2016
ANNUAL REPORT

IDEMITSU PETROLEUM NORGE AS

MESSAGE FROM THE MANAGING DIRECTOR

The challenging times in the oil sector continue. We are going through a transformative period, and like all other companies, Idemitsu must adapt to the changed conditions which constitute a new reality for us as a company.

Our approach includes joining forces with our business partners in the search for smarter and more cost-efficient solutions for the projects we participate in on the Norwegian Continental Shelf (NCS).

Internally, efforts to save costs and optimising internal procedures and organisation also continue.

In 2016, we increased our production significantly. A daily production rate of 37 000 boe is the highest we have experienced in Idemitsu since 2004. The main contributors to this pleasing rise in output are the start-up of new Fram C-East production and a stable production from the Knarr field.

2016 was also a rewarding year for us exploration-wise. Of Idemitsu's five exploration and appraisal (E&A) wells, all encountered hydrocarbons. This included the North Sea discovery Laks, which immediately was converted to a producer. Moreover, north-east of the Gjøa field, our Cara oil and gas discovery was ranked among the top three discoveries made on the NCS in 2016. Finally, three of the E&P wells were located in the Barents Sea. Two represented appraisals of the Alta and Wisting discoveries, in addition to an oil and gas discovery made in the Neiden prospect.

We look forward to 2017 with two big investment decisions to be made concerning the Snorre Expansion Project and the installation of the Troll C Gas Module. Both these projects will secure and increase future production from the Snorre and Fram fields.

HIROSHI ARIKAWA
Managing Director

KEY DATA

	2016	2015	2014	2013	2012
OPERATING REVENUES, MILLION NOK	4856	4 228	5 461	5 172	4 918
OPERATING PROFIT, MILLION NOK	651	-679	1 012	2 009	2 080
PROFIT AFTER TAX, MILLION NOK	327	48	473	592	557
DAILY OIL PRODUCTION, THOUSAND BARRELS	32	27.6	21.2	20.1	18.6
INVESTMENTS, MILLION NOK	545	744	2 418	2 355	1 146
EQUITY RATIO (YEAR END)	55 %	54 %	43 %	41 %	42 %
CASH FLOW BEFORE FINANCING, MILLION NOK	1 974	-289	-1 137	-748	-129
CRUDE OIL RESERVES, MILLION SM^3	12.7	12.9	14.4	12.1	11.7
RETURN ON EQUITY	7 %	1 %	11 %	16 %	16 %

DEFINITIONS

Daily oil production = Average daily oil production, Idemitsu share
Investments = Offshore investments excl. production rights
Crude oil reserves = Probable, commercially recoverable resources in producing fields
Return = Annual after tax profit
Equity = Equity at the beginning of the year


IDEMITSU MUST ADAPT TO THE
CHANGED CONDITIONS WHICH
CONSTITUTE A NEW REALITY
FOR US A COMPANY.
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EXPLORATION

2016: ADDING AND UNDERPINNING BARENTS SEA AND NORTHERN NORTH SEA RESOURCES

Following applications for exploration acreage in the 23rd licensing round in December 2015, Idemitsu (IPN) was one of the 13 companies among the 26 applicants receiving license awards when these were announced on 18 May 2016. The company received two new Barents Sea licenses, located immediately east and north-east of the important Alta oil and gas discovery on the Loppa High, respectively.

Idemitsu also applied for acreage in Awards in Pre-defined Areas 2016 in September 2016.

Of Idemitsu's five exploration and appraisal wellbores in 2016, all encountered hydrocarbons. Two wells were located in the Loppa High license PL 609 in the Barents Sea. The first, well 7220/11-3 AR, was a re-entry and deepening of an appraisal well to the Alta discovery, and testing was successfully undertaken. The second well, 7220/6-2 R, was a re-entry of the wildcat targeting the Neiden prospect further north-east in the same license. Here, drilling of the main reservoir took place, and another oil and gas discovery was made in Paleozoic carbonates that exhibited good to moderate reservoir properties. Further north-east, a very important and record-breaking horizontal appraisal well was drilled in the shallow Wisting oil and gas discovery, and the oil zone was successfully tested.

In the northern North Sea, Idemitsu's heritage area, an oil discovery was made in the Laks prospect, close to the Vigdis field. Finally, in block 36/7, north-east of the Gjøa field, the significant Cara oil and gas discovery was made in Lower Cretaceous Agat Formation sandstones. Cara was ranked among the top three discoveries made on the Norwegian Continental Shelf in 2016. Like Idemitsu's Barents Sea Alta and Neiden discoveries, Cara was also

discovered up-dip from wells with hydrocarbon shows, drilled and abandoned by other companies many years ago.

