2017
Statoil Petroleum AS

Statoil

2017

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Board of directors report

The oil and gas industry has seen a gradual rebalancing of the market during the year and the financial results of Statoil Petroleum AS in 2017 were influenced by higher liquids and gas prices. The oil and gas market is still subject to volatility, 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 10,961 million in 2017 compared to USD 429 million in 2016. The increase was mainly attributable to higher revenues due to higher liquids and gas prices and increased gas volumes, and lower depreciation and net impairment reversals. This was partly offset by higher purchases of third party gas for 2017.

Net income was USD 2,489 million in 2017 compared to a net loss of USD 2,523 million in 2016, largely affected by the increase in net operating income.

Operational performance was strong mainly due to higher flex gas off-take from Troll and Oseberg, contributions from new fields Ivar Aasen and Gina Krog, and fewer turnarounds.

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 2017.

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.

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 10,961 million in 2017 compared to USD 429 million in 2016. The increase was mainly attributable to higher revenues due to higher liquids and gas prices and increased gas volumes, and lower depreciation and net impairment reversals. This was partly offset by higher purchases of third party gas for 2017.

Condensed financial statements Simplified IFRS (in USD million)	Full year 2017	2016	Change
Revenues	20,568	15,223	35%
Net income/(loss) from subsidiaries and other equity accounted companies	(400)	(3,987)	90%
Other income	12	182	-94%
Total revenues and other income	20,179	11,418	77%
Purchases [net of inventory variation]	(582)	(465)	25%
Operating, selling, general and administrative expenses	(4,258)	(4,267)	0%
Depreciation, amortisation and net impairment losses	(3,998)	(5,875)	-32%
Exploration expenses	(379)	(383)	-1%
Net operating income/(loss)	10,961	429	>100%
Net financial items	(378)	(560)	-33%
Income/(loss) before tax	10,583	(131)	N/A
Income tax	(8,094)	(2,392)	>100%
Net income/(loss)	2,489	(2,523)	N/A

Revenues amounted to USD 20,568 million in 2017, compared to USD 15,223 million in 2016. The 35% increase was mainly due to increased liquids and gas prices, and increased gas volumes.

Net loss from subsidiaries and other equity accounted companies amounted to USD 400 million in 2017. In 2016, net loss from subsidiaries and other equity accounted companies amounted to USD 3,987 million. The reduction from last year is mainly related to impairment losses in 2016, primarily resulting from reduced long-term commodity price assumptions.

Other income was immaterial in 2017. Other income in 2016 amounted to USD 182 million and was mainly related to gains from sales of ownership interests in the Edvard Grieg field on the NCS to Lundin of USD 123 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 582 million in 2017 compared to USD 465 million in 2016. The increase was mainly due to higher 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 in 2017 was on the same level as 2016.

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 32% decrease from 2016 was mainly due to reversal of impairments in 2017 and impairments in 2016.

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 2017 and exploration expenditures capitalised in previous years. Exploration expenses decreased by 1% compared to 2016, mainly due to lower field development activity and lower portion of previously capitalised exploration expenditures being expensed in 2017, partially offset by a lower portion of current exploration expenditures being capitalized.

Net operating income was USD 10,961 million in 2017 compared to USD 429 million in 2016, mainly due to higher liquids and gas prices, and net impairment reversals of USD 905 million in 2017 compared to impairment of USD 882 million in 2016.

Net financial items amounted to a loss of USD 378 million in 2017, compared to a loss of USD 560 million in 2016, mainly due to interest costs. The reduction compared to last year is mainly caused by a net foreign exchange gain of USD 98 million in 2017 compared to a net foreign exchange loss of USD 81 million in 2016. In addition, net financial items were reduced by increased capitalised borrowing costs due to higher capitalisation rate of USD 44 million.

Income taxes were USD 8,094 million in 2017, equivalent to a tax rate of 76,5%, compared to USD 2,392 million in 2016, equivalent to a negative tax rate of >100%. The higher tax rate is due to higher income before tax in 2017 compared to 2016, partly offset by a lower net loss from subsidiaries and other equity accounted companies.

The net income amounted to USD 2,489 million in 2017 compared to a net loss of USD 2,523 in 2016. The net income will be allocated to 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 9,506 million, cash flows used in investing activities amounted to USD 9,070 million and cash flows used in financing activities amounted to USD 478 million in 2017.

Cash flows provided by operating activities were increased by USD 2,280 million compared to the full year 2016. The increase was mainly due to increased liquids and gas prices, partially offset by increased working capital and increased tax payments.

Cash flows used in investing activities were increased by USD 2,322 million in 2017 compared to the full year 2016. The increase was mainly related to increased capital expenditures, partially offset by reduced proceeds from sale of assets.

Cash flows used in financing activities were reduced by USD 38 million in 2017, compared to the full year 2016. Cash flows used in financing activities in 2017 mainly consisted of repayment of intercompany debt. There were no payments of group contributions in 2017.

Liquidity and capital resources

Statoil Petroleum AS has maintained a strong financial position through 2017.

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

This section describes the most significant potential risks relating to Statoil's business. Statoil means any of Statoil Petroleum AS and/or any of its subsidiaries.

Oil and natural gas prices risks

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

The prices of oil and natural gas have fluctuated greatly in response to changes in many factors. We have experienced a situation where oil and natural gas prices declined substantially compared to levels seen over the last few years. There are several reasons for this decline, but fundamental market forces beyond the control of Statoil or other similar market participants have impacted and can continue to impact oil and natural gas prices in the future. Recently, as a consequence of agreements within Opec and also between Opec and some non-Opec countries, oil prices have increased due to expectations of an earlier tightening of market balances. However, the uncertainty about future developments still prevails.

