(in USD million)	Note	2016	At 31 December 2015
ASSETS			
Property, plant and equipment	11	29,220	28,912
Intangible assets	12	724	741
Investments in subsidiaries and other equity accounted companies	13	17,789	20,253
Derivative financial instruments	4	825	922
Prepayments and financial receivables		121	93
Total non-current assets		48,679	50,921
Inventories		134	174
Trade and other receivables	15	771	867
Receivables from group companies		2,141	2,319
Derivative financial instruments		64	52
Total current assets		3,111	3,412
Total assets		51,789	54,333
EQUITY AND LIABILITIES			
Share capital		5,527	5,527
Additional paid-in capital		8,785	8,785
Retained earnings		6,640	9,324
Currency translation adjustments		(3,491)	(3,637)
Reserves for unrealised gains		212	252
Total equity	16	17,674	20,251
Deferred tax liabilities	10	6,139	6,934
Liabilities to group companies	14	12,848	13,726
Provisions	17	7,673	7,428
Total non-current liabilities		26,660	28,089
Trade, other payables and provisions	18	2,533	1,862
Current tax payable	10	1,885	2,411
Liabilities to group companies	14	3,038	1,719
Total current liabilities		7,456	5,993
Total liabilities		34,116	34,081
Total equity and liabilities		51,789	54,333

STATEMENT OF CASH FLOWS STATOIL PETROLEUM AS

(in USD million)	Note	2016	Full year 2015
Income before tax		(131)	(435)
Depreciation, amortisation and net impairment losses	11,12	5,875	6,512
Exploration expenditures written off		23	63
(Gains) losses on foreign currency transactions and balances		(101)	782
(Gains) losses from disposals	3	(101)	(143)
(Increase) decrease in other items related to operating activities		4,486	7,503
(Increase) decrease in net derivative financial instruments		852	758
Interest received		102	156
Interest paid		(296)	(124)
Taxes paid		(3,944)	(7,644)
(Increase) decrease in working capital		462	919
Cash flows provided by operating activities		7,226	8,348
Capital expenditures and investments	11,12,13	(7,760)	(17,858)
(Increase) decrease in other non-current items		1	135
Proceeds from sale of assets and businesses and capital contribution received	3	1,011	504
Cash flows used in investing activities		(6,748)	(17,219)
Group contribution		(490)	(645)
Increase (decrease) in financial receivables and liabilities to/from Statoil group companies*		(26)	9,631
Cash flows provided by (used in) financing activities		(516)	8,986
Net increase (decrease) in cash and cash equivalents		(39)	115
Effect of exchange rate changes on cash and cash equivalents		(2)	(106)
Cash and cash equivalents at the beginning of the period		87	78
Cash and cash equivalents at the end of the period **		46	87

*Including deposits in Statoil group's internal bank arrangement.

**Cash and cash equivalents are included in the line *Trade and other receivables* in the balance sheet.

Notes to the Financial statements Statoil Petroleum AS

1 Organisation and basis of presentation

Statoil Petroleum AS was founded in 2007 as a demerger of Norsk Hydro Produksjon AS, prior to and in connection with the merger between Statoil ASA and the oil and gas activities of Norsk Hydro ASA (Hydro Petroleum), which was effective 1 October 2007. The company is incorporated and domiciled in Norway. The address of its registered office is Forusbeen 50, N-4035 Stavanger, Norway.

Statoil Petroleum AS's business consists principally of the exploration, production and transportation of petroleum and petroleum-derived products. The Statoil group's net assets on the Norwegian continental shelf are owned by Statoil Petroleum AS.

Statoil Petroleum AS is consolidated into Statoil ASA's Consolidated financial statements, cf. Statoil ASA's annual report. In accordance with the Norwegian Accounting Act §3-7, Statoil Petroleum AS does not prepare consolidated financial statements. For more information see Statoil ASA's annual report 2016. The Consolidated financial statements can be obtained by contacting Statoil ASA, Forusbeen 50, 4035 Stavanger or from the website, www.statoil.com.

The functional currency of Statoil Petroleum AS is Norwegian Krone (NOK), based on an evaluation of the company's primary environment and related cash flows, while its presentation currency is United States dollars (USD). The USD to NOK rates of exchange employed at year-end 2016 and 2015 are 8.62 and 8.81, respectively.

2 Significant accounting policies

Statement of compliance

The financial statements of Statoil Petroleum AS ("the company") are prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014. The use of simplified IFRS represents a change from previous years' financial statements, where Statoil Petroleum AS used Norwegian Generally Accepted Accounting Principles (NGAAP). At the same time Statoil Petroleum AS has changed its presentation currency for the company's accounts from Norwegian kroner (NOK) to United States dollars (USD). The basis for the change in accounting framework and presentation currency is to seek consistency with the group financial statements. For a description of the transition effects when changing from NGAAP to simplified IFRS and from NOK to USD, see *note 23 Transition to simplified IFRS and presentation currency to US dollar*.

Basis of preparation

The financial statements are prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out below. These policies have been applied consistently to all periods presented in these financial statements. Certain amounts in the comparable years have been restated to conform to current year presentation. The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding.

The statement of cash flows has been prepared in accordance with the indirect method.

Subsidiaries, associated companies and joint arrangements

Shareholdings and interests in subsidiaries and associated companies (companies in which Statoil Petroleum AS does not have control, or joint control, but has the ability to exercise significant influence over operating and financial policies, generally when the ownership share is between 20% and 50%) are accounted for using the equity method. Under the equity method, the investment is carried on the balance sheet at cost plus post-acquisition changes in Statoil Petroleum AS' share of net assets of the entity, less distribution received and less any impairment in value of the investment. Goodwill may arise as the surplus of the cost of investment over Statoil's share of the net fair value of the identifiable assets and liabilities of the subsidiary, joint venture or associate. Goodwill included in the balance sheets of subsidiaries and associated companies is tested for impairment as part of the related investment in the subsidiary or associated company. The Statement of income reflects Statoil's share of the results after tax of an equity-accounted entity, adjusted to account for depreciation, amortization and any impairment of the equity-accounted entity's assets based on their fair values at the date of acquisition in situations where Statoil Petroleum AS has not been the owner since the establishment of the entity.

Reserves for valuation variances included within the Company's equity are established based on the sum of contributions from the individual equity accounted investment, with the limitation that the net amount cannot be negative.

Interests in joint operations (arrangements in which Statoil and other participants have joint control and each of the parties have rights to the assets and obligations for the liabilities, relating to their respective share of the arrangement) and similar arrangements (licenses) outside the scope of IFRS 11 are recognised on a line-by-line basis, reflecting Statoil Petroleum AS's share of assets, liabilities, income and expenses.

Indirect operating expenses, such as personnel expenses from Statoil ASA, are accumulated in cost pools. These costs are allocated on an hours incurred basis to business areas and to Statoil operated joint operations under IFRS 11 to similar arrangements (licenses) outside the scope of IFRS 11. Costs allocated to the other partners' share of operated joint operations and similar arrangements reduce the costs in the Statement of income.

Asset transfers between Statoil Petroleum AS and its subsidiaries

Transfers of assets and liabilities between Statoil Petroleum AS and entities directly or indirectly controlled by Statoil Petroleum AS are accounted for at the carrying amounts of the assets and liabilities transferred, when the transfer is part of a reorganisation within the Statoil group.

Functional currency and foreign currency translations

Statoil Petroleum AS' functional currency is Norwegian Krone (NOK). Transactions in foreign currencies are translated to NOK, at the foreign exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to NOK at the foreign exchange rate at the balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of income. Non-monetary assets that are measured at historical cost in a foreign currency are translated using the exchange rate at the dates of the transactions.

Presentation currency

The statement of income, the balance sheet and the cash flows of Statoil Petroleum AS are translated from NOK into the presentation currency, USD. Assets and liabilities are translated into USD at the foreign exchange rate at the balance sheet date. Revenues and expenses are translated using the foreign exchange rates on the dates of the transactions. Foreign exchange differences arising on translation from functional currency to presentation currency are recognised separately in Other comprehensive income (OCI).

Revenue recognition

Revenues associated with sale and transportation of crude oil, natural gas, petroleum products and other merchandise are recognised when risk passes to the customer, which is normally when title passes at the point of delivery of the goods, based on the contractual terms of the agreements.

Revenues from the production of oil and gas properties in which Statoil Petroleum AS shares an interest with other companies are recognised on the basis of volumes lifted and sold to customers during the period (the sales method). Where Statoil Petroleum AS has lifted and sold more than the ownership interest, an accrual is recognised for the cost of the overlift. Where Statoil Petroleum AS has lifted and sold less than the ownership interest, costs are deferred for the underlift.