- In **PL 057** (block 34/4; 9.6 % IPN interest) prospect evaluation continued.

- In **PL 089** (block 34/7; 9.6 % IPN interest) the Laks discovery was made and immediately put on production. Prospect evaluation continued, and a small part of the license acreage was relinquished.

- In **PL 090** and **090 E** (blocks 35/11 and 31/2; 15 % IPN interest) efforts were spent to mature discoveries and rank undrilled exploration targets.

- In **PL 090 F** and **090 G** (block 35/11; 40 % IPN interest) prospect evaluation continued.

- In **PL 090 HS** (block 35/11; 15 % IPN interest) evaluation of exploration potential took place.

- In **PL 293** (blocks 34/12, 35/10; 15 % IPN interest) prospectivity and technical feasibility studies concerning the Afrodite gas discovery were completed. Part of the license acreage was relinquished.

- In **PL 293 B** (block 35/10; 20 % IPN interest) the remaining exploration potential was evaluated.

- In **PL 318, 318 B** and **318 C** (blocks 35/2, 4, 5, 6203/10; 20 % IPN interest) development of the Peon gas discovery is still awaiting commercial and technical solutions.

- In **PL 373 S** (block 34/3; 25 % IPN interest), evaluation of remaining prospectivity continued. The license was granted a one-year extension of the Decision to Continue milestone, and a minor part of the license acreage was relinquished.

- **PL 373 BS** (block 34/3; 25 % IPN interest) was surrendered during 2016.

- **PL 420** (block 35/9; 20 % IPN interest) was surrendered after thorough evaluation of the Titan technical discoveries.

In **PL 537** (blocks 7324/7, 8; 20 % IPN interest), the Wisting Central II horizontal well successfully qualified the drilling technology and feasibility of very shallow horizontal offshore wells. Moreover, the well also proved increased volumes in the segments drilled. Based on the well results, extensive studies were carried out and served to increase estimates of the hydrocarbon volumes discovered.

The Idemitsu-operated **PL 578** (block 35/6; 40 % IPN interest) was surrendered without drilling, following comprehensive geological and geophysical studies.

In **PL 609** and **609 B** (blocks 7120/1, 2, 7220/6, 9, 11, 12, 7221/4; 30 % IPN interest), appraisal of the Alta discovery successfully continued, with the deepening and testing of the Alta 3 appraisal well. Extensive G&G studies were undertaken. In the northern part of PL 609, the Neiden wildcat re-entry and deepening resulted in an oil and gas discovery that also upgraded undrilled prospectivity in this part of the license.

PL 609 C (blocks 7220/12, 7221/10; 30 % IPN interest) was awarded in the 23rd Licensing Round with a one year initial period of G&G studies. The licensees continued their prospect evaluation efforts.

In **PL 614** (blocks 7324/9, 7325/7; 40 % IPN interest) evaluation of the Mercury gas discovery well and remaining license prospectivity continued. Geological and geophysical studies confirmed a close relationship to the geology of the 23rd Licensing Round award PL 855, located due north of PL 614.

In **PL 630** (blocks 31/1, 35/10; 20 % IPN interest) efforts to mature the exploration potential and rank prospects were undertaken.

In **PL 636** (block 36/7; 30 % IPN interest) a very interesting and promising oil and gas discovery in Lower Cretaceous Agat Formation sandstones north-east of the Gjøa field was drilled and tested.

PL 638 (blocks 34/2, 3, 6, 35/1, 4; 20 % IPN interest) was granted a one-year extension of the Drill or Drop decision milestone, and the remaining exploration potential was evaluated.

PL 756 (blocks 6407/7, 10; 25 % IPN interest) in the Norwegian Sea was surrendered without drilling.

PL 851 (blocks 7220/9, 7221/7, 8; 30 % IPN interest) was awarded in the 23rd Licensing Round with a two-year initial period and a work programme including 3D seismic reprocessing. Prospect evaluation was undertaken.

Idemitsu maintains a long-term view on NCS prospectivity. The company will continue to expand and strengthen its resource base further in the years to come, and also strive to commercialise its number of undeveloped discoveries.

Idemitsu prepares for careful and continued sustainable growth, via acquisition of promising exploration acreage in licensing rounds, as well as through pursuit of selected exploration farm-in opportunities or asset acquisitions, as appropriate.