Generally, Statoil 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

It is impossible to predict future price movements for oil and/or natural gas with certainty. A prolonged period of low oil and natural gas prices will adversely affect Statoil's business, the results of operations, financial condition, liquidity and Statoil's ability to finance planned capital expenditure, including possible reductions in capital expenditures which could lead to reduced reserve replacement. In addition to the adverse effect on revenues, margins and profitability from any fall in oil and natural gas prices, a prolonged period of low prices or other indicators could, if deemed to have longer term impact, lead to further reviews for impairment of the group's oil and natural gas properties. Such reviews would reflect the management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the results of Statoil's operations in the period in which it occurs. Changes in management's view on long-term oil and/or natural gas prices or further material reductions in oil, gas and/or product prices could have an adverse impact on the economic viability of projects that are planned or in development.

Proved reserves and expected reserves calculation risks

Statoil's crude oil and natural gas reserves are only estimates and Statoil's future production, revenues and expenditures with respect to its reserves may differ materially from these estimates. The reliability of proved reserve estimates depends on:

- the quality and quantity of Statoil's geological, technical and economic data
- the production performance of Statoil's reservoirs
- extensive engineering judgments and
- whether the prevailing tax rules and other government regulations, contracts and oil, gas and other prices will remain the same as on the data estimates are made.

Proved reserves are calculated based on the U.S. Securities and Exchange Commission (SEC) requirements and may therefore differ substantially from Statoil's view on expected reserves.

Decline reserves risks

If Statoil fails to acquire or discover and develop additional reserves, its reserves and production will decline materially from their current levels
Successful implementation of Statoil's group strategy for value growth is critically dependent on sustaining its long-term reserve replacement. If upstream resources are not progressed to proved reserves in a timely manner, Statoil's reserve base and thereby future production will gradually decline and future revenue will be reduced.

Statoil's future production is highly dependent on its success in acquiring or finding and developing additional reserves adding value. If unsuccessful, future total proved reserves and production will decline.

If a low price environment continues for a substantial time, this may result in undeveloped acreage not being considered economically viable and consequently discovered resources not being matured to reserves. This may also lead to exploration areas not being explored for new resources and subsequently not being matured for development resulting in less future proved reserves.

Health, safety and environmental risks

Statoil is exposed to a wide range of health, safety and environmental risks that could result in significant losses.
Exploration, development, production, processing and transportation related to oil and natural gas, as well as development and operation of renewable energy production, can be hazardous. Technical integrity failures, operational failures, natural disasters or other occurrences can result in: loss of life, oil spills, gas leaks, loss of containment of hazardous materials, water contamination, blowouts, cratering, fires and equipment failure, among other things.

The risks associated with Statoil's activities are affected by the difficult geographies, climate zones and environmentally sensitive regions in which Statoil operates. All modes of transportation of hydrocarbons are particularly susceptible to a loss of containment of hydrocarbons and other hazardous materials, and, given the high volumes involved, these could represent a significant risk to people and the environment. Offshore operations and transportation are subject to marine perils, including severe storms and other adverse weather conditions and vessel collisions.

The transition to a lower carbon economy risks

The transition to a lower carbon economy, and the physical effects of climate change, could impact Statoil's business.
The transition to a low-carbon energy future poses fundamental strategic challenges for the oil and gas industry. The company review and monitor climate change-related business risks and opportunities, whether political, regulatory, market, physical or related to reputation impact. To assess climate-related business risk, Statoil uses tools such as internal carbon pricing, scenario planning and stress testing of the project portfolio against various oil and gas price

assumptions. Statoil monitors technology developments and changes in regulation and assesses how these might impact the oil and gas price, the cost of developing new assets and the demand for oil and gas and opportunities in renewable energy and low carbon solutions.

Regulatory and climate policy risk: Statoil expects and is preparing for regulatory changes and policy measures targeted at reducing greenhouse gas emissions. Stricter climate regulations and climate policies could impact Statoil's financial outlook, whether directly through changes in taxation and regulation, or indirectly through changes in consumer behaviour. The Paris Agreement on climate change entered into force in November 2016. Norway, collectively with the European Union, intends to deliver 40% reductions in greenhouse gas emissions by 2030. The national targets are intended to be strengthened every five years. Additionally, Norway has set an ambition to achieve close to net zero emissions by 2050. The implications for the industry are not clear, however requirements to reduce emissions could result in increased costs. Statoil's operations in Norway are subject to emissions taxes as well as emissions allowances granted for Statoil's larger European operations under the EU Emissions Trading System. The agreed strengthening of the European Union's emission trading scheme may result in higher costs for installations at the NCS as the price of the EU ETS emissions allowances is expected to increase significantly towards 2030.

Globally, Statoil expects greenhouse gas emission costs to increase from current levels beyond 2020 and to have a wider geographical range than today. To be prepared for a potential increased carbon price, Statoil uses an internal carbon price of minimum USD 50 for all projects after 2020 as part of the investment analysis and as a basis for investment decisions. In countries where a higher carbon price is used and/or predicted, a higher price is used in the investment analysis. Other regulatory risks related to climate change include potential direct regulations, for example measures to improve energy efficiency such as fuel efficiency standards (e.g. in the EU) and requirements to assess the use of power from shore for new offshore developments at the Norwegian Continental Shelf. This could impact Statoil's operational costs. Climate-related policy changes may also reduce access to prospective geographical areas for exploration and production in the future, which could impact Statoil's ability to replace reserves.

