Annual report 2016

Board of Directors' Report 2016

ENGIE E&P Norge AS ("the Company") is engaged in the exploration for and production of oil and gas on the Norwegian Continental Shelf (NCS). The Company's head office is located in Sandnes.

At the end of 2016 the Company portfolio contained 46 licences on the NCS, including shares in the Njord, Fram, Snøhvit, Gjøa, Vega, Gudrun, Hyme and H-North fields. The Company is the operator of the Gjøa field (PL153 and PL153B) which started producing in November 2010, and of the exploration licences PL610 Kimbe, PL612 Nemo, PL636 Cara, PL722, PL723 and PL786.

During 2016, the Company sold its equity share in the Gassled JV, the Dunkerque Terminal DA, the Zeepipe Terminal JV and the Polarled JV.

Exploration

The Company participated in the Ministry of Petroleum and Energy's Awards for Predefined Areas (APA) 2015. In January 2016, the Company was awarded a 50% share and the operatorship in licence PL817 in the North Sea, west of the Gudrun field

In February 2016, the Company farmed down a 20% interest in its operated PL636 Cara licence, with effective date of 1st January 2016.

Further, a number of licence relinquishments occurred in 2016, including PL348C, PL578, PL701, PL709, PL710 and PL723.

Three exploration wells were drilled during 2016:

PL107C wells 6407/7-9 S & A, operated by Statoil, were drilled 6km north of the Njord Field. The main well and sidetrack penetrated hydrocarbon bearing reservoirs in the Ile, Tilje and Åre Formations. The reservoir qualities were assessed to be moderate to poor, resulting in an uncertainty on the recoverable volumes estimated between 0.3 to 4.5 MSm³ oil equivalents. The licence will now evaluate development tie-back solutions to Njord in combination with the nearby Noatun and Njord N.W. flank discoveries. The well was classified as dry by the Company. For accounting purpose, the well was classified as dry by the Company.

PL618 Solaris well 1/5-5, operated by Total, was drilled 21km southwest of the Blane Field. This HPHT well was to prove hydrocarbons in the Upper Jurassic Ula Formation and in the Upper Triassic Skarerrak Formation. The well encountered about 80-metre thick sandstone in the Ula Formation with moderate to poor reservoir quality. The reservoir only contained traces of gas, and the well was classified as dry.

PL636 Cara well 36/7-4, operated by the Company, was drilled 6km northeast of the Gjøa field. The well encountered an approximately 50m gas column and 60m oil column in the Agat formation. Reservoir quality ranges from very good in the top section to medium in the lower section. Preliminary estimation of the size of the discovery is between 4-11 MSm³ of recoverable oil equivalents. The well was formation-tested and generally showed very good production and flow properties. Extensive data and samples were collected. The licencees will consider a tie-in of the discovery to existing infrastructure on the Gjøa field.

Development

Njord Future Project

The Njord Future Project, operated by Statoil, will perform the redevelopment of the Njord and Hyme fields. These

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fields produce through the Njord A platform, which requires structural upgrades, and utilise the Njord B offtake vessel. Njord A was towed to shore at Stord in summer 2016, and Njord B was towed to Kristiansund for inspection. Final Investment Decision (FID) for the project was made on 15th March 2017.

Bauge Development Project

The Bauge (previously Snilehorn) discovery, operated by Statoil, is located approximately 15 km North-East of the Njord Field in the Norwegian Sea. The discovery was made in late 2013 and will be developed as a tie in to Njord A. It was decided with licence partners on 15th March 2017 to proceed and submit a Plan for Development and Operation (PDO).

Byrding

The Byrding (previously Astero) field, operated by Statoil, was sanctioned in August 2016, and is a tie-back to the Fram H-North template. Drilling commenced in early 2017 and start of production is expected in July 2017.

Operations

Gjøa

Net production from the Gjøa field in 2016 was 13.1 million barrels of oil equivalent (boe) corresponding to 35,611 boe/day. The performance from the field was good in 2016, with high regularity and stable production.

Vega Unit

Net production from the Vega Unit in 2016 was 0.5 million boe. Vega is a subsea tie-back to Gjøa.

Gudrun

Net production from the Gudrun field in 2016 was 9.3 million boe. Repairs to the helideck were completed in April 2016, allowing the release of the West Epsilon drilling rig which had been used as helideck during the repair phase.

Fram

Net production from the Fram field in 2016 was 2.1 million boe. The performance of the Fram reservoir has been good and the decline rate is as expected. The Fram C-east development was put onstream in autumn 2016, with good and stable production.

Snøhvit

Net production from the Snøhvit field in 2016 was 5.8 million boe. 2016 was a strong performing year for Snøhvit with high regularity and utilisation of capacity. The F-1H drilling operation was aborted in December 2016 due to technical difficulties, and a new effort to drill this well will be made in 2017. The Company lifted 8 LNG cargoes during the year.

Njord

Net production from the Njord field in 2016 was 1.2 million boe. The field was in production until June 2016, before the field was shut down and the platform was towed to shore for structural upgrade.

Hyme

Net production from the Hyme field in 2016 was 0.4 million boe. A subsea tie-back to Njord, production was shut down in connection with the shut down of the Njord A platform in June 2016, and is expected to be in production again late 2020.

H-North

Net production from the H-North field in 2016 was 0.1 million boe. Production has been stable from H-North in 2016. The H-North template will be used for the development and production of Byrding.

Going concern

In accordance with the Accounting Act § 3-3a, the Board of Directors confirm that the financial statements have been prepared under the assumption of going concern. This assumption is based on profit forecasts for the year 2016 and the Company's long-term strategic forecasts. For the purposes of this rule, the Company's economic and financial position is sound.

