NORWEGIAN PETROLEUM

THE GOVERNMENT'S REVENUES

The government's total net cash flow in 2015, including the dividend from Statoil and various fees, was NOK 229 billion, down from NOK 312 billion in 2014. The 27 % drop in revenues is due to lower revenues following the sharp decline in the oil price.

When the first production licences were awarded in the mid-1960s, hardly anyone realised what the industry would mean for the Norwegian economy. Fifty years later, it is more important than ever.

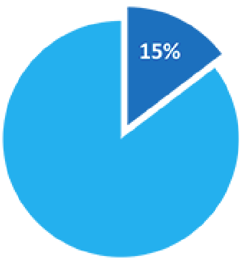
The industry plays a vital role in the Norwegian economy and the financing of the Norwegian welfare state. The oil and gas sector is Norway's largest measured in terms of value added, government revenues, investments and export value. Long-term perspective in the management of the government's petroleum revenues ensures that they benefit Norwegian society as a whole, and that future generations will benefit from Norway's petroleum wealth. This has been a key principle in developing the financial and legal framework for the sector.

Since production started on the Norwegian continental shelf in the early 1970s, petroleum activities have contributed more than NOK 12 000 billion in current NOK to Norway's GDP. Yet so far, under half of the estimated recoverable resources on the Norwegian shelf have been produced and sold.

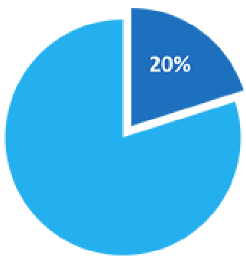
MACROECONOMIC INDICATORS FOR THE PETROLEUM SECTOR, 2015

Updated: 07.10.2015

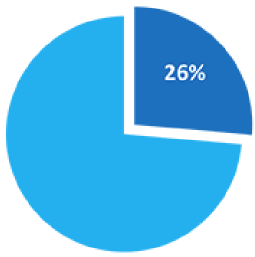
Source: National Budget 2016



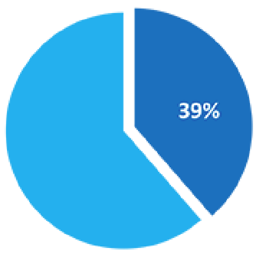
The petroleum sector's share of GDP



The petroleum sector's share of the State's revenues



The petroleum sector's share of total investments



The petroleum sector's share of total exports

One of the overall principles of Norway's management of its petroleum resources is that exploration, development and production must result in maximum value creation for society, and that revenues must accrue to the Norwegian state and thus benefit society as a whole. The main reason for this is the extraordinary returns that can be obtained by producing petroleum resources. Since these resources belong to society as a whole, the Norwegian state secures a large share of the value creation through taxation and the system known as the State's Direct Financial Interest (SDFI) in the petroleum industry.

The net government cash flow from petroleum activities in billion NOK, 2015 (estimates)