Market-related risk: There is continuing uncertainty over demand for oil and gas after 2030, due to factors such as technology development, climate policies, changing consumer behaviour and demographic changes. Statoil uses scenario analysis to outline different possible energy futures. Technology development and increased cost-competitiveness of renewable energy and low-carbon technologies represent both threats and opportunities for Statoil. As an example, the development of battery technologies could allow more intermittent renewables to be used in the power sector. This could impact Statoil's gas sales, particularly if subsidies of renewable energy in Europe were to increase and/or costs of renewable energy were to significantly decrease. As such, there is significant uncertainty regarding the long-term implications to costs and opportunities for Statoil in the transition to a lower-carbon economy.

Reputational impact: Increased concern over climate change could lead to increased litigation against fossil fuel producers, as well as a more negative perception of the oil and gas industry. The latter could impact talent attraction and retention.

Physical climate risk factors: Changes in physical climate parameters could impact Statoil's operations, for example through restrained water availability, rising sea level, changes in sea currents and increasing frequency of extreme weather events. Although Statoil's facilities are designed to withstand extreme weather events, there is significant uncertainty regarding the magnitude of impact and time horizon for the occurrence of physical impacts of climate change, which leads to considerable uncertainty regarding the potential impact on Statoil. As most of Statoil's physical assets are located offshore, the most relevant potential physical climate impact is expected to be rising sea level.

Security threats and Cyber-attacks risks

Statoil is exposed to security threats that could have a materially adverse effect on Statoil's results of operations and financial condition
Security threats such as acts of terrorism and cyber-attacks against Statoil's production and exploration facilities, offices, pipelines, means of transportation or computer systems or breaches of Statoil's security system, could result in losses. No assurances can be made that such attacks will not occur in the future and adversely impact its operations. Failure to manage the foregoing risks could result in injury or loss of life, damage to the environment, damage to or the destruction of wells and production facilities, pipelines and other property. Statoil could face, among other things, regulatory action, legal liability, damage to its reputation, a significant reduction in revenues, an increase in costs, a shutdown of operations and a loss of its investments in affected areas.

Statoil is exposed to security threats on its information systems and digital infrastructure that could harm its assets and operations.
Statoil's security barriers are intended to protect its information systems and digital infrastructure from being compromised by unauthorised parties. Failure to maintain and develop these barriers may affect the confidentiality, integrity and availability of its information systems and digital infrastructure, including those critical to Statoil's operations. Threats to Statoil's information systems could result in significant financial damage to Statoil. Threats to Statoil's industrial control systems are not limited by geography as Statoil's digital infrastructure is accessible globally, and incidents in the industry in recent years have shown that parties who are able to circumvent barriers aimed at securing industrial control systems are capable and willing to perform attacks that destroy, disrupt or otherwise compromise operations. Such attacks could result in material losses or loss of life with consequent financial implications.

Crisis management systems risks

Statoil's crisis management systems may prove inadequate
Statoil has plans and capability to deal with crisis and emergencies at every level of its operations (ie; plant fires, terror, well instability etc). If Statoil does not respond or is perceived not to have responded in an appropriate manner to either an external or internal crisis, or if its plans to carry on or recover operations following a disruption or incident are not effected quickly enough, its business, operations and reputation could be severely affected. Inability to restore or replace critical capacity to an agreed level within an agreed time frame could prolong the impact of any disruption and could severely affect Statoil's business and operations.

Increased competition risks

Statoil encounters competition from other oil and gas companies in all areas of its operations

Statoil may experience increased competition from larger players with stronger financial resources and smaller ones with increased agility and flexibility. Gaining access to commercial resources is key to ensuring the long-term economic viability of the business and failure to address this could negatively impact future performance.

Technology is a key competitive advantage in Statoil's industry and our competition may be able to invest more in developing or acquiring intellectual property rights to technology that Statoil may require to remain competitive. Should Statoil's innovation and digitalisation lag behind the industry, its performance could be impeded.

Project development and production activities risks

Statoil's development projects and production activities involve many uncertainties and operating risks that can prevent Statoil from realising profits and cause substantial losses

Oil and gas projects may be curtailed, delayed or cancelled for many reasons, including equipment shortages or failures, natural hazards, unexpected drilling conditions or reservoir characteristics, irregularities in geological formations, accidents, mechanical and technical difficulties or challenges due to new technology.

Strategic objective risks

Statoil faces challenges in achieving its strategic objective of successfully exploiting profitable growth opportunities

Statoil intends to continue to nurture attractive commercial opportunities in order to sustain future growth.

Statoil's ability to increase this optionality depends on several factors; including the ability to:

- maintain and impart Statoil's zero-harm safety culture
- identify suitable opportunities
- negotiate favourable terms
- develop new market opportunities or acquire properties or businesses in an agile and efficient way
- effectively integrate acquired properties or businesses into Statoil's operations
- arrange financing, if necessary and
- comply with legal regulations

Limited transportation infrastructure risks

The profitability of Statoil's oil and gas production may be affected by limited transportation infrastructure when a field is in a remote location

Statoil's ability to exploit economically any discovered petroleum resources beyond its proved reserves will depend, among other factors, on the availability of the infrastructure required to transport oil and gas to potential buyers at a commercially acceptable price.

Foreign exchange risks

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

Statoil's business faces foreign exchange risks. Statoil 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, Statoil pays a large portion of its income taxes, and a share of our operating expenses and capital expenditures, in NOK. The majority of Statoil's long term debt has USD exposure.