Sales and purchases of physical commodities, which are not settled net, are presented on a gross basis as *Revenues* and *Purchases [net of inventory variation]* in the statement of income. Activities related to the trading of commodity based derivative instruments are reported on a net basis, with the margin included in *Revenues* in the statement of income.

Research and development

The company undertakes research and development both on a funded basis for licence holders, and on an unfunded basis for projects at its own risk. The company's own share of the licence holders' funding and the total costs of the unfunded projects are considered for capitalisation under the applicable IFRS requirements. All other research and development expenditures are expensed as incurred. Subsequent to initial recognition, any capitalised development costs are reported at cost less accumulated amortisation and accumulated impairment losses.

Income tax

Income tax in the statement of income for the year comprises current and deferred tax expense. *Income tax* is recognised in the statement of income except when it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax consists of the expected tax payable on the taxable income for the year and any adjustment to tax payable for previous years. Uncertain tax positions and potential tax exposures are analysed individually, and the best estimate of the probable amount for liabilities to be paid (unpaid potential tax exposure amounts, including penalties) and assets to be received (disputed tax positions for which payment has already been made) in each case are recognised within current tax or deferred tax as appropriate. Interest income and interest expenses relating to tax issues are estimated and recognised in the period in which they are earned or incurred, and are presented within *Net financial items* in the statement of income. Uplift benefit on the NCS is recognised when the deduction is included in the current year tax return and impacts taxes payable.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases, subject to the initial recognition exemption. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the asset can be utilised. In order for a deferred tax asset to be recognised based on future taxable income, convincing evidence is required, taking into account the existence of contracts, production of oil or gas in the near future based on volumes of proved reserves, observable prices in active markets, expected volatility of trading profits and similar facts and circumstances.

Oil and gas exploration, evaluation and development expenditures

Statoil Petroleum AS uses the successful efforts method of accounting for oil and gas exploration costs. Expenditures to acquire mineral interests in oil and gas properties and to drill and equip exploratory wells are capitalised as exploration and evaluation expenditures within *Intangible assets* until the well is complete and the results have been evaluated, or there is any other indicator of a potential impairment. Exploration wells that discover potentially economic quantities of oil and natural gas remain capitalised as intangible assets during the evaluation phase of the find. This evaluation is normally finalised within one year after well completion. If, following the evaluation, the exploratory well has not found potentially commercial quantities of hydrocarbons, the previously capitalised costs are evaluated for derecognition or tested for impairment. Geological and geophysical costs and other exploration and evaluation expenditures are expensed as incurred.

Capitalised exploration and evaluation expenditures, including expenditures to acquire mineral interests in oil and gas properties, related to wells that find proved reserves are transferred from exploration expenditure (*Intangible assets*) to assets under development (*Property, plant and equipment*) at the time of sanctioning of the development project.

For exploration and evaluation asset acquisitions (farm-in arrangements) in which the company has made arrangements to fund a portion of the selling partners' (farmor's) exploration and/or future development expenditures (carried interests), these expenditures are reflected in the financial statements as and when the exploration and development work progresses. The company reflects exploration and evaluation asset dispositions (farm-out arrangements) on a historical cost basis with no gain or loss recognition.

A gain or loss related to a post-tax based disposition of assets on the NCS includes the release of tax liabilities previously computed and recognised related to the assets in question. The resulting gross gain or loss is recognised in full in the line item *Other income* in the statement of income.

Exchanges (swaps) of exploration and evaluation assets are accounted for at the carrying amounts of the assets given up with no gain or loss recognition.

Property, plant and equipment

Property, plant and equipment is reflected at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of an asset retirement obligation, if any, exploration costs transferred from intangible assets and, for qualifying assets, borrowing costs.

Exchanges of assets are measured at the fair value of the asset given up, unless the fair value of neither the asset received nor the asset given up is reliably measurable.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised. Inspection and overhaul costs, associated with regularly scheduled major maintenance programs planned and carried out at recurring intervals exceeding one year, are capitalised and amortised over the period to the next scheduled inspection and overhaul. All other maintenance costs are expensed as incurred.

Capitalised exploration and evaluation expenditures, development expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of production wells, and field-dedicated transport systems for oil and gas are capitalised as producing oil and gas properties within *Property, plant and equipment*. Such capitalised costs, when designed for significantly larger volumes than the reserves from already developed and producing wells, are depreciated using the unit of production method based on proved reserves expected to be recovered from the area during the concession or contract period. Depreciation of production wells uses the unit of production method based on proved developed reserves, and capitalised acquisition costs of proved properties are depreciated using the unit of production method based on total proved reserves. In the rare circumstances where the use of proved reserves fails to provide an appropriate basis reflecting the pattern in which the asset's future economic benefits are expected to be consumed, a more appropriate reserve estimate is used. Depreciation of other assets and transport systems used by several fields is calculated on the basis of their estimated useful lives, normally using the straight-line method. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. For exploration and production assets the company has established separate depreciation categories which as a minimum distinguish between platforms, pipelines and wells.

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and changes in useful lives are accounted for prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in *Other income* or *Operating expenses*, respectively, in the period the item is derecognised.

Leases

Leases for which the company assumes substantially all the risks and rewards of the ownership are reflected as finance leases. Assets are recognised within *Property, plant and equipment*, with corresponding entry within non-current liabilities. All other leases are classified as operating leases and the costs are charged to the relevant operating expense related caption on a straight line basis over the lease term, unless another basis is more representative of the benefits of the lease to the company.

The company distinguishes between lease and capacity contracts. Lease contracts provide the right to use a specific asset for a period of time, while capacity contracts confer on the company the right to and the obligation to pay for certain volume capacity availability related to transport, terminal use, storage etc. Such capacity contracts that do not involve specified single assets or that do not involve substantially all the capacity of an undivided interest in a specific asset are not considered by the company to qualify as leases for accounting purposes. Capacity payments are reflected as *Operating expenses* in the statement of income in the period for which the capacity contractually is available to the company.

Intangible assets

Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment losses. Intangible assets mainly include expenditure on the exploration for and evaluation of oil and natural gas resources.

Intangible assets relating to expenditures on the exploration for and evaluation of oil and natural gas resources are not amortised. When the decision to develop a particular area is made, its intangible exploration and evaluation assets are reclassified to *Property, plant and equipment*.

Financial assets

Trade and other receivables are carried at the original invoice amount, less a provision for doubtful receivables, which is made when there is objective evidence that the company will be unable to recover the balances in full.

Financial assets are presented as current if these contractually will expire or otherwise are expected to be recovered within 12 months after the balance sheet date, or if these are held for the purpose of being traded. Financial assets and financial liabilities are shown separately in the Balance sheet, unless Statoil has both a legal right and a demonstrable intention to net settle certain balances payable to and receivable from the same counterparty, in which case they are shown net in the balance sheet.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses.

Derivative financial instruments

Commodity-based derivatives are valued at fair market value and the resulting gains and losses are recognised in the statement of income.

Statoil uses derivative financial instruments to manage certain exposures to fluctuations in commodity prices. As described in Note 21 Related parties, Statoil Petroleum AS carries the risk related to certain contracts entered into by Statoil ASA through back-to-back arrangements. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value through profit and loss. Statoil Petroleum AS presents the fair value of such derivative positions as intercompany receivables or liabilities towards Statoil ASA. The impact of commodity-based derivative financial instruments is recognised in the Statement of income under Revenues, as such derivative instruments are related to sales contracts or revenue-related risk management for all significant purposes.

Reserves for unrealised gains included within the Company's equity consists of accumulated unrealised gains on non-exchange traded financial instruments and the fair value of embedded derivatives, with the limitation that the net amount cannot be negative.

Impairment of intangible assets and of property, plant and equipment

The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped based on lowest levels with separately identifiable and largely independent cash inflows. Normally, separate cash generating units (CGUs) are individual oil and gas fields or plants. For capitalised exploration expenditures, the CGUs are individual wells. In Statoil Petroleum AS's line of business, judgement is involved in determining what constitutes a CGU. Development in production, infrastructure solutions, markets, product pricing, management actions and other factors may over time lead to changes in CGUs such as the division of one original CGU into several.