Taxes	108,1
Environmental taxes and area fees	6,8
Net cash flow from SDFI	98,4

Statoil dividend	15,4
The net government cash flow	**228,7**

Source: The Ministry of Finance - National Budget 2016

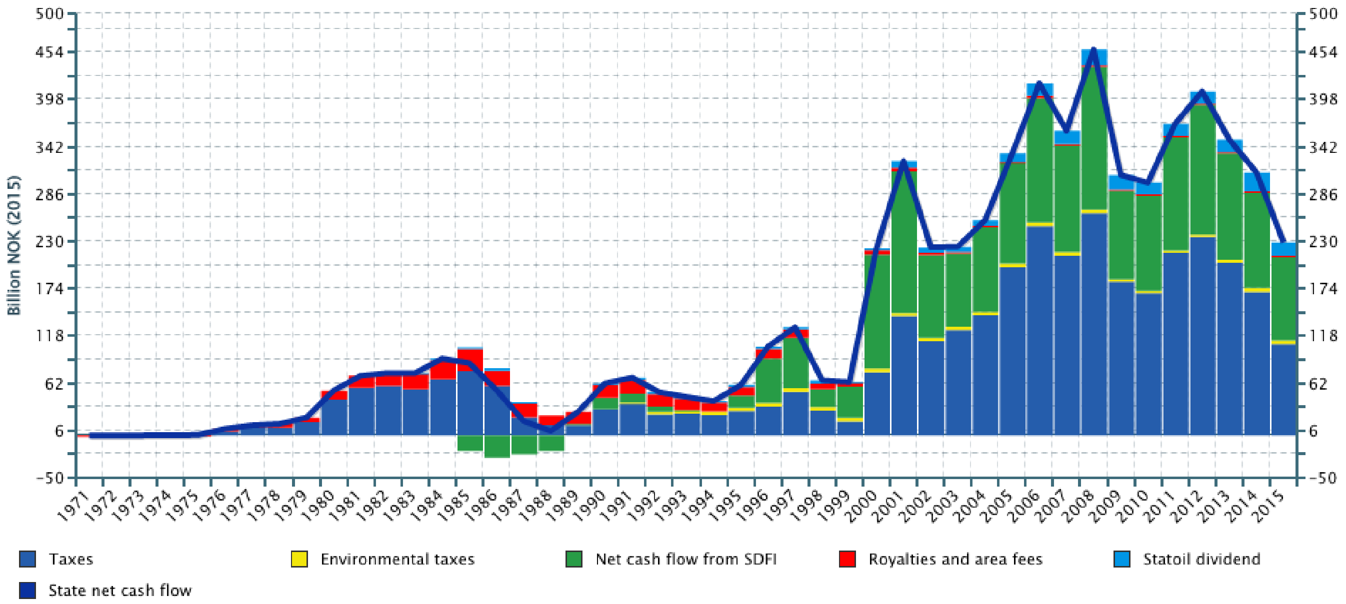
Based on preliminary data, Norway's tax revenues from petroleum activities were about NOK 108 billion in 2015. The net cash flow from direct ownership in fields through the SFDI system was just under NOK 100 billion.

The government's total net cash flow in 2015, including the dividend from Statoil and various fees, was NOK 229 billion, or about 20 % of total government revenues. By comparison, the net government cash flow from petroleum activities was in 2014 NOK 312 billion. The net government cash flow is expected to be around NOK 200 billion in 2016.