Inadequate insurance coverage risk

Statoil's insurance coverage may not provide adequate protection

Statoil maintains insurance coverage that includes coverage for physical damage to its oil and gas properties, third-party liability, workers' compensation and employers' liability, general liability, sudden pollution and other coverage. Statoil's insurance coverage includes deductibles that must be met prior to recovery. Statoil's external insurance is subject to caps, exclusions and limitations, and there is no assurance that such coverage will adequately protect Statoil against liability from all potential consequences and damages.

Inefficient operations and lack of new technology risks

Statoil's future performance depends on efficient operations and the ability to develop and deploy new technologies and new products

Our ability to remain efficient, to develop and adapt to new technology, to seek profitable renewable energy and other low-carbon energy solutions, are key success factors for future business. There is a possibility of Statoil not being able to define and implement the necessary changes due to the organisation's capability, external competition or underestimated cost of implementing new technology. Any of these factors may have an adverse effect on Statoil's future business goals.

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 efficiency, reliability, carbon emissions and lifespan of fields already in production.

A decreasing oil price in the first half of 2017 was followed by a strong second half with prices moving in an upward trajectory, closing the year at USD 66.5 per barrel. Refinery margins had a solid year fueled by strong demand in most products. Geopolitical shifts, challenges in liquids resource replenishments, market cyclicality, structural changes to costs and increasing momentum towards low carbon implies uncertainty and volatility. To be prepared, Statoil Petroleum AS is focusing on building 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 "always safe, 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 2017 was 0.9 incidents per million hours worked compared to 1.1 incidents per million hours worked compared in 2016.

During 2017 we had no serious incidents with major accident potential

Total recordable injuries per million hours worked (TRIF) increased from 4.4[1] in 2016 to 4.8 in 2017.

In 2017 we experienced no accidents with fatalities.

For accidental oil spills the total oil spill volume decreased from 21 m^3 in 2016 to 9 m3 in 2017. The largest spill in 2017, of 3 m^3, was from the Grane platform.

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 oil and gas leakages ≥0.1kg per sec decreased from 7 in 2016 to 6 in 2017. In 2017, none of these oil and gas leakages ignited.

No security incidents with major consequences for Statoil Petroleum AS were recorded in 2017. During 2017 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 has set a target for its operated offshore operations in Norway, to achieve improved energy efficiency by 2020 (relative to 2008) equivalent to 1.2 million tonnes of CO_2 emissions annually (the so called Konkraft target)[2]. This target was achieved in 2017, two years ahead of schedule.

Statoil Petroleum AS has set a further ambition to achieve additional carbon emission reduction measures equivalent to 2 million tonnes of CO_2 annually by 2030 (relative to 2017).

[1] Restated 2016 data due to an error in reporting of hours worked
[2] This implies that the annual CO_2 emissions will be 1.2 million tonnes less than they would have been, had no reduction measures been implemented.

Direct greenhouse gas emissions remained stable at 10 million tonnes of CO_2 equivalents in 2017 [3]. Greenhouse gas emissions include carbon dioxide (CO_2) and methane (CH_4), where CO_2 constitutes the largest part (9.1 million tonnes in 2017 compared to 9.3 million tonnes in 2016). Methane (CH_4) emissions decreased from, 12 thousand tonnes in 2016 to 10 thousand tonnes in 2017.

The carbon intensity for Statoil Petroleum AS's offshore assets (upstream carbon intensity) decreased from 9 kg CO_2 per boe in 2016 to 8 kg CO_2 per boe in 2017. This is significantly lower than the industry average of 17 kg CO_2 per boe.[4]

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 31 thousand tonnes in 2017, down from 33 thousand tonnes in 2016. One of the main contributors to the reduction is that there was less drilling activity in 2017 compared to 2016. Sulphur oxide emissions were down from 0.4 thousand tonnes in 2016 to 0.3 thousand tonnes in 2017. Total emissions of non-methane volatile organic compounds were down from 27 thousand tonnes in 2016 to 25 thousand tonnes in 2017. The main contributor being the reduction in oil storage and off-loading at Gullfaks, Statfjord, Norne and Heidrun.

In 2017, the total volume of waste was 264 thousand tonnes compared to 425 thousand tonnes in 2016. The main contributor to the decrease in waste generated was less drilling and well start-up activities at locations and an increase in treatment and discharge to sea of oil contaminated water.

The hazardous waste recovery rate in 2017 remained stable at 85% compared to 86% in 2016.

In 2017 and the non-hazardous waste recovery rate was 89% compared to 95% in 2016. Regular discharges of oil to water were 1.2 thousand tonnes in 2017 compared to 1.3 thousand tonnes in 2016.

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

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[3] All environmental data are reported based on operational control boundary (i.e. total emissions from operated assets).
[4] International association of oil and gas producers (IOGP) Annual Environmental Performance indicators - IOGP members annual report. The reporting is lagging one year, so the industry average given is based on 2016 data.

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 252 million in 2017, compared to USD 268 million in 2016.

Board developments

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

The board held four meetings in 2017, in addition to seven extraordinary meetings. The average meeting attendance at these board meetings was 85%.