Working environment

At year end the Company had 274 employees. In accordance with applicable laws and regulations the Company registers its employees' absence due to illness. During 2016 absence due to illness has been 2,48% (1.78% % in 2015).

The Company regularly conducts a working environment survey that includes all employees and consultants. The survey covers a wide range of factors impacting the working environment. The results from the survey form the basis for an annual update of activity plans aimed at further developing and maintaining a sustainable working environment. In 2016 the survey had satisfactorily participation (85% in total, 87% for employees). Over the years, the results have been very good and stable, yet the results have dropped in 2016, concurrent with the uncertainty generated by the Company's restructuring project. Overall, the working environment is still considered to be good.

Regarding health and safety, in 2016 the Company had one serious incident and one recorded injury.

Gender equality

The Board of Directors is attentive to society's expectations and the legal requirements with which the Company is expected to comply in order to promote gender equality and prevent differential treatment of women and men. There is a continuous effort to adhere to these requirements.

At the year end, 79 of the company's 274 employees were women. The management team consists of 8 persons of whom 3 are women. Three of nine members of the Board of Directors are women. A total of 0 new employees were recruited in 2016. All salaries are established without prejudice. A total of 1 employees work part-time. There are no differences in the working hour regulations for women and men.

Discrimination

The Discrimination Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin color, language, religion and faith. The Company is working actively, with determination and systematics to promote the act's purpose within its business. Included in the activities are recruiting, salary and working conditions, promotion, development opportunities and protection against harassment. The Company aims to be a workplace with no discrimination due to reduced functional ability and is working actively to design and implement the physical conditions in such a manner that as many as possible may utilize the various functions within the workplace. Individual adjustments of workplace and responsibility are made for employees or new applicants with reduced functional ability.

Environment

Gjøa field

The Gjøa facilities are designed to cause as little environmental impact as possible. Electricity from shore is the main source of power for the Gjøa installation, and there is a single fuel low Nitrous Oxide (NOx) turbine operating the gas export compressor. In addition, a waste heat recovery unit is installed. Closed flaring during regular operations also contributes to a reduction of environmental impact.

The emissions and discharges to the environment from operations at Gjøa will be reported to the environmental authorities according to current regulations. 87% of chemicals discharged to sea were green chemicals and are not expected to cause any environmental impact. The company emphasizes the use of environmentally friendly chemicals. There was a discharge of yellow chemicals of 134 tons and red chemicals of 1.6 tons, both within the existing permit given by the Norwegian Environment Agency. There was also a discharge of black chemicals of 48.6 kg, of which 1.9 kg was within the existing permit and 46.7 kg was handled as a deviation and reported to the authorities accordingly. The discharge of red and black chemicals originate from the use of flocculant and lubricating oils.

There were four accidental spills to sea during 2016, three spills of chemicals and one spill of oil.

The Gjøa field generated 55 tons of normal waste and 3611 tons of hazardous waste in 2016.

The key environmental indicators of emissions to air were:

- Flaring0.67 million standard cubic meters (Sm^3)
- Fuel gas consumption 55 million Sm^3
- Diesel consumption 88 tons
- CO_2 emissions 129,626 tons
- NO_x emissions 79 tons

Financial market, credit and liquidity risks

As of 31 December 2016, current and other long-term liabilities amounted to NOK 4,382 million and NOK 7,575 million respectively.

The financial position of the Company will always be influenced by fluctuations in the price of crude oil and gas and in currency exchange rates. The Company has guidelines for entering into derivative contracts in order to manage the commodity price market risk exposure, utilising commodity based derivative contracts consisting of market swaps for oil and gas products. The Company's financial position means that it would be able to withstand a period of reduced oil prices and fluctuations in exchange rates.

The Company regards its credit risk as low since the majority of its sales are to other large corporations and/or to the larger ENGIE group. The Company has not realised losses on receivables during the preceding years.

The total exposure related to currency, interest and price fluctuations is monitored and evaluated as a part of the overall evaluation of ENGIE's total exposure. Possible actions are implemented in accordance with existing ENGIE procedures.

The pre-tax rate of return (operating profit/average total assets) in 2016 was 14 per cent, compared with 23 per cent in 2015. The rate of return after tax was 3 per cent in 2016, compared with 9 per cent in 2015.

The differences between pre-tax income and cash flow from operations are due to differences in the timing of tax expenditures and depreciation.

Financial aspects

The Company produced 32.2 million boe in 2016, which is an decrease compared to the 2015 level. Total sales in 2016 amounted to 32.6 million boe, giving total revenues of NOK 8,887 million.

Out of the total 32.6 million boe sold, 10.1 million barrels (bbls) consisted of crude oil and condensate. Revenues from crude oil and condensate sales were NOK 3,964 million compared to NOK 4,595 million in 2015.

The Company sold 2.7 billion Sm^3 of gas including Snøhvit LNG in 2016. Revenues from gas and LNG amounted to NOK 3,489 million compared to NOK 5,228 million in 2015.

The revenue from sale of Natural Gas Liquid (NGL) and Liquified Petroleum Gas (LPG) mix amounted to NOK 916 million in 2016 compared to NOK 1,318 million in 2015. A total of 5.4 million boe of these products were sold in 2016, which was the same as in 2015.

Net cash flow from operating activities in 2016 was NOK 3,209 million, compared to NOK 5,884 million in 2015. Capital investments in 2016 amounted to NOK 817 million, compared to NOK 711 million in 2015. The majority of the investments were made on Njord, Fram C-east and Snøhvit.