THE NET GOVERNMENT CASH FLOW FROM PETROLEUM ACTIVITIES, 1971-2015

Updated: 22.02.2016

Source: Ministry of Finance, Statistics Norway

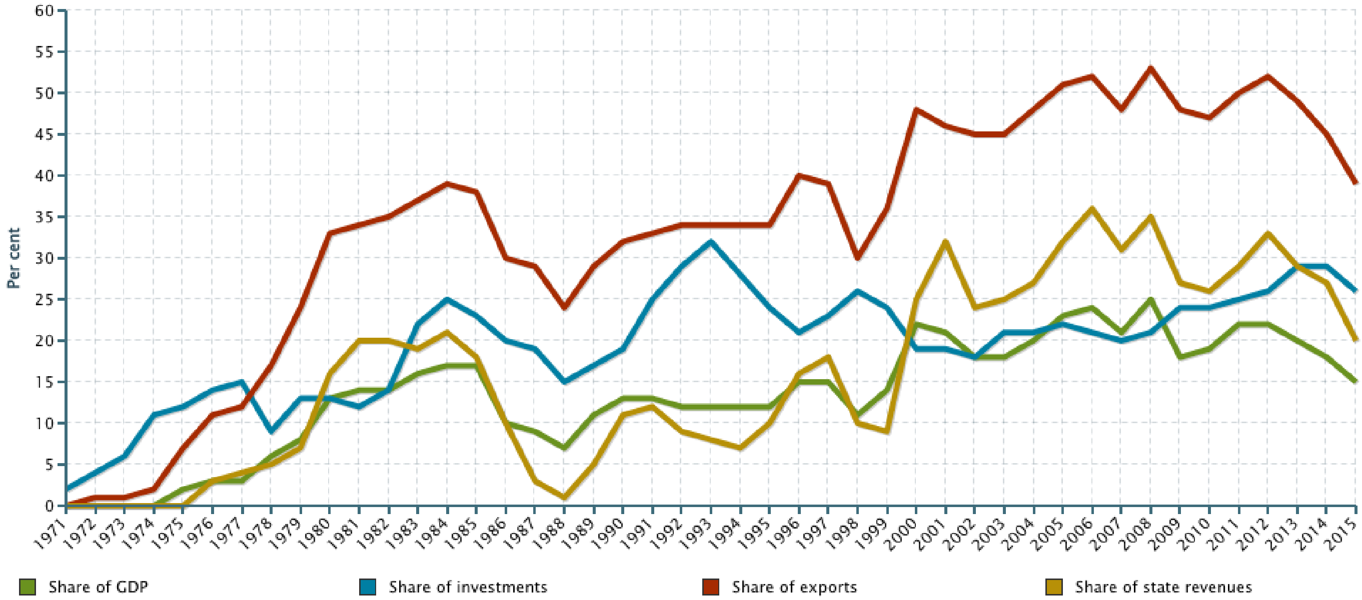


Government revenues from petroleum activities are transferred to the Government Pension Fund Global, which at the end of third quarter in 2015 had holdings with a total value of more than NOK 7 000 billion. Under the fiscal rule, transfers can be made to the fiscal budget from the Fund to finance important public goods without drawing on the Fund's capital. In 2016, about one in nine NOK spent over the fiscal budget will come from the Government Pension Fund Global.

The oil and gas sector is Norway's largest measured in terms of value added, government revenues, investments and export value

MACROECONOMIC INDICATORS FOR THE PETROLEUM SECTOR, 1971-2015

Source: Statistics Norway, Ministry of Finance (National Budget 2016)



TAX REVENUES

The petroleum taxation system is based on the rules for ordinary company taxation and are set out in the Petroleum Taxation Act (Act of 13 June 1975 No. 35 relating to the taxation of subsea petroleum deposits, etc). Because of the extraordinary returns on production of petroleum resources, the oil companies are subject to an additional special tax. The current ordinary company tax rate is 25 %, and the special tax rate is 53 %. In 2015, Norway's tax revenues from petroleum activities were about NOK 108 billion.

See article about the petroleum tax system for more information.

THE STATE'S DIRECT FINANCIAL INTEREST

The State's Direct Financial Interest (SDFI) is a system under which the Norwegian state owns holdings in a number of oil and gas fields, pipelines and onshore facilities. For oil and gas fields, the proportion is determined when production licences are awarded, and varies from field to field. As one of several owners, the government covers its share of investments and costs, and receives a corresponding share of the income from production licences.

The SDFI system was established on 1 January 1985. Before this, the Norwegian government only had ownership interests in production licences through Statoil, which was wholly state-owned. From 1985, these were split in two: one part became the State's Direct Financial Interest (SDFI) and the other part remained with Statoil.

When Statoil was listed on the stock exchange in 2001, the responsibility for managing the SDFI portfolio was transferred from Statoil to a new state-owned management company, Petoro. Today, the state has direct financial interests in 174 production licences, 34 producing fields and holdings in 15 joint ventures that own pipelines and onshore facilities.

Net cash flow from SDFI was in 2015 NOK 98,4 billion.

Oseberg A platform (Photo: Harald Pettersen, Statoil)

REVENUE FROM DIRECT STATE OWNERSHIP IN STATOIL

The Norwegian state owns 67 % of the shares in Statoil, and receives dividends in the same way as other shareholders. In 2015, the dividend paid to the state was NOK 15,4 billion.

AREA FEES AND ENVIRONMENTAL TAXES

Area fees

The area fee is intended to ensure that awarded acreage is explored efficiently. In 2015, a total of NOK 1,9 billion was paid in area fees.

Environmental taxes

The carbon tax and the NO_x tax are important environmental taxes in the petroleum sector. The petroleum industry is also included in the emissions trading system. Companies that are licensees on the Norwegian shelf must therefore purchase emission allowances if their greenhouse gas emissions exceed their allocated amount for the year. In 2015, the cost of an emission allowance entitling the holder to emit one tonne of CO_2 eq fluctuated around EUR 7-9, corresponding to NOK 55-80.