OF IDEMITSU'S FIVE EXPLORATION
AND APPRAISAL WELLBORES
IN 2016, ALL ENCOUNTERED
HYDROCARBONS.

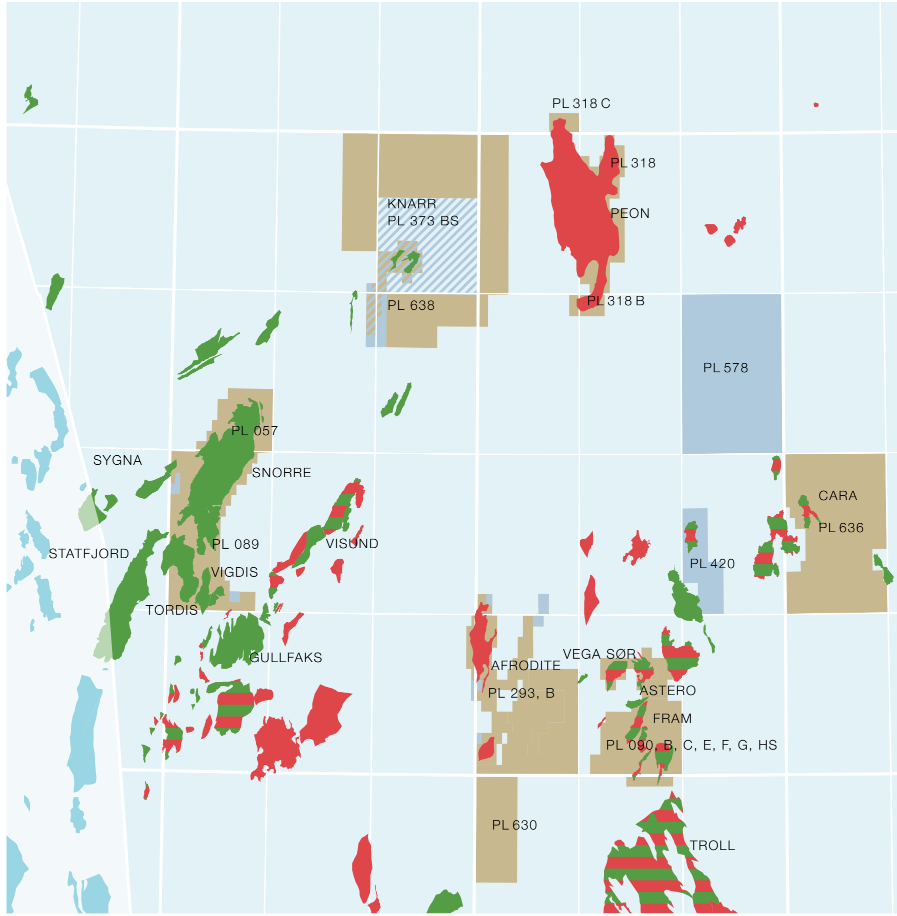
NORTHERN NORTH SEA

LICENSES

IDEMITSU LICENSES AT YEAR-END 2016
RELINQUISHED IN 2016
STRATHIGRAPHIC LICENSE RELINQUISHED IN 2016

FIELDS/DISCOVERIES

OIL
OIL/GAS
GAS/CONDENSATE



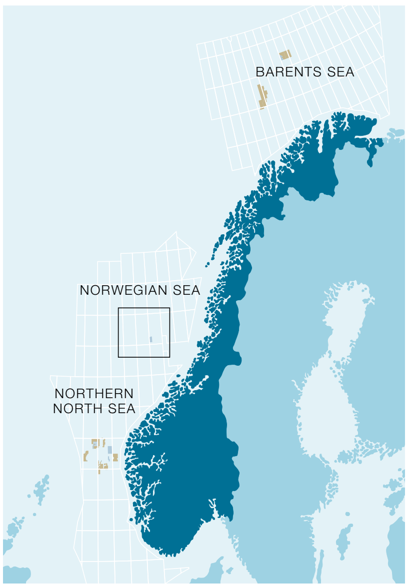
NORWEGIAN SEA

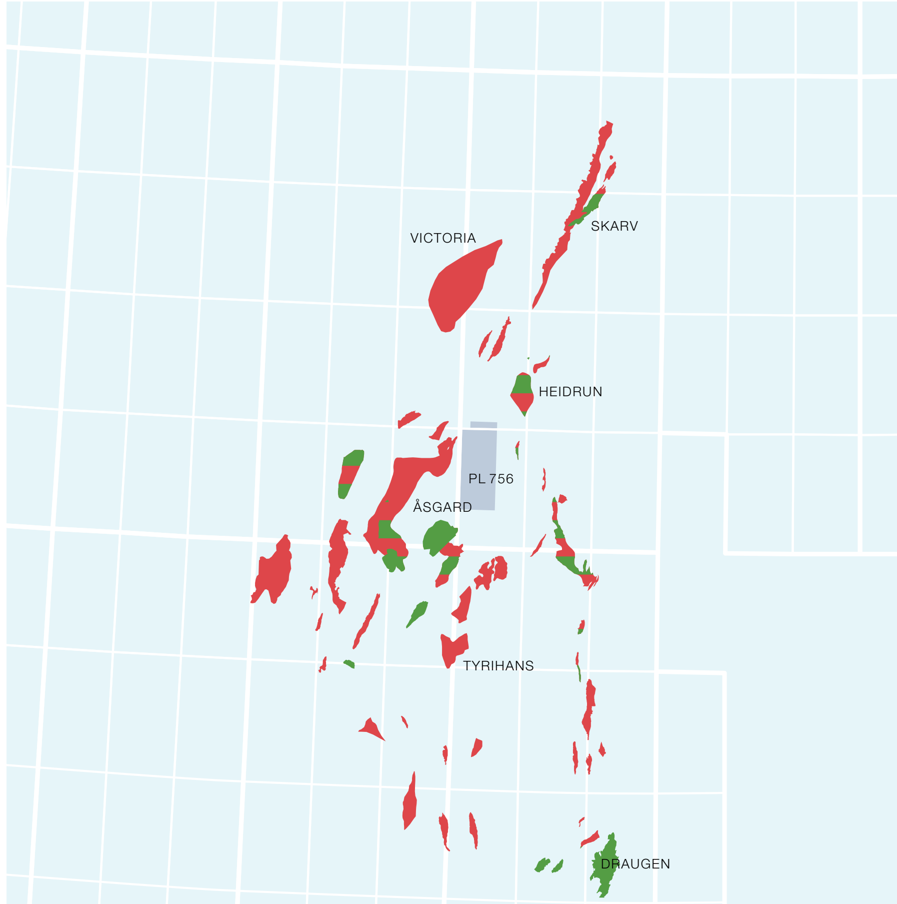
LICENSES

- IDEMITSU LICENSES AT YEAR-END 2016
- RELINQUISHED IN 2016

FIELDS/DISCOVERIES

- OIL
- OIL/GAS
- GAS/CONDENSATE





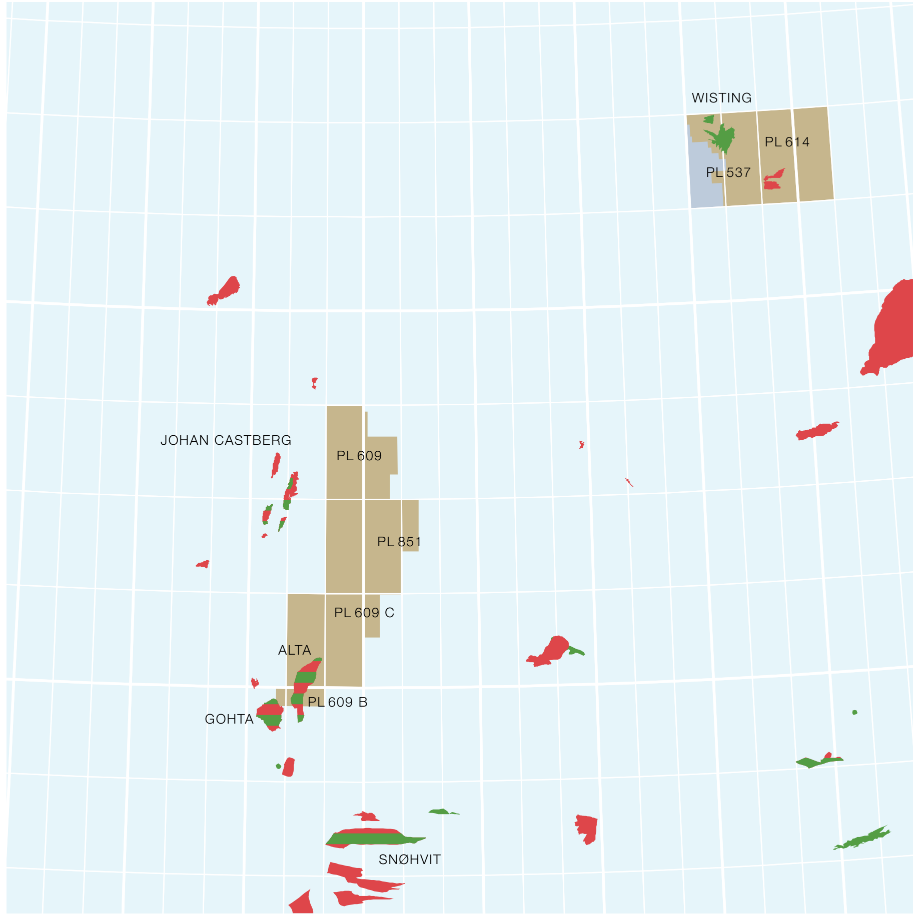
BARENTS SEA

LICENSES

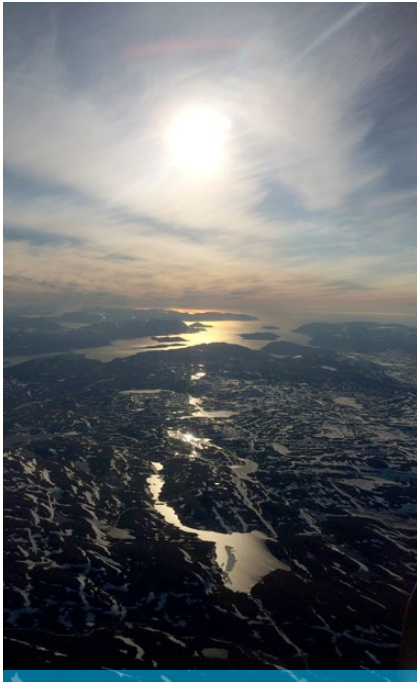
- IDEMITSU LICENSES AT YEAR-END 2016
- RELINQUISHED IN 2016

FIELDS/DISCOVERIES

- OIL
- OIL/GAS
- GAS/CONDENSATE




KNARR REACHED STABLE
PRODUCTION IN 2016 AND BECAME
THE LARGEST OIL PRODUCER IN
IDEMITSU'S PORTFOLIO THIS YEAR.



TAMPEN AREA

Five of Idemitsu's producing fields are located in the Tampen Area of the North Sea.

Snorre