The Company's net income for 2016 was NOK 997 million lower than 2015. The ordinary pre-tax profit for 2016 was NOK 2,260 million, compared to NOK 4,426 million in 2015. After NOK 2,753 million for current tax expenditures and NOK 1,070 million for deferred tax income, net income amounted to NOK 577 million, compared to NOK 1,574 million in 2015.

The accounts have been prepared on a going concern basis. The Board of Directors confirms the basis for this in accordance with section 3-3 of the Norwegian Accounting Act. The Board of Directors is not aware of any conditions of significance that could impact the Company's result and financial position as at 31 December 2016 which have not been reflected in these accounts.

The Company's fully owned subsidiary, GDF SUEZ E&P Greenland AS, had no revenues in 2016 but a net profit of NOK 0.2 million. The value of the shares in GDF SUEZ E&P Greenland AS as of 31st December 2016 was NOK 53 million.

Allocation of net income

The Board of Directors, having no knowledge of any matters not disclosed that could be of significance when evaluating the Company's position, recommends the following allocation of net income:

Net result 2016 NOK		577,444,025
From Retained Earnings	NOK	19,934,025
Dividend	NOK	557,510,000

27th of March 2016

Maria Moræus Hanssen
Chairman of the Board

Laurent Dallet
Board Member

Meriem Mokrani
Board Member

Rolf Erik Rolfsen
Board Member

Benoit Mignard
Board Member

Pierre Chareyre
Board Member

Mailin Seldal
Board Member
Employees' Representative

Trond Myklebust
Board Member
Employees' Representative

Arne Bekkeheien
Board Member
Employees' Representative

Cedric Osterrieth
Managing Director

Income statement

	Note	2016	2015
OPERATING INCOME			
Sales of oil and gas	3, 5	8 787 780 868	11 742 503 726
Tariff income	5	98 775 748	87 959 375
Other Income		0	59 322 543
Total operating income		8 886 556 616	11 889 785 644
OPERATING EXPENSES			
Operating expenses		1 625 733 589	2 094 393 390
Exploration expenses		606 639 150	378 018 250
Payroll expenses	6,7	93 174 612	119 960 683
Depreciation	9	3 316 348 218	3 901 621 355
Impairment		0	978 612 961
Other operating expenses	9	583 822 290	233 422 303
Total operating expenses		6 225 717 859	7 706 028 941
Operating profit		2 660 838 757	4 183 756 703
FINANCIAL INCOME AND EXPENSES			
Interest income		7 251 495	595 624
Foreign currency exchange gain		1 033 357 243	1 105 158 258
Interest income from group companies	11	343 294	13 042 000
Other financial income	3	93 541 910	33 280 385
Foreign currency exchange loss		1 177 040 147	847 176 633
Interest expenses to group companies	11	8 456 176	57 356 000
Other financial expenses	3	349 455 686	4 951 701
Net financial (-income)		400 458 068	-242 591 932
Operating profit before tax		2 260 380 689	4 426 348 634
Tax expenses	13	1 682 936 664	2 851 511 523
Net income		577 444 025	1 574 837 110
Allocated as follows:			
Proposed dividend	14	557 510 000	2 334 750 000
Transfer (-from) other equity		19 934 025	-759 912 890
Total allocations		577 444 025	1 574 837 110

Balance sheet

	Note	2016	2015
NON-CURRENT ASSETS			
Tangible fixed assets			
Property, plant & equipment	9	11 884 284 377	16 006 355 556
Shares in subsidiary	16	53 077 878	52 974 356
Other financial investments		188 000	188 000
Total non-current assets		11 937 550 255	16 059 517 912
CURRENT ASSETS			
Drilling equipment and spare parts	12	44 193 930	44 239 473
Receivables			
Accounts receivable from operators		50 962 779	164 207 824
Trade accounts receivable		163 862 234	32 168 822
Financial instruments		0	954 531 000
Other receivables	11	905 550 901	1 243 797 384
Total receivables		1 120 375 915	2 394 705 031
Cash and cash equivalents	4	79 346 441	22 189 992
Total current assets		1 243 916 286	2 461 134 496
Total assets		13 181 466 541	18 520 652 408
EQUITY AND LIABILITIES			
EQUITY			
Paid-in capital			
Share capital	14,15	141 500 000	141 500 000
Share premium reserve	14	1 273 500 000	1 273 500 000
Total paid-in capital		1 415 000 000	1 415 000 000
Retained earnings			
Other equity	**3,14**	**-189 865 037**	**556 387 986**
Total equity		1 225 134 963	1 971 387 986
LIABILITIES			
Provisions			
Pension liability	7	112 819 232	130 894 114
Deferred tax	13	4 782 339 755	6 114 675 461
Other provisions	10	2 679 501 736	3 973 617 374
Total provisions		7 574 660 723	10 219 186 949
Current liabilities			
Trade accounts payable		1 478 789	83 094 811
Public duties payable		22 948 593	49 321 745
Accounts payable to operator		400 731 444	307 800 105
Dividend	14	557 510 000	2 334 750 000
Tax payable	13	1 473 065 165	2 310 620 526
Financial instruments	3	421 863 563	0
Other short term liabilities	11	1 504 073 300	1 244 490 286
Total current liabilities		4 381 670 855	6 330 077 473
Total liabilities		11 956 331 578	16 549 264 422
Total equity and liabilities		13 181 466 541	18 520 652 408