Norway’s carbon tax was introduced in 1991 and is another instrument for reducing CO_2 emissions from petroleum activities. The tax is levied on combustion or direct release of natural gas and on combustion of oil and condensate. In 2015, the tax rate was NOK 1 per litre of oil or condensate and per standard cubic metre (Sm^3) of gas. For combustion of natural gas, this is equivalent to NOK 427 per tonne of CO_2. The tax rate has been raised to NOK 1,02 per litre or Sm^3 in 2016

The total tax levied was NOK 4,9 billion in 2015.

See article about emissions from petroleum activities for more information.

THE GOVERNMENT PENSION FUND GLOBAL

The Government Pension Fund Global, originally called the Government Petroleum Fund, was established in 1990 to ensure a long-term perspective in the management of government petroleum revenues. It is a sovereign wealth fund with a very long investment horizon, and is intended to be managed so that Norway’s petroleum wealth benefits future generations as well.

The Ministry of Finance made the first capital transfer to the Fund in 1996. Since then, the government’s net cash flow from petroleum activities has been transferred to the Fund each year.

The net cash flow from petroleum activities, less government spending, is transferred to the Fund. In 2014 this was NOK 147 billion. The Fund’s remaining income includes interest, dividends and the return on Investments.

The sovereign wealth fund is intended to be managed so that Norway's petroleum wealth benefits future generations as well

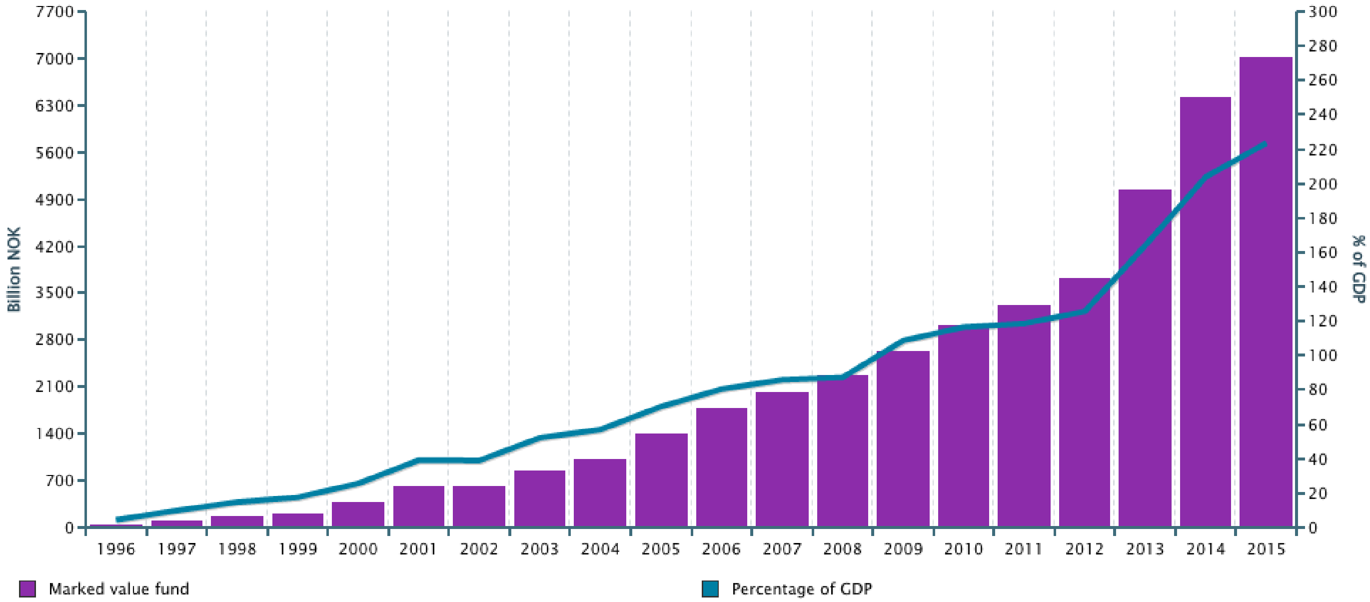
By third quarter 2015, the fund's market value was NOK 7 019 billion. This corresponds to more than twice Norway's GDP, based on figures for the 2016 budget, or over NOK 1.3 million per person in the Norwegian population.