In assessing whether a write-down of the carrying amount of a potentially impaired asset is required, the asset's carrying amount is compared to the recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value less cost of disposal is determined based on comparable recent arm's length market transactions, or based on Statoil's estimate of the price that would be received for the asset in an orderly transaction between market participants. Value in use is determined using a discounted cash flow model. The estimated future cash flows applied are based on reasonable and supportable assumptions and represent management's best estimates of the range of economic conditions that will exist over the remaining useful life of the assets, as set down in the Statoil group's most recently approved long-term forecasts. Statoil uses an approach of regular updates of assumptions and economic conditions in establishing the long-term forecasts which are reviewed by corporate management and updated at least annually. For assets and CGUs with an expected useful life or timeline for production of expected reserves extending beyond 5 years, the forecasts reflect expected production volumes for oil and natural gas, and the related cash flows include project or asset specific estimates reflecting the relevant period. Such estimates are established on the basis of Statoil group's principles and group assumptions consistently applied.

In performing a value-in-use based impairment test, the estimated future cash flows are adjusted for risks specific to the asset and discounted using a real post-tax discount rate which is based on Statoil's post-tax weighted average cost of capital (WACC). The use of post-tax discount rates in determining value in use does not result in a materially different determination of the need for, or the amount of, impairment that would be required if pre-tax discount rates had been used.

Unproved oil and gas properties are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, and at least once a year. Exploratory wells that have found reserves, but where classification of those reserves as proved depends on whether major capital expenditure can be justified or where the economic viability of that major capital expenditure depends on the successful completion of further exploration work, will remain capitalised during the evaluation phase for the exploratory finds. Thereafter it will be considered a trigger for impairment evaluation of the well if no development decision is planned for the near future and there are no firm plans for future drilling in the licence.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer be relevant or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and reversals of impairment losses are presented in the statement of income as *Exploration expenses* or *Depreciation, amortisation and net impairment losses*, on the basis of their nature as either exploration assets (intangible exploration assets) or development and producing assets (property, plant and equipment and other intangible assets), respectively.

Financial liabilities

Interest-bearing loans and borrowings are generally from the parent company Statoil ASA, or from other entities in the Statoil group. These are initially recognised at cost and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs as well as discount or premium on settlement.

Financial liabilities are presented as current if the liabilities are due to be settled within 12 months after the balance sheet date, or if these are held for the purpose of being traded.

Dividends payable and group contributions

Dividends are reflected as *Dividends payable* within current liabilities. Group contributions for the year to other entities within Statoil's Norwegian tax group are reflected in the balance sheet as current liabilities within *Liabilities to group companies*. Under simplified IFRS the presentation of dividends payable and payable group contributions differs from the presentation under IFRS, as it also includes dividends and group contributions payable which at the date of the balance sheet is subject to a future general assembly approval before distribution.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised under interest and other financial expenses in *Net financial items*.

Onerous contracts

The company recognises as provisions the net obligation under contracts defined as onerous. Contracts are deemed to be onerous if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received in relation to the contract. A contract which forms an integral part of the operations of a cash generating unit whose assets are dedicated to that contract, and for which the economic benefits cannot be reliably separated from those of the cash generating unit, is included in impairment considerations for the applicable cash generating unit.

Asset retirement obligations (ARO)

Provisions for ARO costs are recognised when the company has an obligation (legal or constructive) to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. Cost is estimated based on current regulation and technology, considering relevant risks and uncertainties. The discount rate used in the calculation of the ARO is a risk-free rate based on the applicable currency and time horizon of the underlying cash flows, adjusted for a credit premium which reflects the company's own credit risk. Normally an obligation arises for a new facility, such as an oil and natural gas production or transportation facility, upon construction or installation. An obligation may also crystallise during the period of operation of a facility through a change in legislation or through a decision to terminate operations, or be based on commitments associated with the company's ongoing use of pipeline transport systems where removal obligations rest with the volume shippers. The provisions are classified under *Provisions* in the balance sheet.

When a provision for ARO cost is recognised, a corresponding amount is recognised to increase the related property, plant and equipment and is subsequently depreciated as part of the costs of the facility or item of property, plant and equipment. Any change in the present value of the estimated expenditures is reflected as an adjustment to the provision and the corresponding property, plant and equipment. When a decrease in the ARO provision related to a producing asset exceeds the carrying amount of the asset, the excess is recognised as a reduction of *Depreciation, amortisation and net impairment losses* in the Statement of income. When an asset has reached the end of its useful life, all subsequent changes to the ARO provision are recognised as they occur in *Operating expenses* in the Statement of income. Removal provisions associated with shipping of volumes through third party transport systems are expensed as incurred.

Use of estimates

Preparation of the financial statements requires the company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as disclosures of contingencies. Actual results may ultimately differ from the estimates and assumptions used.

The nature of Statoil Petroleum AS's operations, and the many countries in which the company's subsidiaries operates, is subject to changing economic, regulatory and political conditions. Statoil Petroleum AS does not believe it is vulnerable to the risk of a near-term severe impact as a result of any concentration of its activities.

Proved oil and gas reserves have been estimated by internal experts on the basis of industry standards and governed by criteria established by regulations of the Securities Exchange Commission. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations. Unless evidence indicates that renewal is reasonably certain, estimates of economically producible reserves only reflect the period before the contracts providing the right to operate expire. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence within a reasonable time.

Expected oil and gas reserves, which differ from proved reserves, have been estimated by internal experts on the basis of industry standards and are used for impairment testing purposes and for calculation of ARO.

3 Disposals

Sale of interests in the Edvard Grieg field to Lundin Norway AS (Lundin)

In June 2016 Statoil closed an agreement with Lundin to divest its entire 15% interest in the Edvard Grieg field, a 9% interest in the Edvard Grieg Oil pipeline and a 6% interest in the Utsira High Gas pipeline. The consideration was USD 470 million. Statoil Petroleum AS recognised a total net gain of USD 123 million in the line item other income in the Statement of income Statoil Petroleum AS. The divestment was tax exempt under the Norwegian petroleum tax legislation.

Sale of Scira Offshore Energy Limited

In December 2016 Statoil Petroleum AS sold its 40 % interests in Scira Offshore Energy Limited to Statoil Wind Ltd, a subsidiary of Statoil ASA, for GBP 197 million (USD 245million). Statoil Petroleum AS recognised a loss of USD 55 million in the line item operating expenses.

Sale of interests in the Gudrun field to Repsol

In December 2015 Statoil closed an agreement with Repsol to sell a 15% interest in the Gudrun field on the Norwegian continental shelf (NCS). Statoil remains the operator and largest equity holder with 36% interest. Statoil Petroleum AS recognised a gain of USD 142 million, presented in the line item Other income in the statement of income. The transaction was tax exempt under the Norwegian petroleum tax legislation. Proceeds from the sale were USD 216 million.

4 Financial risk management and measurement of financial instruments

General information relevant to financial risks

Statoil Petroleum AS's activities expose the company to market risk, liquidity risk and credit risk. Financial risks are managed at Statoil group level. Statoil's approach to risk management includes assessing and managing risk in all activities using a holistic risk approach with focus on achieving the highest risk adjusted returns for the group within the given mandate.

Market risk

Statoil Petroleum AS operates in the worldwide crude oil and natural gas market and is exposed to market risks including fluctuations in hydrocarbon prices, foreign currency rates and interest rates that can affect the revenues and costs of operating, investing and financing. Statoil has guidelines for entering into derivative contracts to manage its commodity price, foreign currency rate, and interest rate risk. Within the guidelines, Statoil has developed a comprehensive model, which encompasses Statoil Petroleum AS's most significant market risks.

Commodity price risk

Commodity price risk represents Statoil Petroleum AS's most important market risk. Statoil Petroleum AS has intercompany commodity based derivative contracts with Statoil ASA in order to manage the short-term commodity price risk, mainly related to natural gas prices. The commodity based derivative contracts consist of over-the-counter forward contracts, market swaps and options related to natural gas. The term for natural gas derivatives is usually three years or less. Statoil's bi-lateral gas sales portfolio is exposed to various price indices and uses derivatives to manage the net gas sales exposure towards a diversified combination of long and short dated gas price markers.

Currency risk

Statoil Petroleum AS's operating results and cash flows are affected by foreign currency fluctuations of the most significant currencies, the United States Dollar (USD) and the Euro (EUR), against the Norwegian Krone (NOK). The company's cash inflows are largely denominated in or driven by USD while cash outflows, such as operating expenses and taxes payable, are to a large extent denominated in NOK. Foreign exchange risk is managed at corporate level in accordance with policies and mandates.

Interest rate risk

Statoil Petroleum AS has liabilities with both variable and fixed interest rates. The liabilities with floating interest rate condition expose the company to cash flow risk caused by market interest rate fluctuations.

Liquidity risk

Liquidity risk is the risk that Statoil Petroleum AS will not be able to meet obligations of financial liabilities when they become due. The purpose of liquidity management is to make certain that Statoil Petroleum AS has sufficient funds available at all times to cover its financial obligations.