Cash flow statement

	2016	2015
Operating profit before tax	2 260 380 689	4 426 348 634
Payment of tax	-3 590 414 369	-4 346 595 916
Depreciation, impairments and changes in net present value	4 040 433 627	4 910 135 871
Changes in accounts receivable and accounts receivable operators	-18 448 367	676 085 213
Changes in accounts payable and accounts payable operators	11 315 317	-660 310 409
Difference between pension cost and amounts paid into pension scheme	-25 442 811	-32 948 434
Changes in other balance sheet items	530 854 037	911 033 995
Net cash flow from operating activities	3 208 678 123	5 883 748 953
Acquired tangible fixed assets	-816 668 152	-726 155 617
Shares in subsidiary	-103 522	14 593 345
Net cash flow from investing activities	-816 771 674	-711 562 272
Payment of long-term borrowings	0	-4 067 000 000
Dividend paid	-2 334 750 000	-1 337 175 000
Net cash flow from financing activities	-2 334 750 000	-5 404 175 000
Net change in cash and cash equivalents	57 156 449	-231 988 319
Cash and cash equivalents at beginning of year	22 189 992	254 178 311
Cash and cash equivalents at end of year	79 346 441	22 189 992

Notes

01. Accounting policies

The annual accounts have been prepared in accordance with the Norwegian Accounting Act of 1998 and Norwegian generally accepted accounting principles.

Revenues
The sale of crude oil and gas is recognised through the sales method. For crude oil the point of delivery is at the offshore loading point or at shipment from the terminal. The point of delivery for gas is at the gas receiving terminal onshore.

Expenses
Expenses are expensed as incurred in accordance with the matching principle, either along with the revenues they have generated or identified as a periodical expense.

Estimates
In accordance with Norwegian generally accepted accounting principles, the management of the company is responsible for estimates and assumptions that affect the valuation of assets and liabilities in the balance sheet and depreciation in the income statement. The final realisable values may deviate from these estimates.

Classification and assessment of items in the balance sheet
Current assets and current liabilities include items due within one year and items related to ordinary working capital. All other items are classified as fixed assets or long-term liabilities.
Current assets are valued at the lower of cost and fair value. Short-term debt is valued at the historical nominal value. Fixed assets are valued at cost, but written down to fair value if the decline in value is not expected to be temporary. Long-term loans are stated at the historical nominal value.

Foreign currency
Monetary balance sheet items in foreign currency are converted at the exchange rate on the closing balance date.
All foreign currency transactions are converted to NOK in accordance with the Company's monthly book-keeping currency exchange rates, which approximate market rates.

Exploration costs
Geological studies and analysis are expensed as incurred. Exploration drilling costs are temporarily capitalised until potential oil and gas reserves have been evaluated (the successful efforts method). When new reserves are discovered, fully developed and put into production, the exploration drilling costs will be depreciated based on the unit-of-sales method. Drilling costs related to dry or non-commercial wells are expensed.

Property, plant and equipment
All costs related to the development of commercial oil or gas fields are capitalised as a part of the installation. Capital expenditures on fields in production are capitalised based on information from the operator.
Individual assets or groups of assets, classified as cash-generating units (CGUs), are tested for impairment when indicators of impairment are identified. When assessing whether an asset is impaired, the asset's carrying value is compared to the recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the asset's value in use. An impairment loss is recognised when the recoverable amount is below the carrying amount and if the decline in recoverable amount is not considered temporary. If the assets are decided to be impaired, the carrying amount is written down to the recoverable amount and the reduction in asset value is recognised as an expense.

Depreciation of production assets
The depreciation of producing assets, including site rehabilitation costs, commences when the oil or gas field is brought into production. Depreciation is calculated according to the unit of sales method. According to this method, the depletion rate is equal (since 1 January 2014) to the ratio of oil and gas sales for the period to proved and probable reserves. Before this date, the ratio was based on proved developed reserves.
The future capex linked to the 2P reserves are included in the calculation of the depreciation rate.
This change of estimate has been decided in view of the evolution of the Group's portfolio of production assets. This change aims to improve the economic vision of the production asset's consumption of benefits over its useful life.

Property, plant and equipment is capitalised and depreciated linearly over its estimated useful life. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property, plant and equipment are added to the acquisition cost and depreciated with the related asset.

Subsidiaries and investment in associate
Subsidiaries and investments in associates are valued at cost in the Company accounts. The investment is valued as the cost of the shares in the subsidiary, less any impairment losses. Consolidated financial statements are not prepared as the Company and its subsidiaries are included in the consolidated financial statements of the parent company in France.

Assets liabilities and expenses related to participating interests in exploration and production licences (joint ventures)
The Company's participating interests in exploration and production licences on the Norwegian Continental Shelf are accounted for in the income statement and balance sheet in accordance with the proportional consolidation method.

Transfer of joint ventures shares
Transfers of interests in petroleum licences on The Norwegian Continental Shelf require approval from the Norwegian Government. Under such transactions the sale price is generally considered to be on an "after tax" basis (after-tax transaction) as the consideration is not taxable for the seller and not deductable for the buyer through depreciation.

When acquiring licences that yield rights to exploration for and production of oil and gas, it will be assessed if the acquisition should be classified as a business combination or an asset acquisition. Acquisitions of individual licences which do not meet the definition of business combination will be classified as the acquisition of an individual asset.

Oil and gas producing licences
For oil and gas producing ownership interests, as well as licences in the development phase, the acquisition cost will be allocated between exploration costs, licence rights, production facilities and deferred taxes.

In connection with agreements for acquisitions or trade of interests, the parties will establish a completion date for the acquisition of the net cash flow since the effective date (often set on 1 January of the calendar year). In the period between the effective date and the completion date, the seller will include the acquired interest in the seller's accounts. In accordance with the acquisition agreement, there will be a settlement with the seller of net cash flow from the ownership interest during the period from the effective date to implementation date (Pro&Contra settlement). The Pro&Contra settlement will be adjusted against the income statement and against the acquisition cost, as the settlement (after reduction for taxes) is regarded as part of the payment for the transaction. Going forward from the implementation date, revenue and costs are included in the buyer's financial statements.