THE MARKET VALUE TO THE GOVERNMENT PENSION FUND GLOBAL AND THE VALUE IN PER CENT OF THE NORWEGIAN GROSS DOMESTIC PRODUCT, 1996-2015

Updated: 22.02.2016

Based on Q3 numbers in 2015

Source: Statistics Norway, NBIM



Petroleum revenues are phased into the economy gradually in accordance with the fiscal rule that over time, government spending must not use any of the fund's capital, only its expected real return. The fiscal rule also provides for petroleum revenue spending to be increased in bad times and decreased in good times.

This ensures that petroleum revenues help to smooth fluctuations in the economy and ensure good utilisation of capacity and low unemployment. It contributes to a high level of economic stability and predictability, which is very important for decision-makers and for society as a whole. Provided that the fiscal rule is followed, the fund’s capital will not be depleted over time, and future generations will also be able to benefit from Norway’s petroleum wealth.

TRANSPARENT AND ACCOUNTABLE MANAGEMENT OF PETROLEUM RESOURCES

EITI standard

To promote the disclosure of flows of taxes and fees in the petroleum and mining industries, Norway has implemented the EITI standard. This was established by the Extractive Industries Transparency Initiative as a global standard to promote transparency about the revenues countries receive from the extraction of natural resources.

The objective is to improve governance of the extractive industries through disclosure and oversight of government revenues from oil, gas and mining companies. This should in turn result in better management of natural resources and enable citizens to hold their governments to account for how the revenues are used.

EITI is an international initiative to promote transparency about the revenues countries receive from the extraction of natural resources

49 countries are currently implementing the EITI standard. 31 of these are now EITI-compliant. Norway was accepted as a full member of EITI in March 2011, and is so far the only OECD country that has implemented the EITI criteria and has been accepted as compliant.

A key element of implementation is the establishment of a multi-stakeholder group including representatives of the authorities, companies in the extractive industries and civil society. Norway’s multi-stakeholder group plays an active part in implementation of the EITI standard in Norway.

Another important element of EITI compliance is that each country must publish an annual report on cash flows in the extractive industries. This includes figures from the companies on the payments they have made to the authorities and figures from the authorities on revenues received from each company. An independent body compiles the report and seeks to reconcile any discrepancies between the two sets of figures. The table below shows the cash flows reported by the offshore companies and the Norwegian authorities for 2014, in billion NOK. The report contains further explanations on the discrepancies that were found and how they were reconciled.

See Norway’s EITI report for 2014 for more information.

RECONCILIATION OF REPORTED PAYMENTS PER COMPANY AND RECEIVED PAYMENTS BY THE GOVERNMENT IN BILLION NOK, 2014

Updated: 02.02.2016

Source: EITI 2014, Deloitte AS

Company	Sum Licensee/ Operator	Sum Government	Resolved discrepancy licensee/ operator	Resolved discrepancy government
A/S Norske Shell	12.67	12.62	0.05	0.00
Atlantic Petroleum Norge AS	-0.05	-0.05	0.00	0.00
Bayerngas Norge AS	-0.36	-0.36	0.00	0.00
BG Norge Ltd	-0.06	-0.06	-0.00	0.00
BP Norge AS	0.30	0.30	0.00	0.00
Bridge Energy Norge AS	-0.22	-0.22	0.00	0.00
Capricorn Norge AS	-0.50	-0.50	0.00	0.00
Centrica Energi NUF	3.15	3.16	-0.01	0.00
Chevron Norge AS	0.02	0.02	-0.00	0.00
Concedo ASA	-0.25	-0.26	0.00	0.00
ConocoPhillips Skandinavia AS	10.19	10.19	0.00	0.00
Core Energy AS	-0.08	-0.08	0.00	0.00
Dana Petroleum Norway AS	-0.21	-0.21	0.00	0.00
DEA Norge AS	1.92	1.91	0.01	0.00
Det norske oljeselskap ASA	7.36	7.25	0.11	0.00
Dong E&P Norge AS	4.17	4.12	0.04	0.00
E.ON E&P Norge AS	0.00	0.00	0.00	0.00
Edison Norge AS	-0.40	-0.40	0.00	0.00
Eni Norge AS	2.74	2.73	0.01	0.00
Enquest Norge AS	-0.01	-0.01	0.00	0.00