STAVANGER, 19 MARCH 2018

THE BOARD OF DIRECTORS OF STATOIL PETROLEUM AS

HANS JAKOB HEGGE
CHAIR

KJELL BYBERG
MANAGING DIRECTOR

CECILIE RØNNING

GEIR AALHUS

HANS HENRIK KLOUMAN

Financial statements

STATEMENT OF INCOME STATOIL PETROLEUM AS

		Full year	
(in USD million)	Note	2017	2016
Revenues	5	20,568	15,223
Net income/(loss) from subsidiaries and other equity accounted companies	13	(400)	(3,987)
Other income	3	12	182
Total revenues and other income		20,179	11,418
Purchases [net of inventory variation]		(582)	(465)
Operating expenses		(4,172)	(4,168)
Selling, general and administrative expenses		(87)	(100)
Depreciation, amortisation and net impairment losses	11, 12	(3,998)	(5,875)
Exploration expenses		(379)	(383)
Net operating income/(loss)		10,961	429
Net financial items	9	(378)	(560)
Income/(loss) before tax		10,583	(131)
Income tax	10	(8,094)	(2,392)
Net income/(loss)		2,489	(2,523)

STATEMENT OF COMPREHENSIVE INCOME

(in USD million)	Note	2017	Full year 2016
Net income/(loss)		2,489	(2,523)
Currency translation adjustments		411	146
Net gains/(losses) from available for sale financial assets		(64)	0
Items that may subsequently be reclassified to the Statement of income		347	146
Other comprehensive income/(loss)		347	146
Total comprehensive income/(loss)		2,836	(2,376)
Attributable to the equity holders of the company		2,836	(2,376)

BALANCE SHEET STATOIL PETROLEUM AS

(in USD million)	Note	At 31 December 2017	2016
ASSETS			
Property, plant and equipment	11	32,155	29,220
Intangible assets	12	801	724
Investments in subsidiaries and other equity accounted companies	13	21,285	17,789
Derivative financial instruments	4	215	825
Prepayments and financial receivables		131	121
Total non-current assets		54,587	48,679
Inventories		131	134
Trade and other receivables	15	784	771
Receivables from group companies		2,615	2,141
Derivative financial instruments		36	64
Total current assets		3,566	3,111
Total assets		58,153	51,789
EQUITY AND LIABILITIES			
Share capital		5,527	5,527
Additional paid-in capital		8,785	8,785
Retained earnings		9,257	6,640
Other reserves		(3,144)	(3,491)
Reserves for unrealised gains		80	212
Total equity	16	20,505	17,674
Deferred tax liabilities	10	7,431	6,139
Liabilities to group companies	14	14,682	12,848
Provisions	17	8,713	7,673
Total non-current liabilities		30,827	26,660
Trade, other payables and provisions	18	2,199	2,533
Current tax payable	10	3,681	1,885
Liabilities to group companies	14	941	3,038
Total current liabilities		6,821	7,456
Total liabilities		37,648	34,116
Total equity and liabilities		58,153	51,789

STATEMENT OF CASH FLOWS STATOIL PETROLEUM AS

(in USD million)	Note	Full year 2017	2016
Income/(loss) before tax		10,583	(131)
Depreciation, amortisation and net impairment losses	11,12	3,998	5,875
Exploration expenditures written off		14	23
(Gains) losses on foreign currency transactions and balances		(354)	(101)
(Gains) losses on sales of assets and businesses	3	2	(101)
(Increase) decrease in other items related to operating activities		1,232	4,486
(Increase) decrease in net derivative financial instruments		(202)	852
Interest received		96	102
Interest paid		(258)	(296)
Cash flows provided by operating activities before taxes paid and working capital items		15,111	10,708
Taxes paid		(5,090)	(3,944)
(Increase) decrease in working capital		(515)	462
Cash flows provided by operating activities		9,506	7,226
Capital expenditures and investments	11,12,13	(9,318)	(7,760)
(Increase) decrease in financial investments		75	0
(Increase) decrease in other items interest bearing		1	1
Proceeds from sale of assets and businesses and capital contribution received	3	172	1,011
Cash flows provided by (used in) investing activities		(9,070)	(6,748)
Group contribution		0	(490)
Increase (decrease) in financial receivables and liabilities to/from Statoil group companies[1)]		(478)	(26)
Cash flows provided by (used in) financing activities		(478)	(516)
Net increase (decrease) in cash and cash equivalents		(42)	(39)
Effect of exchange rate changes on cash and cash equivalents		23	(2)
Cash and cash equivalents at the beginning of the period		46	87
Cash and cash equivalents at the end of the period[2)]		27	46

1) Including deposits in Statoil group's internal bank arrangement.
2) Cash and cash equivalents represents a receivable against the cash pool in Statoil ASA, and 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 2017. 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 2017 and 2016 are 8.21 and 8.62, 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.

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, in consistence with the presentation currency of Statoil ASA and the group. 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 capitalized 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 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 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. When an asset leased by a joint operation or similar arrangement (license) to which Statoil is a party qualifies as a financial lease, or when Statoil as an operator directly on behalf of a joint arrangement or similar arrangement, Statoil reflects its proportionate share of the leased asset and related obligations. Financial leases 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
Commodity 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. Inventories of drilling and spare parts are reflected are reflected according to the weighted average method.

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. Such fair value estimates are mainly based on discounted cash flow models, using assumed market participants' assumptions, but may also reflect market multiples observed from comparable market transactions or independent third-party valuations. Value in use is determined using a discounted cash flow model. The estimated future cash flows applied in the value in use 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. Updates of assumptions and economic conditions in establishing the long-term forecasts are reviewed by corporate management on a regular basis 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 and are 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 or CGU to which the unproved properties belong 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 arise 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 are governed by the oil and gas rules and requirements in the Securities Exchange Commission regulations S-K and S-X, and the Financial Accounting Standards Board (FASB) requirements for supplemental oil and gas disclosures. 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 Acquisitions and Divestments

Acquisition of interests in Martin Linge field and Garantiana discovery

In December 2017 Statoil and Total have agreed on a transaction whereby Statoil will acquire Total's equity stakes and take over as operator in the Martin Linge field (51%) and the Garantiana discovery (40%) on the Norwegian continental shelf (NCS). The transaction is subject to certain conditions, including government approval. Statoil will pay Total consideration which, based on a 1 January 2017 valuation, amounts to USD 1.45 billion. At the completion of the transaction, which is expected during the first half of 2018, the consideration will be subject to adjustment reflecting post-tax cash flows in the period from valuation until the date of closing. The assets and liabilities related to the acquired portion of Martin Linge will be reflected in accordance with the principles of IFRS 3 Business Combinations. The transaction will be accounted for in the Exploration & Production Norway (E&P Norway) segment.