As regards taxes, the buyer will include for taxation net cash flow (Pro&Contra) and any other revenue and costs as of the effective date.

Allocations will not be made for deferred taxes in connection with acquisition of licences that are defined as acquisition of assets.

Farm-in agreements

Farm-in agreements are usually made during the exploration and development phases, and are characterised by the seller deferring future financial advantages, in the form of reserves, to reduce future financing obligations. One example can be that a licence interest is acquired and covered by the seller's share of the drilling-related costs. During the exploration phase, the company will normally enter farm-in agreements based on historical costs, as actual value often is difficult to determine. However, during the development phase, farm-in agreements are entered as acquisitions at actual cost when the company is selling shares of oil and gas interests. Fair value is determined by the costs that the buyer has agreed to carry.

Swap/Unitisation

A swap of ownership interest is measured at the fair value of the interest to be swapped, unless the transaction lacks commercial substance or if the fair value of the swapped interest is not measurable. During the exploration phase where it is often difficult to determine fair value, the Company will normally account for swaps based on historical cost.

Spare parts and drilling equipment

Spare parts and drilling equipment are valued at the lower of cost or market value. Cost is estimated using the First In First Out (FIFO) method. Capital spare parts are capitalised and presented in the financial statements together with the investment.

Over/under lift and petroleum in stock

Obligations arising as a result of lifted quantities of crude oil that are larger than the Company's participating interests in a licence are valued at production cost. Receivables arising as a result of lifted quantities of crude oil that are less than the Company's share in a licence, are valued at the lower of production cost and sales price. Petroleum in stock which has not passed the Norm Price-point, is valued at production cost, less depreciation.

Uncertain obligations

The Company will, through its activities, be involved in conflicts and disputes. The Company will accrue for obligations in connection with such unresolved issues based on the best estimate, when it is probable that an outflow of economic benefits will be required to settle the obligation.

Accounts receivables

Trade accounts receivables and other receivables are recorded at face value less a provision for any anticipated losses.

Asset retirement obligation

When the retirement obligation is incurred, the liability is recognised as a long term provision and the corresponding amount is capitalised as part of the producing asset. The asset is expensed through depreciation over the remaining useful life of the asset. Future changes in asset retirement obligation estimates are capitalised as part of the asset and charged to profit and loss prospectively over the remaining useful life of the asset.

Tax expense

Tax expense reflects both taxes on current taxable income and changes in deferred income taxes. Deferred tax is calculated based on net temporary differences between the book and tax values at year end. The calculation has taken into account tax losses carried carry forward and uplift on capitalised expenditures.
Uplift on capitalised expenditures reduces the special petroleum tax. Earned uplift from capitalised expenditures has been fully reflected in the deferred tax calculation.

Pensions

Accounting for the defined benefit pension plan is based on a linear vested principle and on expected salaries at the point of retirement. Changes in pension schemes are amortised over the remaining vesting period. Estimated deviations are continuously charged to equity. Social security tax is included in the pension cost and liability. The defined contribution pension plan is booked as current costs.

Accounting for licence cost

The Company's accounts reflects the net cost after charging partners their share of licence costs for permits the Company operates.

Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents include bank deposits.

Leasing

The Company has signed only operating lease agreements, and as such the related cost is charged to the income statement as incurred.

Financial Instruments

The Company enters into commodity based derivative contracts consisting of market swaps for oil and gas products.

Hedging

The Company applies the principals of NRS18 and uses the following criteria for classifying a derivative or another financial instrument as a hedging instrument: (1) the hedging instrument is expected to be highly effective in offsetting changes in the fair value of the cash flow of an identified object – the hedging effectiveness is expected to be between 80-125%, (2) the hedging effectiveness can be measured reliably, (3) satisfactory documentation is established before entering into the hedging instrument, showing among other things that the hedging relationship is effective, (4) for cash flow hedges, that the future transaction is considered to be highly probable, and (5) the hedging relationship is evaluated regularly with quantitative analysis and is considered to be effective.

Cash flow hedges

The efficient part of changes in the fair value of a hedging instrument is recognised in equity. The inefficient part of the hedging instrument is reported in the income statement. When a hedging instrument has matured, or is sold, exercised or terminated, or the ENGIE Group discontinues the hedging relationship, even though the hedged transaction is still expected to occur, the accumulated gains and losses at this point will remain in comprehensive income, and will be recognised in the income statement when the transaction occurs. If the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses on the hedging instrument will be recognised in the income statement immediately.

02. Financial market risk

The Company's financial result is affected by fluctuations in crude oil and gas prices and foreign currency exchange rates (mainly USD, GBP and EUR).

03. Financial Instruments

The Company enters into commodity based derivative contracts consisting of market swaps for oil and gas products. Swap contracts for oil are hedged towards Brent Blend; swap contracts for gas are hedged towards National Balancing Point (NBP) and Title Transfer Facility (TTF) prices.
The realised value on swap contracts for the year 2016 is a gain of NOK 511 987 381 . The realised gain or loss is booked in revenue and financial result where 95% of realised gas-swaps are recognised in revenue and 5% is recognised in financial result. For oil swaps, all the realised hedging contracts are booked in financial result as the hedging contracts are not fulfilling the requirements of efficiency according to NRS 18 for hedge accounting.