Statoil manages liquidity and funding at the corporate level, ensuring adequate liquidity to cover Statoil's operational requirements. Statoil has a high focus and attention on credit and liquidity risk. In order to secure necessary financial flexibility, which includes meeting the financial obligations, Statoil maintains a conservative liquidity management policy. To identify future long-term financing needs, Statoil carries out three-year cash flow forecasts at least monthly.

Credit risk

Key elements in Statoil's credit risk management is identification and assignment of credit rating as well as exposure limits. Statoil uses risk mitigation tools to reduce or control credit risk both on a counterparty and portfolio level. The main tools include bank and parental guarantees, prepayments and cash collateral

Credit risk is the risk that Statoil Petroleum AS customers or counterparties will cause Statoil Petroleum AS financial loss by failing to honour their obligations. Credit risk arises from credit exposures with customer accounts receivables as well as from derivative financial instruments. Statoil Petroleum AS is mainly exposed to credit risk related intercompany transactions and the back-to-back contracts with Statoil ASA. See Statoil Petroleum note 5 *Revenues* for further information.

Measurement of financial instruments

Statoil Petroleum's financial instruments mainly consist of group liabilities and receivables, derivatives and trade and other payables and receivables that are measured at fair value or their carrying amounts reasonably approximate fair value except non-current group financial liabilities measured at amortised cost.

Fair value measurement of derivative financial instruments

The fair value of certain earn-out agreements contracts is determined by the use of valuation techniques with price inputs from observable market transactions as well as internally generated price assumptions and volume profiles. The discount rate used in the valuation is a risk-free rate based on the applicable currency and time horizon of the underlying cash flows adjusted for a credit premium to reflect either Statoil's credit premium, if the value is a liability, or an estimated counterparty credit premium if the value is an asset. In addition, a risk premium for risk elements not adjusted for in the cash flow may be included when applicable. The fair values of these assets derivative financial instruments have been classified in their entirety in the third level in the fair value hierarchy within current derivative financial instruments and non-current derivative financial instruments. Another reasonable assumption, that could have been applied when determining the fair value of these contracts, would be to extrapolate the last observed forward prices with inflation. If Statoil Petroleum had applied this assumption, the fair value of the contracts included would have decreased by approximately USD 97 million at end of 2016 and decreased by USD 526 million at end of 2015 and impacted the statement of income with corresponding amounts.

During 2016 the derivative financial instruments within third level has a net decrease in the fair value of USD 82 million, whereof USD 13 million is recognised in the statement of income related to changes in fair value. Related to the same earn-out agreements, USD 69 million included in the opening balance for 2016 has been fully realised as the underlying volumes have been delivered during 2016. Substantially all gains and losses recognised in the statement of income during 2016 are related to assets held at the end of 2016.

Commodity price risk

The table below contains the commodity price risk sensitivities of Statoil Petroleum AS derivative financial instruments including the back-to-back derivative contracts with Statoil ASA. See note 2 *Significant accounting policies* for further information regarding derivative financial instruments.

Price risk sensitivities at the end of 2016 and 2015 at 30% are assumed to represent a reasonably likely change based on the duration of the derivatives.

(in NOK billion)	2016		2015	
	- 30% sensitivity	30% sensitivity	- 30% sensitivity	30% sensitivity
At 31 December				
Crude oil and natural gas net gains (losses)	330	(329)	(210)	255

5 Revenues

(in USD million)	2016	Full year 2015
Revenues third party	6,923	9,957
Intercompany revenues	8,301	10,433
Revenues	15,223	20,390

Statoil Petroleum AS sells most of its volumes to external customers through the parent company Statoil ASA. A significant portion of these sales are based on back-to-back contracts between Statoil Petroleum AS and Statoil ASA whereby Statoil Petroleum AS carries all risks related to the sale. These back-to-back sales contracts are considered as revenues third party. The receivables from these sales are included in the balance sheet as receivables from group companies.

6 Remuneration

The company has no employees. No salary or other remuneration has been paid to the chief executive officer (CEO) in 2016 or 2015. The CEO is employed and paid by Statoil ASA.

No compensation was paid to the board of directors in 2016 or 2015.

7 Auditor's remuneration

(in USD million, excluding VAT)	2016	Full year 2015
Audit fee	0.4	0.4
Audit related fee	0.4	0.3
Total	0.7	0.7

In addition to the figures above, audit fees and audit related fees to the external auditor related to Statoil Petroleum AS operated licences amounted to USD 0.8 million and USD 0.9 million in 2016 and 2015, respectively.

There are no fees incurred related to other services or to tax services.

8 Research and development expenditures

Research and development (R&D) expenditures amounted to USD 268 million and USD 274 million in 2016 and 2015, respectively. R&D expenditures are partly financed by partners of Statoil Petroleum AS operated licenses. Statoil Petroleum AS's share of the expenditures has mainly been recognised as operating expenses in the statement of income.

9 Financial items

(in USD million)	2016	Full year 2015
Net foreign exchange gains (losses)	(81)	247
Dividends received	1	1
Interest income from group companies	69	82
Interest income and other financial items	29	55
Interest income and other financial items	100	138
Capitalised borrowing costs	187	173
Accretion expense asset retirement obligations	(281)	(341)
Interest expense to group companies	(478)	(283)
Interest expense and other finance expenses	(7)	(39)
Interest and other finance expenses	(579)	(491)
Net financial items	(560)	(106)

10 Income taxes

Income tax expense

(in USD million)	2016	Full year 2015
Current taxes	(3,377)	(6,029)
Change in deferred tax	985	728
Income tax expense	(2,392)	(5,301)
Uplift credit for the year	1,532	1,660

Reconciliation of Norwegian statutory tax rate to effective tax rate

(in USD million)	2016	Full year 2015
Income before tax	(131)	(435)
Calculated income taxes at:		
Statutory tax rate 25%(27% in 2015)	33	118
Petroleum surtax at statutory tax rate 53% (51% in 2015)	70	222
Tax effect of:		
Uplift	812	847
Tax result subject to statutory tax rate	(126)	228
Permanent differences acquisitions and disposals on the NCS	47	127
Permanent differences equity method	(3,124)	(6,706)
Permanent differences other	76	41
Income tax prior years	(36)	(43)
Other	(142)	(134)
Total	(2,392)	(5,301)
Effective tax rate	>(100%)	>(100%)

When computing the petroleum tax of 53% (54% from 2017) on income from the Norwegian continental shelf, a tax-free allowance, or uplift, is granted at a rate of 5.5% per year for investments from 5 May 2013 (5.4% per year from 2017). For investments made before 5 May 2013 the rate is 7.5% per year.

Transitional rules apply for projects that have submitted a plan for development and operation to the Ministry of Oil and Energy prior to 5 May 2013. The uplift is computed on the basis of the original capitalised cost of offshore production installations. The uplift may be deducted from taxable income for a period of four years, starting in the year in which the capital expenditure is incurred. Unused uplift may be carried forward indefinitely. At year end 2016 and 2015 unrecognised future uplift credits related to capitalised cost amounted to USD 2,121 million and USD 2,333 million respectively.

Significant components of deferred tax assets and liabilities were as follows:

(in USD million)	2016	At 31 December 2015
Deferred tax assets on		
Other items	329	334
Asset retirement obligations	5,841	5,646
Total deferred tax assets	6,170	5,980

Deferred tax liabilities on

Other items	56	74
Derivatives	270	898
Property, plant and equipment	10,186	10,125
Capitalised exploration expenditures and capitalised interest	1,796	1,817
Total deferred tax liabilities	12,309	12,914
Net deferred tax liabilities	6,139	6,934

The movement in deferred income tax

(in USD million)	2016	2015
Deferred income tax liability at 1 January	6,934	8,974
Charged to the statement of income	(985)	(728)
Translation differences and other	190	(1,312)
Deferred income tax liabilities at 31 December	6,139	6,934

11 Property, plant and equipment

(in USD million)	Machinery, equipment and transportation equipment	Production plants oil and gas, including pipelines	Refining and manufacturing plants	Buildings and land	Assets under development	Total
Cost at 31 December 2015	178	75,967	409	31	8,841	85,427
Additions and transfers	7	6,289	12	0	(372)	5,937
Disposal assets at cost	(1)	(1,255)	(44)	(0)	(0)	(1,299)
Effect of changes in foreign exchange	4	1,609	10	1	131	1,755
Cost at 31 December 2016	188	82,611	387	32	8,601	91,820
Accumulated depreciation and impairment losses at 31 December 2015	(154)	(54,980)	(319)	(2)	(1,060)	(56,515)
Depreciation	(10)	(4,970)	(13)	(0)	(0)	(4,992)
Impairment losses and transfers	(0)	(703)	0	0	(179)	(882)
Accumulated depreciation and impairment disposed assets	1	872	40	0	0	913
Effect of changes in foreign exchange	(3)	(1,112)	(8)	(0)	(0)	(1,123)
Accumulated depreciation and impairment losses at 31 December 2016	(166)	(60,893)	(299)	(2)	(1,240)	(62,599)
Carrying amount at 31 December 2016	22	21,719	88	30	7,361	29,220
Estimated useful lives (years)	3 - 10	UoP ¹⁾	15 - 20	20 - 33		

1) Depreciation according to unit of production method (UoP), see note 2 Significant accounting policies.