Enterprise Oil Norge AS	0.53	0.54	-0.01	0.00
Explora Petroleum AS	-0.34	-0.34	0.00	0.00
ExxonMobil Exploration and Production Norway AS	22.77	22.77	-0.00	0.00
Faroe Petroleum Norge AS	-0.25	-0.25	-0.00	0.00
Fortis Petroleum Norway AS	-0.08	-0.08	0.00	0.00
GDF SUEZ E&P Norge AS	4.73	4.73	0.00	0.00
Hess Norge AS	0.01	0.01	0.00	0.00
Idemitsu Petroleum Norge AS	1.15	1.15	-0.00	0.00
Infragas Norge AS	0.43	0.43	-0.00	0.00
Kufpec Norway AS	-0.02	-0.02	0.00	0.00
Lime Petroleum Norway AS	-0.04	-0.04	0.00	0.00
Lotos Exploration & Production Norge AS	-0.08	-0.08	0.00	0.00
LUKOIL Overseas North Shelf AS	-0.05	-0.05	0.00	0.00
Lundin Norway AS	0.19	0.20	-0.01	0.00
Maersk Oil Norway AS	-0.83	-0.84	0.01	0.00
Marathon Petroleum Norge AS	0.00	0.06	-0.06	0.00
Moeco Oil & Gas Norge AS	-0.07	-0.07	0.00	0.00
MOL Norge AS	-0.33	-0.33	0.00	0.00
Nexen	0.00	0.00	-0.00	0.00
Njord Gas Infrastructure	0.62	0.62	-0.00	0.00
Noreco Norway AS	-0.38	-0.38	0.00	0.00
Norpipe Oil AS	0.08	0.08	0.00	0.00

Norsea Gas AS	0.24	0.26	-0.02	0.00
North Energy ASA	-0.36	-0.36	-0.00	0.00
OMV (Norge) AS	0.05	0.05	-0.00	0.00
Other companies - not licensees	0.00	0.00	0.00	-0.00
Petoro	111.07	111.07	0.00	0.00
Petro-Canada Norway Inc	0.31	0.31	0.00	0.00
Petrolia Norway AS	-0.13	-0.13	-0.00	0.00
PGNiG Upstream International AS	0.00	0.00	0.00	0.00
Premier Oil Norge AS	-0.11	-0.11	0.00	0.00
Repsol Exploration Norge AS	-0.43	-0.43	0.00	0.00
RN Nordic Oil AS	-0.01	-0.01	-0.00	0.00
Rocksource Exploration Norway AS	-0.10	-0.10	0.00	0.00
Silex Gas Norway AS	0.56	0.56	-0.00	0.00
Skagen44 AS	-0.05	-0.05	0.00	0.00
Skeie Energy AS	-0.01	-0.01	0.00	0.00
Solveig Gas Norway AS	2.30	2.30	0.00	0.00
Spike Exploration Holding AS	-0.36	-0.36	0.00	0.00
Statoil Petroleum AS	92.83	92.83	0.00	0.00
Sum	287.24	287.23	0.02	0.00
Sum other payments	-0.00	0.00	-0.00	0.00
Suncor Energy Norge AS	-0.40	-0.43	0.04	0.00
Svenska Petroleum Exploration AS	-0.22	-0.22	-0.00	0.00
Talisman Energy Norge AS	-0.20	-0.19	-0.01	0.00
Total E&P Norge AS	14.91	14.91	0.00	-0.00

Tullow Oil Norge AS	-1.27	-1.27	-0.00	0.00
VNG Norge AS	-0.53	-0.53	-0.00	0.00
Wintershall Norge AS	0.68	0.83	-0.14	0.00

Updated: 23.02.2016