Spanning blocks 34/4 and 34/7, the Snorre field has been producing since August 1992 when the Snorre A platform started production. The Snorre B platform went onstream in 2001. Although the Snorre field has a long production history, production is still expected to last for another 25-30 years. Plans are being developed to secure continued operation of the field in a long-term perspective. The Snorre Expansion Project consists of several new subsea templates which will be tied back to Snorre A. An investment decision with a new PDO is scheduled for late 2017.

Tordis

The Tordis field is developed by subsea installations tied into the Gullfaks C platform located ten kilometres away for processing. The production from Tordis started in 1994. The field is now in a declining phase, but is still expected to produce for another 10 -15 years. The subsea facilities have been upgraded with new production flow lines and a control system to extend field lifetime.

Vigdis

The Vigdis field is a subsea development tied back to the Snorre A platform seven kilometres away for processing. Vigdis started production in 1997. In 2009, an oil discovery was made in exploration well 34/7-34 (Vigdis Nordøst).The Vigdis Nordøst

discovery is developed as a subsea tie-in to the existing Vigdis subsea installations. Production started early in 2013. The field is now in a declining phase, but is expected to produce for another 10-15 years.

Statfjord Satellites

Statfjord Øst and Sygna are subsea satellite fields tied into the Statfjord C platform. Both fields are in the tail-end production phase, but may still produce for another 5-10 years.

Knarr

Knarr is located 40 kilometres north of the Snorre field and was discovered in 2008. The PL 373 S license delivered a PDO in December 2010 for a stand-alone development with subsea wells and a leased FPSO vessel, (Floating, Production, Storage and Offloading) only two years after the discovery was made. In addition to the Knarr Central discovery, the PDO covers the nearby Knarr Vest discovered in 2011. The development of Knarr Vest was decided in 2012 and is included in the Knarr development. The production facilities have the flexibility to handle additional production from other prospects in the area. A 100 kilometre new gas pipeline evacuates the gas via the FLAGS system to the terminal at St. Fergus in the UK. Production started up in 2015.