NOK	2016	2015
Total Gas hedging revenue (-loss)	418 445 470	391 937 531
Total Liquids hedging revenue (-loss)	0	240 389 781
Total hedging revenues (-loss)	418 445 470	632 327 312
Financial Income from hedging	93 541 910	33 280 385
Total hedging income (-loss)	511 987 381	665 607 697

The below table shows an overview of the Market to Market (MtM) Liability value as at 31.12.2016, totalling NOK 421 863 563.

NOK	Booked	31.12.2016	Due	2017	2018	2019
Cash flow hedge commodities liabilities	Liability	421 863 563		216 766 858	173 236 494	31 860 211
Cash flow hedge commodities reserves equity	Equity	-93 751 110		8 200 265	-78 948 302	-23 003 073
MtM inefficient portion	Loss	298 506 840		227 556 680	69 357 149	1 593 011

04. Bank deposits

The Company has issued a bank guarantee towards the tax authorities of 25 000 000 NOK, replacing the cash deposit for withholding taxes.

05. Operating revenues

Sales of the Company's production has derived the following revenues:

NOK	Norway	Italy	France	Switzerland	UK	Germany	2016 TOTAL	2015 TOTAL
Crude oil	2 641 782 344			261 859 785	850 916 981		3 754 559 110	4 360 459 732
NGL	89 102 118	178 961 158			648 108 680		916 171 956	1 334 702 427
Gas	166 697 099		956 540 725	130 495 553	2 004 125 039	231 001 607	3 488 860 023	5 227 661 136
Condensate	209 744 309						209 744 309	187 353 118
Gas infrastructure	98 775 748						98 775 748	87 959 375
Hedging of oil and gas			418 445 470				418 445 470	632 327 312
Other income							0	59 322 543
Total	3 206 101 618	178 961 158	1 374 986 195	392 355 338	3 503 150 700	231 001 607	8 886 556 616	11 889 785 644

06. Salaries and fees

NOK	2016	2015
Salaries	353 491 296	344 183 546
Social security tax	51 082 033	59 113 770
Pension costs	13 883 467	30 613 542
Other employee benefits	29 696 969	51 130 418
Total salary	448 153 765	485 041 276
Salaries recharged to licences	354 979 153	365 080 594
Total net salary	93 174 612	119 960 683
Number of full-time equivalent employees in fiscal year	277,9	281,4

Remuneration for Managing Director

The Managing Director position was held by Cedric Osterrieth in 2016. The total salary, bonus and other fringe benefits paid to the Managing Directors is NOK 3 040 989, of which NOK 2 120 623 is salary and NOK 920 366 is other benefits.

Remuneration of the Board

Payments of remuneration to the Board for the year 2016 totalled NOK 90 000.

Share options

The General assembly of ENGIE SA has elected to issue restricted share plans and share subscription option plans. The restricted plan is subject to certain conditions, such as remaining in the Company for a certain period. Some employees of the Company were invited to participate in the plans. These plans have no material impact on the financial statements of the Company.

Audit fees

The fees paid to Ernst & Young during the year 2016, excluding VAT, are comprised of the following amounts:

NOK	2016
Audit decreed by law	1 434 523
Other attestation services	75 000
Technical VAT and tax services	96 900
Total	1 606 423

07. Pensions

The Company is required to have an occupational pension scheme in accordance with the the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The Company's pension scheme meets the requirements of that law.
The Company has a retirement benefit plan for all permanent staff. This benefit plan gives the employees the right to receive defined future pensions. The Company decided to change the pension scheme for the employees from a defined benefit plan to a defined contribution plan, as of 01.01.2016. The new pension scheme will be mandatory for all employees having more than 15 years remaining until retirement age, hence the employees having less than 15 years left until retirement will still be members of the old defined benefit pension plan. The Company's actuarial report is provided by Storebrand Pensjonstjenester AS. The value of these is mainly dependent on the number of years in service and the level of compensation at retirement. The obligation up to 12G is financed through an insurance company, the remainder is financed through normal operation.

NOK	2016	2015
Pension rights earned during the year	25 212 792	64 753 237
Interest expense on earned pension rights	2 707 840	4 855 108
Effect implementation of new mortality table K2013	-14 037 165	0
Effect of implementation of new pension scheme *	0	-38 994 803
Net pension cost	13 883 467	30 613 542

Assets/obligations	2016	2015
Pension benefit obligations	201 662 829	369 536 806
Plan assets	-91 500 000	-174 627 396
Change in estimate during the period	2 656 403	-25 020 493
Effect of implementation of new pension scheme *	0	-38 994 803
Net pension liability	112 819 232	130 894 114

Financial assumptions	2016	2015
Discount rate	2,60 %	2,50 %
Expected increase in salaries	2,50 %	2,50 %
Expected increase in pensions	0,00 %	0,00 %
Expected increase of social security base amount (G)	2,25 %	2,25 %
Expected return on plan assets	2,60 %	2,50 %

08. Related party transactions

Related Party	Company	Value of Transactions 2016	Value of Transactions 2015	Nature of transactions	Other Comments
ENGIE SA	Ultimate parent company	7 015 000	14 083 000	Transportation cost of gas	Income statement
ENGIE SA	Ultimate parent company	1 019 170 000	1 224 412 000	Sales of gas	Income statement
GDF Suez DEXpro	Associated company	20 711 000	26 800 000	Operating and IT expenses	Income statement
ENGIE E&P International SA	Parent company	78 964 000	84 131 000	Operating and support expenses	Income statement
ENGIE E&P International SA	Parent company	343 294	13 042 000	Interest & financial income group account	Income statement
ENGIE E&P International SA	Parent company	8 456 176	0	Interest & financial expenses group account	Income statement
ENGIE Global Markets	Associated company	511 987 381	665 607 697	Settlement of commodities contracts	Income statement
ENGIE CC Division J	Associated company	0	57 356 000	Interest & financial cost long-term loan	Income statement
GDF Suez E&P Greenland AS	Subsidiary	-840 389	294 462	Operating expenses	Income statement
ENGIE E&P International SA	Parent company	2 334 750 000	1 337 175 000	Dividend paid	Balance sheet
ENGIE CC Division J	Associated company	0	4 067 000 000	Repayment of loan	Balance sheet