Impairment

Impairment losses of USD 882 million were recognised in 2016, mainly related to offshore assets. The impairment losses were triggered by a reduction in commodity price assumptions. In 2015 impairment losses of USD 1,077 million were recognised.

In assessing the need for impairment of the carrying amount of a potentially impaired asset, the asset's carrying amount is compared to its recoverable amount, defined as the higher of fair value less cost of disposal (FVL COD) and estimated value in use (VIU). The table below shows the method used, the net impairment loss and the recoverable amounts for assets tested for impairment.

USD million	2016		2015	
	Carrying amount after impairment ¹⁾	Net impairment loss	Carrying amount after impairment ¹⁾	Net impairment loss
At 31 December				
ViU	3,108	813	1,475	457
FVLCOD	1,401	68	2,010	620

1) Carrying amount relates to assets impaired/reversed

The recoverable amount of assets tested for impairment was mainly based on Value in Use (VIU) estimates on the basis of internal forecasts on costs, production profiles and commodity prices. In 2016, a downward revision of the company's long term commodity price forecast constituted the most important impairment indicator. Business plan updates including improved production profiles, more efficient operations and lower costs in addition to increased short term commodity prices partially offsets the effect of lower long term prices. Short term commodity prices (2017 – 2019) are forecasted by using observable forward prices for 2017 and a linear projection towards the 2020 internal forecast. In 2015 the observable forward prices were used for the first three years. The base discount rate for VIU calculations is 6.0% real after tax (2015: 6.5%). The discount rate is derived from Statoil's weighted average cost of capital. A derived pre-tax discount rate would generally be in the range of 8-12%, depending on asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life. For certain assets a pre-tax discount rate could be outside this range, mainly due to special tax elements (for example permanent differences) affecting the pre-tax equivalent.

Recoverable amount for assets measured at Fair Value Less Cost of Disposal (FVLCOD) have been established through internally prepared net present value estimates using assumed market participant assumptions.

The price assumptions used for impairment calculations were as follows (prices used in 2015 impairment calculations for the respective years are indicated in brackets):

Year (Prices in real terms)	2017		2020		2025		2030	
Brent Blend - USD/bbl	55	(45)	75	(83)	78	(92)	80	(100)
NBP - USD/mmbtu	6.0	(4.9)	6.0	(8.0)	8.0	(9.0)	8.0	(9.2)

Sensitivities

Commodity prices have historically been volatile. Significant further downward adjustments of Statoil's commodity price assumptions would result in impairment losses on certain producing and development assets in Statoil Petroleum AS. If a further decline in commodity price forecasts over the lifetime of the assets were 20%, considered to represent a reasonably likely change, the impairment amount to be recognised could illustratively be in the region of USD 2-3 billion before tax effects. This illustrative impairment sensitivity assumes no changes to input factors other than prices; however, a price reduction of 20% is likely to result in changes in business plans as well as other factors used when estimating an asset's recoverable amount. Changes in such input factors would likely significantly reduce the actual impairment amount compared to the illustrative sensitivity above. Changes that could be expected would include a reduction in the cost level in the oil and gas industry as well as offsetting currency effects, both of which have historically occurred following significant changes in commodity prices. The illustrative sensitivity is therefore not considered to represent a best estimate of an expected impairment impact, nor an estimated impact on revenues or operating income in such a scenario. A significant and prolonged reduction in oil and gas prices would also result in mitigating actions by Statoil and its license partners, as a reduction of oil and gas prices would impact drilling plans and production profiles for new and existing assets. Quantifying such impacts is considered impracticable, as it requires detailed technical, geological and economical evaluations based on hypothetical scenarios and not based on existing business or development plans.

12 Intangible assets

(in USD million)	Exploration expenditure	Other	Total
Cost at 31 December 2015	729	14	743
Additions	181	0	181
Disposals at cost	0	(9)	(9)
Transfers	(185)	0	(185)
Expensed exploration expenditures previously capitalised	(23)	0	(23)
Effect of changes in foreign exchange	18	0	18
Cost at 31 December 2016	721	6	726
Accumulated amortisation and impairment losses at 31 December 2015		(2)	(2)
Accumulated amortisation and impairment losses at 31 December 2016		(3)	(3)
Carrying amount at 31 December 2016	721	3	724

13 Investments in subsidiaries and other equity accounted companies

(in USD million)	2016	2015
Investments at 1 January	20,253	18,558
Net income (loss) from subsidiaries and other equity accounted companies	(3,987)	(8,350)
Increase (decrease) paid-in capital	1,490	10,697
Distributions	(87)	(69)
Translation adjustments	120	(582)
Investments at 31 December	17,789	20,253

The closing balance of investments at 31 December 2016 of USD 17,789 million consists of investments in subsidiaries amounting to USD 17,783 million and investments in other equity accounted companies amounting to USD 6 million. In 2015, the amounts were USD 19,949 million and USD 304 million, respectively.

The translation adjustments relate to currency translation effects from subsidiaries with functional currencies other than USD. In addition, there are also currency effects caused by the difference in Statoil Petroleum AS's functional currency (NOK) and presentation currency (USD).

In 2016 *net income from subsidiaries and other equity accounted companies* was impacted by net impairment losses related to property, plant and equipment and exploration assets of USD 1,870 million after tax, primarily resulting from reduced long term commodity price assumptions. For more information see note 11 Property, plant and equipment. In 2015 *net income from subsidiaries and other equity accounted companies* was impacted by net impairment losses related to *property, plant and equipment* and exploration assets of USD 5,966 million after tax, primarily resulting from reduced short term commodity price assumptions.

No impairment of goodwill have been recognised in 2016 (2015: USD 539 million).

The acquisition cost for investments in subsidiaries and other equity accounted companies are USD 32,106 million in 2016 and USD 30,032 million in 2015.

In 2015 Statoil Petroleum AS merged with its 100% owned subsidiary Statoil International Holding AS and Statoil International Holding AS' 100% owned subsidiary Statoil Investment Americas AS. The merger was accounted for with no gains or losses recognised, as the merged companies were both under the control of Statoil Petroleum AS. The reason for the merger is simplifying of corporate structure. As a consequence Statoil Petroleum AS directly owns subsidiaries previously owned by Statoil International Holding AS and Statoil Investment Americas AS. Further information on the ownership of subsidiaries is included in the table below.

Refer to note 3 Disposals and note 11 Property, plant and equipment

Ownership in certain subsidiaries and other equity accounted companies

Name	in %	Country of incorporation
Statoil Angola AS	100	Norway
Statoil Angola Block 22 AS	100	Norway
Statoil Angola Block 25 AS	100	Norway
Statoil Dezassete AS	100	Norway
Statoil Global Ventures AS	100	Norway
Statoil Global Ventures 2 AS	100	Norway
Statoil Greenland AS	100	Norway
Statoil Holding Netherlands B.V.	100	Netherlands
Statoil International Well Response Company AS	100	Norway
Statoil Murzuq AS	100	Norway
Statoil Oil & Gas Mozambique AS	100	Norway
Statoil Oil & Gas Brazil AS	100	Norway
Statoil Quatro AS	100	Norway
Statoil Sverige Kharyaga AB	100	Sweden
Statoil Trinta e Quatro AS	100	Norway
Statoil UK Properties Limited	100	United Kingdom
Statoil US Holdings Inc.	100	USA
Statoil Zagros O&G AS	100	Norway

14 Financial liabilities

Non-current liabilities to group companies

(in USD million)	At 31 December	
	2016	2015
Interest bearing liabilities to group companies	12,761	13,622
Non-interest bearing liabilities to group companies	86	104
Liabilities to group companies	12,848	13,726

The total amount of credit facility given from Statoil ASA is NOK 135 billion at 31 December 2016 and NOK 135 billion at 31 December 2015, under which USD 14.501 million (NOK 125 billion) and USD 13.622 million (NOK 120 billion) is drawn in 2016 and 2015, respectively. Of the total USD amount drawn at 31 December 2016, USD 1,740 million (NOK 15 billion) is due within the next twelve months, and reclassified to current.