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.

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, 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.

During 2017 the derivative financial instruments within third level has a net decrease in the fair value of USD 638 million, whereof USD 78 million is recognised in the statement of income related to changes in fair value. Related to the same earn-out agreements, USD 528 million included in the opening balance for 2017 has been agreed settled, while USD 72 million has been fully realised as the underlying volumes have been delivered during 2017.

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 2017 at 20%, and at the end of 2016 at 30%, are assumed to represent a reasonably likely change based on the duration of the derivatives.

	2017		2016	
(in USD million)	- 20% sensitivity	20% sensitivity	- 30% sensitivity	30% sensitivity
At 31 December				
Crude oil and natural gas net gains (losses)	533	(533)	330	(329)

5 Revenues

	Full year	
(in USD million)	2017	2016
Revenues third party	9,839	6,923
Intercompany revenues	10,729	8,301
Revenues	20,568	15,223

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 2017 or 2016. The CEO is employed and paid by Statoil ASA.

No compensation was paid to the board of directors in 2017 or 2016.

7 Auditor's remuneration

(in USD million, excluding VAT)	Full year 2017	2016
Audit fee	0.4	0.4
Audit related fee	0.4	0.4
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 0.8 million in 2017 and 2016, 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 252 million and USD 268 million in 2017 and 2016, 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)	Full year 2017	2016
Net foreign exchange gains (losses)	98	(81)
Dividends received	0	1
Interest income from group companies	76	69
Interest income and other financial items	41	29
Interest income and other financial items	118	100
Capitalised borrowing costs	230	187
Accretion expense asset retirement obligations	(287)	(281)
Interest expense to group companies	(475)	(478)
Interest expense and other finance expenses	(61)	(7)
Interest and other finance expenses	(594)	(579)
Net financial items	(378)	(560)

10 Income taxes

Income tax

(in USD million)	Full year 2017	2016
Current taxes	(6,741)	(3,377)
Change in deferred tax	(1,353)	985
Income tax	(8,094)	(2,392)
Uplift credit for the year	(1,451)	(1,532)

Reconciliation of Norwegian statutory tax rate to effective tax rate

(in USD million)	Full year 2017	2016
Income/(loss) before tax	10,583	(131)
Calculated income taxes at:		
Statutory tax rate 24% (25% in 2016)	(2,540)	33
Petroleum surtax at statutory tax rate 54% (53% in 2016)	(5,715)	70
Tax effect of:		
Uplift	784	812
Tax result subject to statutory tax rate	(23)	(126)
Permanent differences acquisitions and disposals on the NCS	(0)	47
Permanent differences equity method	(340)	(3,124)
Permanent differences other	78	76
Income tax prior years	(197)	(36)
Other	(141)	(142)
Total	(8,094)	(2,392)
Effective tax rate	76.5 %	>(100%)

When computing the petroleum tax of 54% (55% from 2018) on income from the Norwegian continental shelf, a tax-free allowance, or uplift, is granted at a rate of 5.4% per year for investments made in 2017 (5.3% per year from 2018). For investments made between 2014 to 2016 the rate is 5.5%. 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. For these investments the rate is 7.5% per year. 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 2017 and 2016 unrecognised future uplift credits related to capitalised cost amounted to USD 2,003 million and USD 2,121 million respectively.

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

(in USD million)	At 31 December 2017	2016
Deferred tax assets on		
Other items	361	329
Asset retirement obligations	6,612	5,841
Total deferred tax assets	6,973	6,170

Deferred tax liabilities on		
Other items	42	56
Derivatives	27	270
Property, plant and equipment	12,443	10,186
Capitalised exploration expenditures and capitalised interest	1,893	1,796
Total deferred tax liabilities	14,405	12,309
Net deferred tax liabilities	7,431	6,139

The movement in deferred income tax

(in USD million)	2017	2016
Deferred income tax liability at 1 January	6,139	6,934
Charged to the statement of income	1,353	(985)
Translation differences and other	(61)	190
Deferred income tax liabilities at 31 December	7,431	6,139

11 Property, plant and equipment

(in USD million)	Machinery, equipment and transportation equipment	Production plants oil and gas, including pipelines	Refining and manufactoring plants	Buildings and land	Assets under development	Total
Cost at 31 December 2016	188	82,611	387	32	8,601	91,820
Additions and transfers	5	5,898	2	3	(499)	5,408
Disposals at cost	0	(6)	0	(0)	(0)	(6)
Effect of changes in foreign exchange	10	4,275	20	2	406	4,712
Cost at 31 December 2017	203	92,777	408	36	8,508	101,933
Accumulated depreciation and impairment losses at 31 December 2016	(166)	(60,893)	(299)	(2)	(1,240)	(62,599)
Depreciation	(9)	(4,883)	(12)	(0)	0	(4,903)
Impairment losses and transfers	0	(413)	0	0	219	(194)
Reversal of impairment losses	0	116	0	0	983	1,099
Accumulated depreciation and impairment disposed assets	0	6	0	0	0	6
Effect of changes in foreign exchange	(8)	(3,109)	(15)	(0)	(54)	(3,187)
Accumulated depreciation and impairment losses at 31 December 2017	(183)	(69,176)	(326)	(2)	(92)	(69,779)
Carrying amount at 31 December 2017	20	23,602	82	34	8,416	32,155
Estimated useful lives (years)	3 - 10	UoP[1)]	15 - 20	20 - 33[2)]		

1) Depreciation according to unit of production method (UoP), see note 2 Significant accounting policies.
2) Land is not depreciated.