09. Tangible fixed assets

NOK	Assets in Production	Assets under development	Equipment etc.	Capitalised exploration cost	TOTAL
Acquisition cost at 01.01.2016	34 632 428 315	97 455 275	534 952 104	296 935 557	35 561 771 252
Acquisitions during the year I)	-318 683 508	49 619 217	14 521 488	-14 174 003	-268 716 806
Disposal II) III)	-651 332 540	-104 850 331	0	-8 229 426	-764 412 297
Reclassification	11 909 972	173 790 262	0	-185 700 234	0
Acquisition cost at 31.12.2016	33 674 322 238	216 014 424	549 473 592	88 831 894	34 528 642 148
Less accumulated depreciation at 31.12.2016	-22 184 021 105	0	-460 336 666	0	-22 644 357 771
Book value as at 31.12.2016	11 490 301 133	216 014 424	89 136 926	88 831 894	11 884 284 377
Current year depreciation	-3 272 159 570	0	-44 188 648	0	-3 316 348 218
Estimated useful life			3-8 years		

I) The negative acquisition cost is caused by change in the Company's Asset Retirement Obligation estimate.

II) Capitalised exploration drilling costs from previous years are evaluated as non-commercial discoveries.

III) The Company's equity share in Gassled JV (including entitlement to Gudrun Tariff), Dunkerque Terminal DA, Zeepipe Terminal JV and Polarled JV were sold to CapeOmega AS in 2016.

10. Other provisions and obligations

NOK	2016	2015
Asset retirement obligation	2 461 056 185	3 707 512 476
Other long-term provisions	218 445 551	266 104 898
Other provisions	2 679 501 736	3 973 617 374

Other long-term provisions

Other long term provisions are the Company's net liability related to the Gjøa liability to the Vega licences. This long term debt relates to capex pre-payments from the Vega licences to the Gjøa development project. The Gjøa liability is reduced according to units of production, based on the throughput of hydrocarbons from the Vega licences in the Gjøa processing facility.

Asset retirement obligation

In accordance with the concession terms of the Production licences which the Company holds, the Norwegian State can assume ownership of licence installations without charge when the production ends or when the licence expires. Alternatively the State can require the installations to be removed. In addition to provisions for future abandonment cost, provisions have been made for future costs of plugging and securing production wells. The accretion expense is classified as an operating expense.

	2016	2015
Asset retirement obligations at January 1	3 707 512 476	3 789 682 424
Liabilities incurred / revision in estimates	-1 095 531 129	-175 886 035
Accretion expense	75 513 295	93 716 087
Shutdown and tow in of Njord 2016	-226 438 456	
Asset retirement obligations at December 31	2 461 056 185	3 707 512 476

Financial assumptions

Years until removal	6-10 years	11-15 years	16-20 years	21-25 years
Discount rate	4,24 %	4,76 %	5,11 %	5,32 %

Drilling commitments

The Company, together with its licence partners, is committed to taking part in the drilling of wells in accordance with its licence agreements.

Contractual obligations	2017	Thereafter	Total
Obligations committed NOK	529 102 000	1 017 505 000	1 546 607 000

The contractual obligations are related to the acquisition and construction of assets in licences where the Company has ownership interests.

11. Inter-company balances

Receivables	31.12.16	31.12.15
Trade accounts receivable from inter-company	190 201 000	296 801 000
Short-term receivables from parent company	-	3 243 000

Liability	31.12.16	31.12.15
Margin Call	-	943 805 000
Other short term liabilities	93 072 897	126 311 106
Short-time payable from Parent comapny	1 135 072 000	0

Interest expense on the loans in 2015 totalled NOK 57 356 000, of which none was capitalised.
The loan was reimbursed at maturity during 2015.

12. Drilling equipment

Spare parts and drilling equipment are valued at the lower of cost or market value. Cost is estimated using the First In First Out (FIFO) method. Capital spare parts are capitalised and presented in the financial statements together with the investment.

	2016	2015
Drilling and well equipment	44 193 930	44 239 473
Total Inventories	44 193 930	44 239 473