Of the total interest bearing non-current liabilities at 31 December 2016, USD 580 million (NOK 5 billion) is due within the next five years. Remaining amounts fall due beyond five years.

Current liabilities to group companies

Liabilities to group companies includes group contribution to Statoil ASA of USD 0 and USD 0.5 billion at 31 December 2016 and 2015, respectively.

15 Trade and other receivables

(in USD million)	At 31 December	
	2016	2015
Trade receivables	45	62
Other receivables	726	805
Trade and other receivables	771	867

Other receivables mainly consist of joint venture receivables, prepaid expenses and other receivables related to Statoil Petroleum AS's operated licenses.

16 Equity and shareholders

(in USD million)	2016	2015
Shareholders' equity at 1 January	20,251	28,064
Net income	(2,523)	(5,736)
Foreign currency translation adjustments	146	(1,716)
Group contribution	(201)	(360)
Shareholders' equity at 31 December	17,674	20,251

Share capital of NOK 36,154,800,000 (USD 5,527,343,271) comprised 17,424,000 shares at a nominal value of NOK 2,075. All shares are owned by Statoil ASA.

The foreign currency translation reserve as of 31 December 2016 was USD 3.5 billion and USD 3.6 billion as at 31 December 2015.

17 Provisions

(in USD million)	Asset retirement obligations	Other provisions	Total
Non-current portion at 31 December 2015	7,134	294	7,428
Current portion at 31 December 2015	104	29	133
Provisions at 31 December 2015	7,239	323	7,562
New or increased provisions	309	274	583
Decrease in estimates	(567)	(18)	(585)
Amounts charged against provisions	(130)	(26)	(157)
Effects of change in the discount rate	243	28	271
Reduction due to divestments	(33)	0	(33)
Accretion expenses	281	0	281
Reclassification and transfer	0	2	2
Currency translation	147	2	149
Provisions at 31 December 2016	7,488	584	8,072
Current portion at 31 December 2016	42	357	399
Non-current portion at 31 December 2016	7,446	227	7,673

Expected timing of cash outflows

(in USD million)	Asset retirement obligations	Other provisions	Total
2016 - 2020	154	432	586
2021 - 2025	1,074	2	1,076
2026 - 2030	1,315	12	1,326
2031 - 2035	3,060	0	3,060
Thereafter	1,886	139	2,024
At 31 December 2016	7,488	584	8,072

The timing of cash outflows of asset retirement obligations depends on the expected production cease at the various facilities.

The other provisions category relates to expected payments on cancellation fees, onerous contracts and other.

For further information of methods applied and estimates required, see note 2 Significant accounting policies.

18 Trade, other payables and provisions

(in USD million)	At 31 December	
	2016	2015
Trade payables	171	139
Joint venture payables	1,723	1,267
Other non-trade payables, accrued expenses and provisions	638	456
Trade, other payables and provisions	2,533	1,862

19 Leases

Statoil Petroleum AS leases certain assets, notably vessels and drilling rigs.

Statoil Petroleum AS has certain operating lease contracts for drilling rigs as of 31 December 2016. The remaining significant contracts' terms range from one months to eight years. Certain contracts contain renewal options. Rig lease agreements are for the most part based on fixed day rates. Certain rigs have been subleased in whole or for part of the lease term mainly to Statoil Petroleum AS operated licences on the Norwegian continental shelf. These leases are shown gross as operating leases in the table below.

In 2016, net rental expenditures were USD 1.530 million (USD 1.746 million in 2015) consisting of minimum lease payments of USD 2.005 million (USD 2.274 million in 2015) reduced with sublease payments received of USD 487 million (USD 528 million in 2015). Net rental expenditures in 2016 include rig cancellation payments of USD 37 million. No material contingent rent payments have been expensed in 2016 or 2015.

Certain contracts contain renewal options. The execution of such options will depend on future market development and business needs at the time when such options are to be exercised.

The table below shows future minimum lease payments under non-cancellable leases at 31 December 2016:

(in USD billion)	Operating leases	Operating sublease
2016	1,097	(110)
2017	855	(76)
2018	653	(76)
2019	464	(75)
2020	376	(45)
2022-2026	668	0
2027-2031	25	0
Thereafter	1	0
Total future minimum lease payments	4,140	(381)

20 Other commitments, contingent liabilities and contingent assets

Contractual commitments

Statoil Petroleum AS had contractual commitments of USD 3,028 million at 31 December 2016. The contractual commitments reflect Statoil Petroleum AS's share and comprise construction and acquisition of property, plant and equipment.

As a condition for being awarded oil and gas exploration and production licences, participants may be committed to drill a certain number of wells. At the end of 2016, Statoil Petroleum AS was committed to participate in 13 wells with an average ownership interest of approximately 38%. Statoil Petroleum AS's share of estimated expenditures to drill these wells amounts to USD 118 million. Additional wells that Statoil Petroleum AS may become committed to participating in depending on future discoveries in certain licences are not included in these numbers.

Other long-term commitments

Statoil Petroleum AS has entered into various long-term agreements for pipeline transportation as well as terminal use, processing, storage and entry/exit capacity commitments and commitments related to specific purchase agreements. The agreements ensure the rights to the capacity or volumes in question,

but also impose on Statoil Petroleum AS the obligation to pay for the agreed-upon service or commodity, irrespectively of actual use. The contracts' terms vary, with duration of up to 30 years.

Take-or-pay contracts for the purchase of commodity quantities are only included in the table below if their contractually agreed pricing is of a nature that will or may deviate from the obtainable market prices for the commodity at the time of delivery.

Obligations payable by the group to entities accounted for using the equity method are included gross in the tables below. For assets (e.g. pipelines) that the group accounts for by recognising its share of assets, liabilities, income and expenses (capacity costs) on a line-by-line basis in the financial statements, the amounts in the table include the net commitment payable by Statoil Petroleum AS (i.e. gross commitment less Statoil Petroleum AS's ownership share).

Nominal minimum commitments at 31 December 2016:

(in USD million)	
2017	942
2018	857
2019	853
2020	804
2021	656
Thereafter	3,177
Total	7,288

Guarantees

All of Statoil's Norwegian continental shelf (NCS) net assets are owned by Statoil Petroleum AS, and the company is co-obligor or guarantor of existing debt securities and other loan arrangements of Statoil ASA. For the portion of the debt for which it is co-obligor, Statoil Petroleum AS assumes and agrees to perform, jointly and severally with Statoil ASA, all payment and covenant obligations. During 2016, Statoil ASA executed two issues of debt securities, all guaranteed by Statoil Petroleum AS. The issues were executed under the Euro Medium Term Note Program (EMTN). At year end 2016 the carrying value of debts for which Statoil Petroleum AS is the co-obligor or guarantor, mainly for Statoil ASA, is equivalent to USD 2,469 million and USD 27,581 million, respectively.

Contingencies

A number of Statoil Petroleum AS's long-term gas sales agreements contain price review clauses. Certain counterparties have requested arbitration in connection with price review claims. The related exposure for Statoil Petroleum AS has been estimated to an amount equivalent to approximately USD 374 million for gas delivered prior to year end 2016. Statoil Petroleum AS has provided for its best estimate related to these contractual gas price disputes in the financial statements, with the impact to the statement of income reflected as revenue adjustments.

During the normal course of its business Statoil Petroleum AS is involved in legal proceedings, and several other unresolved claims are currently outstanding. The ultimate liability or asset in respect of such litigation and claims cannot be determined at this time. Statoil Petroleum AS has provided in its financial statements for probable liabilities related to litigation and claims based on the company's best judgment. Statoil Petroleum AS does not expect that its financial position, results of operations or cash flows will be materially affected by the resolution of these legal proceedings.

21 Related parties

The Norwegian State is the majority shareholder of Statoil ASA and also holds major investments in other Norwegian entities. Statoil ASA is the parent company of Statoil Petroleum AS. This ownership structure means that Statoil Petroleum AS participates in transactions with many parties that are under a common ownership structure and therefore meet the definition of a related party. All transactions are considered to be on arm's length basis.

Revenue transactions with related parties are presented in note 5 *Revenues*. Total intercompany revenues amounted to USD 8,301 million and USD 10,433 million in 2016 and 2015, respectively. The major part of intercompany revenues is attributed to Statoil ASA, USD 8,163 million and USD 10,282 million in 2016 and 2015, respectively.

Statoil Petroleum AS purchases natural gas and pipeline transport on a back-to-back basis from Statoil ASA. Similarly, Statoil ASA enters into certain financial contracts, also on a back-to-back basis with Statoil Petroleum AS. Statoil Petroleum AS carries all the risks related to these transactions and they are therefore presented as third party purchases, operating expenses and financial instruments in Statoil Petroleum AS's financial statements.