Impairment

Net impairment reversal of USD 905 million were recognised in 2017, mainly related to offshore assets in development phase. The impairment reversals were mainly triggered by increased reserves, cost reductions and increased short term price assumptions. In 2016 impairment losses of USD 882 million were recognised.

For impairment purposes, the asset's carrying amount is compared to its recoverable amount, defined as the higher of fair value less cost of disposal (FVLCOD) and estimated value in use (VIU). The table below shows the method used, the net impairment loss (reversal) and the recoverable amounts for assets tested for impairment.

USD million	2017		2016	
Impairment method	Carrying amount after impairment[1]	Net impairment loss (reversals)	Carrying amount after impairment[1]	Net impairment loss (reversals)
At 31 December				
ViU	2,169	(826)	3,108	813
FVLCOD	1,507	(79)	1,401	68

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 or net present value estimates using assumed market participant assumptions based on internal forecasts on costs, production profiles and commodity prices. Short term commodity prices are forecasted by using observable forward prices for 2018 and a linear projection towards the 2021 internal forecast. The base discount rate for VIU calculations is 6.0% real after tax. 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 7-12%, 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.

The price assumptions used for impairment calculations were as follows (prices used in 2016 impairment calculations for the respective years are indicated in brackets):

Year (Prices in real terms)[1]	2018		2020		2025		2030	
Brent Blend - USD/bbl	60	(62)	67	(75)	77	(78)	80	(80)
NBP - USD/mmbtu	6.6	(6.0)	6.5	(6.0)	8.0	(8.0)	8.0	(8.0)

1) Basis year 2016

Sensitivities

Commodity prices have historically been volatile. Significant downward adjustments of Statoil's commodity price assumptions would result in impairment losses on certain producing and development assets in Statoil's portfolio. If a 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 4 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 2016	721	6	726
Additions	95	0	95
Transfers	(38)	0	(38)
Expensed exploration expenditures previously capitalised	(14)	0	(14)
Effect of changes in foreign exchange	35	0	36
Cost at 31 December 2017	798	6	804
Accumulated amortisation and impairment losses at 31 December 2016		(3)	(3)
Accumulated amortisation and impairment losses at 31 December 2017		(3)	(3)
Carrying amount at 31 December 2017	798	3	801

13 Investments in subsidiaries and other equity accounted companies

(in USD million)	2017	2016
Investments at 1 January	17,789	20,253
Net income/(loss) from subsidiaries and other equity accounted companies	(400)	(3,987)
Increase/(decrease) in paid-in capital	3,804	1,490
Distributions	(208)	(87)
Net gains/(losses) from available for sale financial assets	(64)	0
Currency translation adjustments	364	120
Investments at 31 December	21,285	17,789

The closing balance of investments at 31 December 2017 of USD 21,285 million consists of investments in subsidiaries amounting to USD 21,279 million and investments in other equity accounted companies amounting to USD 6 million. In 2016, the amounts were USD 17,783 million and USD 6 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 2017 net income from subsidiaries and other equity accounted companies was impacted by net impairment reversal related to property, plant and equipment and exploration assets of USD 228 million after tax. The reversals are primarily resulting from operational improvements and new tax legislation in US while the impairments are due to negative operation development in other assets. For more information see note 11 Property, plant and equipment. 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.

The acquisition cost for investments in subsidiaries and other equity accounted companies are USD 37,340 million in 2017 and USD 32,106 million in 2016.

See note 3 Acquisitions and divestments and note 11 Property, plant and equipment.

The following table shows significant subsidiaries and equity accounted companies directly held by Statoil Petroleum AS as of December 2017

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 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

	At 31 December	
(in USD million)	2017	2016
Interest bearing liabilities to group companies	14,625	12,761
Non-interest bearing liabilities to group companies	57	86
Liabilities to group companies	14,682	12,848

The total amount of credit facility given from Statoil ASA is NOK 120 billion (USD 14,625 million) at 31 December 2017 and NOK 135 billion (USD 15,661 million) at 31 December 2016, under which USD 14,625 million (NOK 120 billion) and USD 14,501 million (NOK 125 billion) was drawn in 2017 and 2016, respectively.

Of the total interest bearing non-current liabilities at 31 December 2017, USD 6,703 million (NOK 55 billion) is due within the next five years. Remaining amounts fall due beyond five years.

15 Trade and other receivables

	At 31 December	
(in USD million)	2017	2016
Trade receivables	44	45
Other receivables	739	726
Trade and other receivables	784	771

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)	2017	2016
Shareholders' equity at 1 January	17,674	20,251
Net income/(loss)	2,489	(2,523)
Foreign currency translation adjustments	411	146
Net gains/(losses) from available for sale financial assets	(64)	0
Group contribution	(3)	(201)
Other	(1)	0
Shareholders' equity at 31 December	20,505	17,674

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 2017 was USD 3.1 billion and USD 3.5 billion as at 31 December 2016.