13. Taxes

	2016	2015
Specification of the tax expense for the year:		
Change in deferred tax before adjustment in tax rates	-1 070 685 823	-1 738 631 204
Deferred tax charge effect from new tax rates, 24% and 54% *	867 001	-29 855 917
Current tax payable	2 753 380 848	4 630 646 633
Adjustment for tax provision in prior years	-625 362	-10 647 989
Total tax expense	1 682 936 664	2 851 511 523
Specification of the tax basis for the year:		
Ordinary profit before tax	2 260 380 689	4 426 348 634
Permanent differences	-32 950 959	4 428 931
Change in temporary differences	1 759 507 254	2 416 931 300
Basis ordinary income tax	3 986 936 983	6 847 708 865
Financial expenses not subject to special petroleum tax	147 963 654	-234 050 613
Income from onshore activities	-525 119 460	-674 550 233
Uplift on capitalised expenditures	-295 353 626	-484 666 374
Basis special petroleum tax	3 314 427 551	5 454 441 646
Tax payable:		
Tax payable - ordinary income tax 25%	996 734 246	1 848 881 394
Tax payable - special petroleum tax 53%	1 756 646 602	2 781 765 239
Total tax payable	2 753 380 848	4 630 646 633
Specification of basis for deferred tax:		
Net differences :		
Fixed assets	9 034 115 126	11 659 779 070
Pension liability	-112 819 232	-130 894 114
Crude oil inventory	0	2 381 327
Gain and loss account	58 358 453	36 422 339
Hedging Asset / Liability	-421 863 563	954 712 441
Restructuring cost	-25 552 941	0
Asset retirement obligations	-2 461 056 185	-3 668 737 918
Basis ordinary income tax	6 071 181 657	8 853 663 146
Limited capitalisation of interest on development projects	-72 638 133	-81 489 401
Gain and loss account	-30 260 147	
Hedging Asset / Liability	421 863 563	-954 712 441
Unused uplift	-232 265 169	-456 593 994
Basis special petroleum tax	6 157 881 772	7 360 867 310
Deferred Tax Liability:		
Ordinary income tax (25%)	1 517 795 414	2 390 489 049
Special petroleum tax (53%)	3 263 677 339	3 754 042 328
Deferred tax liability effect from new tax rates, 24% and 54%	867 001	-29 855 917
Total deferred tax	4 782 339 754	6 114 675 461
Of which booked against equity	72 142 774	-190 374 110

	2016	2015
Tax payable:		
Ordinary income tax	2 753 380 848	4 630 646 633
Tax effect of group contribution	0	1 401 567
Prior year adjustments	-420 136	-2 661 675
Tax paid in advance	-1 279 895 547	-2 318 766 000
Total tax payable in balance sheet	1 473 065 165	2 310 620 525
Reconciliation of tax expense and calculated tax expense:		
Ordinary profit before tax	2 260 380 689	4 426 348 634
Marginal tax at 78%	1 763 096 937	3 452 551 935
Uplift on capitalised expenditures	-39 277 545	-94 045 362
Hedging	-81 781 737	-339 459 925
Permanent difference §10	66 583 290	122 930 789
Proceeds on sale	-89 664 411	-111 163 054
Other permanent differences	-11 732 015	-7 633 159
Financial items not subject to special petroleum tax	75 470 504	-131 165 796
Adjustments from prior years	-625 362	-10 647 989
Effect of changing tax rates to 24% and 54%	867 001	-29 855 917
Tax expense	1 682 936 664	2 851 511 523

* The corporate tax rate and the special petroleum tax rate will change to 24% and 54% respectively to be effective from income year 2017 (changing from 25% and 53% respectively in 2016).

14. Equity

	Share capital	Share premium reserve	Other equity	Total
Equity at 31.12.15	141 500 000	1 273 500 000	556 387 985	1 971 387 985
Current year net income			577 444 025	577 444 025
Pension actuarial valuation			320 494	320 494
Hedging MTM			-766 507 542	-766 507 542
Dividend 2016			-557 510 000	-557 510 000
Equity at 31.12.16	141 500 000	1 273 500 000	-189 865 038	1 225 134 963

15. Share capital and shareholder information

The share capital of the Company consists of 141 500 shares with a nominal value of NOK 1 000 per share.All shares are held by the parent company, ENGIE E&P International SA.
The parent company (ENGIE E&P International SA, with head-office located in Paris) issues consolidated statements which include ENGIE E&P Norge AS and GDF Suez E&P Greenland AS.

16. Investment in subsidiaries

Investments in subsidiaries are valued at the lower of cost and fair value in the accounts of the Company.

Company	Business office	Share
GDF SUEZ E&P Greenland AS	Stavanger	100%

17. Reserves (not audited)

According to the reserves information published by the Norwegian Oil Directorate, the Company`s share of remaining reserves at 31.12.2016 are:

	Licence duration	Oil (mill Sm³)	Gas (bill Sm³)	NGL (million tonnes)	Condensate (mill Sm³)
Njord	10.04.2023	2,04	5,28	1,64	0,00
Fram	09.03.2024	0,78	0,95	0,08	0,00
Fram H-North	09.03.2024	0,02	0,00	0,00	0,00
Snøhvit	01.10.2035	0,00	21,89	0,73	2,28
Gjøa	08.07.2028	0,75	4,68	1,26	0,00
Vega	09.03.2024	0,18	0,49	0,18	0,00
Hyme	17.12.2029	0,26	0,12	0,04	0,00
Gudrun	31.12.2028	1,45	1,00	0,13	0,00

31st of December 2016 / 27th March 2017

Maria Moræus Hanssen
Chairman of the Board

Laurent Dallet
Board Member

Meriem Mokrani
Board Member

Rolf Erik Rolfsen
Board Member

Benoit Mignard
Board Member

Pierre Chareyre
Board Member

Mailin Seldal
Board Member
Employees' Representative

Trond Myklebust
Board Member
Employees' Representative

Arne Bekkeheien
Board Member
Employees' Representative

Cedric Osterrieth
Managing Director

Auditor's report

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of ENGIE E&P Norge AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of ENGIE E&P Norge AS, which comprise the balance sheet as at 31 December 2016, the statements of income and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of ENGIE E&P Norge AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) is responsible for the other information. Our opinion on the audit of 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.

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Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including 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, 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 those charged with governance 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.

Year 2016
Auditor's report

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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 proposal for the allocation of the result 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 ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Stavanger, 27 March 2017
ERNST & YOUNG AS

Tor Inge Skjellevik
State Authorised Public Accountant (Norway)

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MELVÆR&CO KJ07 Foto: Jan Inge Haga