Expenses incurred on behalf of Statoil Petroleum AS are accumulated in cost pools in Statoil ASA and other group companies. Such expenses are allocated to Statoil Petroleum AS and to licences where Statoil Petroleum AS is operator. Expenses allocated from group companies amounted to USD 3,536 million and USD 4,191 million in 2016 and 2015, respectively. The major part of these expenses are allocated from Statoil ASA, USD 3,302 million and USD 3,980 million in 2016 and 2015, respectively. Statoil Petroleum AS's share of these expenses are reflected in the statement of income and the remaining part is recharged to the other partners in the licences. Statoil Petroleum AS does not have any employees, but purchases administrative services from

Statoil ASA. The major part of the allocation is related to such personnel expenses from Statoil ASA, which is charged to Statoil Petroleum AS at cost on an hours incurred basis.

Expenses related to services allocated from Statoil Petroleum AS to group companies amounted to USD 90 million and USD 199 million in 2016 and 2015, respectively.

Finance transactions with group companies are presented in note 9 Financial items.

Non-current and current liabilities to group companies are included in note 14 *Financial liabilities*.

22 Reserves (unaudited)

The company's proved oil and gas reserves have been estimated by its parent company's experts in accordance with industry standards under the requirements of the US Securities and Exchange Commission. At the end of the year the company's proved reserves amounted to approximately 606 million Sm³ o.e. (606 million Sm³ o.e. in 2015).

Proved reserves are expected to be produced in the period from 2017 to 2058.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations. Unless evidence indicates that renewal is reasonably certain, estimates of economically producible reserves only reflect the period before the contracts providing the right to operate expire. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence within a reasonable time.

23 Transition to simplified IFRS and USD presentation currency

Change to simplified IFRS and change of presentation currency – re-presentation of comparative

With effect from 1 January 2016 Statoil Petroleum AS changed the accounting principles from NGAAP to simplified IFRS pursuant to the Norwegian Accounting Act § 3-9 and regulations regarding simplified application of IFRS issued by the Ministry of Finance on 3 November 2014. With effect from 1 January 2016 Statoil Petroleum AS also changed its presentation currency from Norwegian kroner (NOK) to US dollars (USD). The effects of the changes are described in this disclosure. The effects on the comparative figures for 2014 and 2015 is presented in the tables below.

Simplified IFRS Transition

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2016, the comparative information presented in these financial statements for the year ended 31 December 2014 and 31 December 2015, and the preparation of an opening balance sheet in accordance with simplified IFRS at 1 January 2015.

Opening balance sheet

The financial statements have been retrospectively re-stated with effect from 1 January 2015. In preparing its opening simplified IFRS balance sheet as at 1 January 2015, Statoil Petroleum AS has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting, NGAAP. An explanation of how the transition from NGAAP to simplified IFRS has affected Statoil Petroleum AS's statement of income, balance sheet and statement of cash flows is set out below.

IFRS 1 Exemptions and elections applied, IAS 1 presentation and simplified IFRS exemptions

In making the transition to simplified IFRS Statoil Petroleum AS has applied IFRS 1, First-time Adoption of International Financial Reporting Standards and the simplified IFRS pursuant to the Norwegian Accounting Act § 3-9 and regulations regarding simplified application of IFRS issued by the Ministry of Finance on 3 November 2014. IFRS 1 requires that all IFRS standards and interpretations are applied consistently and retrospectively for all fiscal years presented. However, this standard provides exemptions and exceptions to this general requirement in specific cases. Simplified IFRS provides some exemptions from IFRS 1 and IAS 1. Statoil Petroleum AS has chosen to apply the following exemptions under IFRS 1 and the simplified IFRS regulation:

Business Combinations

IFRS 1 allows for Business combinations occurred before transition to IFRS not to be restated according to IFRS 3, Business Combinations. Statoil has applied this exemption. Business combinations that occurred before 1 January 2015, has not been restated retrospectively. Within the limits imposed by IFRS 1, the carrying amounts of assets acquired and liabilities assumed as part of past business combinations that arose from such transactions as they were determined under NGAAP, are considered their deemed cost under simplified IFRS at the date of transition. The carrying amount of goodwill in the opening simplified IFRS statement of financial position is its carrying amount in accordance with NGAAP at the date of transition.

Cumulative currency translation differences

According to IFRS 1 the cumulative foreign translations for all foreign operations could be set to zero at the date of transition to IFRS. When IFRS was implemented in the Statoil group 1 January 2006, the currency translation adjustments were set to zero. The currency translation adjustments calculated from 1 January 2006 is regarded as the best approximation of the historical translation adjustment and is the starting point of the translation adjustments in the statutory accounts of Statoil Petroleum AS.

GAAP differences between IFRS and simplified IFRS

The IFRS principles applied by the Statoil Group have been applied in Statoil Petroleum AS with the following exemptions in accordance with the simplified IFRS regulations:

Dividends and group contributions

Statoil Petroleum AS has applied the exemptions from IAS 10, no 12 and 13, IAS 18 no. 30 and IFRIC 17 no 10 and recognize proposed dividend and group contributions at the end of the year.

Statement of changes in equity

Statoil Petroleum AS has applied the exemption from providing a statement of changes in equity. The specification of changes in equity is presented in disclosure 16.

Primary changes in accounting policies

The changes in accounting policies are primarily related to derivatives and goodwill as described under the tables below.

Change in presentation currency

The change in presentation currency effective from 1 January 2016 was made mainly in order to better reflect the underlying USD exposure of Statoil's business activities and to align with industry practice. The change in presentation currency has been accounted for as a policy change, and comparative figures have been re-presented to USD retrospectively from 1 January 2015 to reflect the change in presentation currency.

The different components of assets and liabilities in USD correspond to the amount published in NOK translated at the USD/NOK closing rate applicable at 31. December 2014. The same relates to the equity as a whole. As such, the change in presentation currency will not impact the valuation of assets, liabilities, equity or any ratios between these components, such as debt to equity ratios.

All currency translation adjustments have been calculated from 1 January 2006, which was the date of Statoil group's transition to IFRS. Translation adjustments and cumulative translation adjustments have been presented as if Statoil Petroleum AS had used USD as the presentation currency from that date.

The recalculation of currency translation adjustments in USD has an impact on the distribution of shareholders' equity for comparable periods, between currency translation adjustments and other components of equity. Together with changes in net income arising from the change in presentation currency, these effects are presented as re-presentations in the table below.

EFFECT OF CHANGES IN REPORTED EQUITY

	NGAAP NOK as reported (million)	Simplified IFRS adjustments NOK (million)	Simplified IFRS in NOK (million)	Simplified IFRS in USD (million) ¹⁾	USD reclassifications (million)	Simplified IFRS in USD (million)
Share capital	36,155		36,155	4,864	663	5,527
Additional paid-in capital	54,016		54,016	7,267	1,519	8,785
Retained earnings	91,829		91,829	12,354	2,902	15,256
Currency translation adjustments	23,509		23,509	3,163	(5,084)	(1,921)
Reserves for unrealised gains	0	3,093	3,093	416	0	416
Total equity 31.12.2014	205,510	3,093	208,603	28,064	0	28,064

1) Translated at exchange rate USD/NOK 7.433 as of 31 December 2014

	NGAAP NOK as reported (million)	Simplified IFRS adjustments NOK (million)	Simplified IFRS in NOK (million)	Simplified IFRS in USD (million) ¹⁾	USD reclassifications (million)	Simplified IFRS in USD (million)
Share capital	36,155		36,155	4,104	1,423	5,527
Additional paid-in capital	54,016		54,016	6,132	2,653	8,785
Retained earnings	43,855	286	44,141	5,011	4,313	9,324
Currency translation adjustments	41,857		41,857	4,752	(8,389)	(3,637)
Reserves for unrealised gains	0	2,222	2,222	252	(0)	252
Trade and other payables	175,883	2,508	178,391	20,251	0	20,251

1) Translated at exchange rate USD/NOK 8.809 as of 31 December 2015

IFRS adjustments relates to fair value adjustments on commodity derivatives. In 2015 the adjustment also included depreciation of goodwill.

The paid-in capital have been re-presented to reflect the currency rates of transactions in foreign currencies at the date of the transactions.

The Statement of income, Statement of financial position and Statement of cash flows have been re-presented to reflect the currency rates of transactions in foreign currencies at the date of the transactions.