17 Provisions

(in USD million)	Asset retirement obligations	Other provisions	Total
Non-current portion at 31 December 2016	7,446	227	7,673
Current portion at 31 December 2016	42	357	399
Provisions at 31 December 2016	7,488	584	8,072
New or increased provisions	194	238	432
Decrease in estimates	(252)	(1)	(254)
Amounts charged against provisions	(44)	(564)	(608)
Effects of change in the discount rate	407	(7)	400
Accretion expenses	287	0	287
Reclassification and transfer	0	(20)	(20)
Currency translation	398	37	434
Provisions at 31 December 2017	8,477	267	8,744
Current portion at 31 December 2017	15	15	31
Non-current portion at 31 December 2017	8,462	251	8,713

Expected timing of cash outflows

(in USD million)	Asset retirement obligations	Other provisions	Total
2018 - 2022	77	81	158
2023 - 2027	1,398	7	1,406
2028 - 2032	701	14	716
2033 - 2037	3,850	1	3,850
Thereafter	2,451	163	2,615
At 31 December 2017	8,477	267	8,744

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 2017	2016
Trade payables	155	171
Joint venture payables	1,701	1,723
Other non-trade payables, accrued expenses and provisions	343	638
Trade, other payables and provisions	2,199	2,533

19 Leases

Statoil Petroleum AS leases certain assets, notably vessels and drilling rigs. Lease contracts committed by a license are presented net, based on Statoil's participation interest in the respective licenses. Lease contracts for helicopters, supply vessels and other assets used to serve a group of licenses are presented net based on Statoil's average participation interests in these licenses.

Statoil Petroleum AS has certain operating lease contracts for drilling rigs as of 31 December 2017. The remaining significant contracts' terms range from one months to six 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 licenses on the Norwegian continental shelf. These leases are shown gross as operating leases in the table below.

In 2017, net rental expenditures were USD 1,079 million (USD 1,530 million in 2016) consisting of minimum lease payments of USD 1,259 million (USD 2,005 million in 2016) reduced with sublease payments received of USD 192 million (USD 487million in 2016). There are no significant rig cancellation fees expensed in 2017 (USD 37 million in 2016). No material contingent rent payments have been expensed in 2017 or 2016.

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 2017:

(in USD million)	Operating leases	Operating sublease
2018	1,058	(99)
2019	771	(81)
2020	567	(80)
2021	449	(45)
2022	407	(0)
2023-2027	397	0
2028-2032	31	0
Thereafter	1	0
Total future minimum lease payments	3,680	(306)

20 Other commitments, contingent liabilities and contingent assets

Contractual commitments

Statoil Petroleum AS had contractual commitments of USD 3,433 million at 31 December 2017. 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 2017, Statoil Petroleum AS was committed to participate in 8 wells with an average ownership interest of approximately 34%. Statoil Petroleum

AS's share of estimated expenditures to drill these wells amounts to USD 82 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 2035.

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 2017:

(in USD million)	
2018	1,040
2019	992
2020	924
2021	730
2022	583
Thereafter	3,273
Total	7,541

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. At year end 2017 the carrying value of debts for which Statoil Petroleum AS is the co-obligor or guarantor, mainly for Statoil ASA, is equivalent to USD 2,457 million and USD 24,156 million, respectively.

Contingencies

Some of Statoil Petroleum AS's long-term gas sales agreements contain price review clauses, which in certain cases lead to claims subject to arbitration. The exposure for Statoil related to arbitration has been estimated to an amount equivalent to approximately USD 343 million for gas delivered prior to year-end 2017. Statoil Petroleum AS has provided for its best estimate related to 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 10,729 million and USD 8,301 million in 2017 and 2016, respectively. The major part of intercompany revenues is attributed to Statoil ASA, USD 10,564 million and USD 8,163 million in 2017 and 2016, 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 licenses where Statoil Petroleum AS is operator. Expenses allocated from group companies amounted to USD 3,651 million and USD 3,536 million in 2017 and 2016, respectively. The major part of these expenses are allocated from Statoil ASA, USD 3,481 million and USD

3,302 million in 2017 and 2016, respectively. Statoil Petroleum AS's share of these expenses is reflected in the statement of income and the remaining part is recharged to the other partners in the licenses. 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 51 million and USD 90 million in 2017 and 2016, 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 622 million Sm3 o.e. (606 million Sm3 o.e. in 2016).

Proved reserves are expected to be produced in the period from 2018 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 Subsequent events

On 28 February 2018, Statoil Petroleum AS received a notice of deviation from Norwegian tax authorities related to an ongoing dispute regarding the level of Research & Development cost to be allocated to the offshore tax regime, increasing the maximum exposure in this matter to USD 470 million. Statoil has provided for its best estimate in the matter, and is currently evaluating the notice of deviation.

STAVANGER, 19 MARCH 2018

THE BOARD OF DIRECTORS OF STATOIL PETROLEUM AS

Hans Jakob Hegge
HANS JAKOB HEGGE
CHAIR

KJELL BYBERG
MANAGING DIRECTOR

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To the General Meeting of Statoil Petroleum AS

Independent Auditor’s Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Statoil Petroleum AS which comprise the balance sheet as 31 December 2017, income statement, statement of comprehensive income, 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 2017, 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 the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible or the preparation and fair presentation of the financial statements in accordance with simplified application of International Accounting Standards according to the Norwegian Accounting Act section 3-9, 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.

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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, including 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.

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Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors’ report

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

Opinion on Registration and Documentation

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

Stavanger, 19 March 2018
KPMG AS

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State Authorised Public Accountant

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