EFFECT OF CHANGES IN REPORTED NET INCOME

	Full year ended 31 December 2015
Net income under NGAAP NOK as reported (million)	(44,462)
Simplified IFRS adjustments	
Goodwill ¹⁾	286
Commodity derivatives ²⁾	(872)
Total simplified IFRS translation adjustments NOK (million)	(586)
Simplified IFRS in NOK (million)	(45,048)
Simplified IFRS in USD (million) - Translated at average exchange rates for the quarters	(5,732)
Translation to USD re-presentation effects ³⁾	(4)
Net income under simplified IFRS in USD (million)	(5,736)

Impacts in reported net income

1) Goodwill

According to NGAAP goodwill has been depreciated linear over 10 years. Goodwill depreciation according to NGAAP 2015 has been reversed. The goodwill is recognized at amortized cost at 1 January 2015.

2) Commodity derivatives

Under simplified IFRS all non-exchange traded commodity derivatives and embedded derivatives have been booked at fair value. Under NGAAP all non-exchange traded commodity derivatives have been booked at the lowest of cost and fair value. Embedded derivatives have not been recognized under NGAAP.

3) Change in presentation currency

Gain related to disposals of subsidiaries in Statoil Petroleum in 2015 included accumulated translation differences of NOK 11 million. The accumulated translation differences when after the change in presentation currency is USD 4 million related to disposal of a subsidiary with functional currency EUR.

Impact on cash flow

Simplified IFRS adjustments

There are no changes between cash flows from operating activities, investing activities, and financing activities. The transition to simplified IFRS has only effect between line items within Cash flow provided by operating activity. The effect on net income related to the merger effect and commodity derivatives is offset in the line item (Increase) decrease in other items related to operating activities. The effect on net income related to the financial derivatives is offset in the line item Derivatives. No adjustments have been made to cash and cash equivalents, and no other adjustments have been made to the statements of cash flows on conversion.

Change in presentation currency

The Statement of cash flow has been re-presented to reflect the changes described above and based on the currency rates applicable at the transaction dates of relevant transactions. The re-presentation impacts the classification between the different lines in the statement of cash flow, between currency translation adjustments and other components of cash flow.

RESTATEMENT OF STATEMENT OF INCOME FOR 2015 - FROM NGAAP TO SIMPLIFIED IFRS

	NGAAP NOK as reported (million)	Simplified IFRS adjustments NOK (million)	Simplified IFRS in NOK (million)	Simplified IFRS in USD (million) ¹⁾
	For the year ended 31 December			
	2015			2015
Revenues	168,152	(4,116)	164,036	20,390
Net income (loss) from subsidiaries and other equity accounted companies	(66,435)	286	(66,149)	(8,350)
Other income	1,611		1,611	193
Total revenues and other income	103,328	(3,829)	99,498	12,232
Purchases [net of inventory variation]	(5,104)		(5,104)	(637)
Operating expenses	(37,636)		(37,636)	(4,696)
Selling, general and administrative expenses	(1,139)		(1,139)	(140)
Depreciation, amortisation and net impairment losses	(52,493)		(52,493)	(6,512)
Exploration expenses	(4,621)		(4,621)	(576)
Net operating income	2,336	(3,829)	(1,494)	(329)
Net financial items	(830)		(830)	(106)
Income before tax	1,505	(3,829)	(2,324)	(435)
Income tax	(45,968)	3,244	(42,724)	(5,301)
Net income	(44,462)	(586)	(45,048)	(5,736)

1) Translated at average exchange rates for the quarters

RESTATEMENT OF BALANCE SHEET AS OF 1 JANUARY 2015 - FROM NGAAP TO SIMPLIFIED IFRS

1 January, 2015	NGAAP NOK as reported (million)	Simplified IFRS adjustments NOK (million)	Simplified IFRS NOK (million)	Simplified IFRS in USD (million) ¹⁾
ASSETS				
Property, plant and equipment	270,864		270,864	36,440
Intangible assets	5,522		5,522	743
Investments in subsidiaries and other equity accounted companies	137,945		137,945	18,558
Derivative financial instruments ²⁾	(0)	12,210	12,210	1,643
Prepayments and financial receivables ²⁾	2,021	(1,230)	791	106
Receivables from group companies	409		409	55
Total non-current assets	416,761	10,980	427,741	57,545
Inventories	1,796		1,796	242
Trade and other receivables	12,293		12,293	1,654
Receivables from group companies ²⁾	48,419	1,857	50,276	6,764
Derivative financial instruments ²⁾	3	657	660	89
Total current assets	62,511	2,514	65,024	8,748
Total assets	479,271	13,494	492,765	66,292
EQUITY AND LIABILITIES				
Share capital	36,155		36,155	5,527
Additional paid-in capital	54,016		54,016	8,785
Retained earnings	91,829		91,829	15,256
Currency translation adjustments	23,509		23,509	(1,921)
Reserves for unrealised gains	0	3,093	3,093	416
Total equity	205,510	3,093	208,603	28,064
Deferred tax liabilities ²⁾	56,419	10,290	66,709	8,974
Liabilities to group companies	66,349		66,349	8,926
Provisions	78,174		78,174	10,517
Total non-current liabilities	200,942	10,290	211,232	28,417
Trade and other payables	21,728		21,728	2,923
Current tax payable	37,152		37,152	4,998
Liabilities to group companies ²⁾	13,940	111	14,050	1,890
Total current liabilities	72,819	111	72,930	9,811
Total liabilities	273,762	10,400	284,162	38,229
Total equity and liabilities	479,271	13,494	492,765	66,292

1) Translated at exchange rate USD/NOK 7.4332 as of 31 December 2014

2) Commodity derivatives in Statoil Petroleum AS

RESTATEMENT OF BALANCE SHEET AS OF 31 DECEMBER 2015 - FROM NGAAP TO SIMPLIFIED IFRS

31 December, 2015	NGAAP NOK as reported (million)	Simplified IFRS adjustments NOK (million)	Simplified IFRS NOK (million)	Simplified IFRS in USD (million) ¹⁾
ASSETS				
Property, plant and equipment	254,689		254,689	28,912
Intangible assets	6,526		6,526	741
Investments in subsidiaries and other equity accounted companies ³⁾	178,120	286	178,406	20,253
Derivative financial instruments ²⁾	0	8,120	8,120	922
Prepayments and financial receivables ²⁾	1,037	(221)	817	93
Receivables from group companies	0		0	(0)
Total non-current assets	440,372	8,185	448,557	50,921
Inventories	1,535		1,535	174
Trade and other receivables	7,639		7,639	867
Receivables from group companies ²⁾	18,877	1,549	20,426	2,319
Derivative financial instruments ²⁾	6	450	455	52
Total current assets	28,057	1,999	30,055	3,412
Total assets	468,429	10,184	478,612	54,333
EQUITY AND LIABILITIES				
Share capital	36,155		36,155	5,527
Additional paid-in capital	54,016		54,016	8,785
Retained earnings	43,855	286	44,141	9,324
Currency translation adjustments	41,857		41,857	(3,637)
Reserves for unrealised gains	0	2,222	2,222	252
Total equity	175,883	2,508	178,391	20,251
Deferred tax liabilities ²⁾	54,037	7,046	61,083	6,934
Liabilities to group companies	120,913		120,913	13,726
Provisions	65,437		65,437	7,428
Total non-current liabilities	240,386	7,046	247,432	28,089
Trade and other payables	16,401		16,401	1,862
Current tax payable	21,242		21,242	2,411
Liabilities to group companies ²⁾	14,516	630	15,146	1,719
Total current liabilities	52,160	630	52,790	5,993
Total liabilities	292,546	7,676	300,222	34,081
Total equity and liabilities	468,429	10,184	478,612	54,333

1) Translated at exchange rate USD/NOK 8.809 as of 31 December 2015

2) Commodity derivatives in Statoil Petroleum AS

3) Depreciation of goodwill

24 Subsequent events

An impairment reversal of USD 439 million will be recognised in Q1 2017 on a Norwegian continental shelf development asset based on reduced cost estimates triggered by events subsequent to year end 2016.

STAVANGER, 7 APRIL 2017

THE BOARD OF DIRECTORS OF STATOIL PETROLEUM AS



HANS JAKOB HEGGE
CHAIR



KJELL BYBERG
MANAGING DIRECTOR



BENT RUNE SOLHEIM



GEIR AALHUS



HANS HENRIK KLOUMAN

Independent Auditor's Report

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Statoil Petroleum AS (the Company) which comprise the balance sheet as 31 December 2016, statement of income, statement of comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to § 3-9 of the Norwegian Accounting Act.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 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.

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 managing director for the financial statements

The board of directors and managing director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act, 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 Company'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 Company 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including

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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

Report on other legal and regulatory requirements

Opinion on the board of directors' report

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

Opinion on Registration and Documentation

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

Stavanger, 7 April 2017
KPMG AS



Mona Irene Larsen
State authorized public accountant

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