FRAM AREA

In 2002, Idemitsu purchased a 15 % share in the PL 090 license. Today, the Fram area is among the focus areas for the company.

Fram field

The Fram field is located 20 kilometres north of the Troll C platform, and started production in October 2003. The Fram field is developed with subsea templates tied back to the Troll C platform for processing. The gas located in the field is transported in a pipeline to the Kollsnes gas terminal for processing and further export. During 2015, the Fram partners approved the development of the C-Øst discovery. C-Øst was developed and put on production in 2016 by one production well drilled from the Fram Øst template, and is produced through Fram Øst to Troll C.

Fram H-Nord

The Fram H-Nord discovery was unitised with the neighbouring PL 248

in 2013 and is developed as a tie-back to Fram and further to Troll C. Fram H-Nord started production in 2014.

Byrding

During 2016, the PL 090 B partners approved the development of the Byrding (Astero) discovery. Byrding will be developed and put on production in 2017 by one dual branch production well drilled from the H-Nord template, and produced through Fram Vest to Troll C.

Vega field

The Vega field started production in November 2010. Vega is developed with three subsea templates tied back to the Gjøa platform. The field was unitised in 2011 by the PL 248 (Vega North and Vega Central) and PL 090 C (Vega Sør) where Idemitsu holds a share. The gas from the Vega field is transported via the FLAGS system to the terminal at St. Fergus, while condensate is exported to Mongstad.

Discoveries being evaluated for development

Idemitsu has made several discoveries currently being evaluated for development. Among them are Alta (PL 609), Wisting (PL 537), Peon (PL 318) and Cara (PL 636). The discoveries are in different stages of maturity, but are expected to make a valuable contribution to the Idemitsu portfolio of producing fields in the years to come.

IDEMITSU GROUP

IDEMITSU IS A WORLDWIDE CORPORATION WITH OVER 9 200 EMPLOYEES.

What began as a lubricant oil sales business more than a century ago has grown into a group of more than 100 companies engaging in a wide range of activities.

Oil exploration and production in Norway, United Kingdom and South East Asia form an important part of the resource businesses in the group.

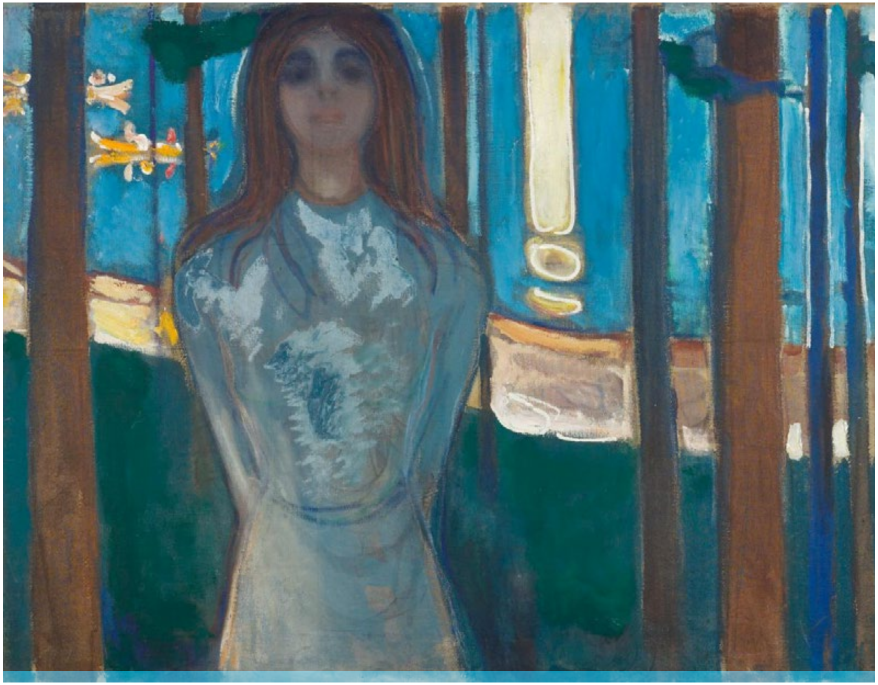
Other business areas include crude transport, refineries, petrochemical products, coal and uranium mining, renewable energy, as well as development and manufacturing of functional electronic materials.

For more information about our parent company, please visit www.idemitsu.com.

THE IDEMITSU MUNCH CONNECTION

IDEMITSU HAS BEEN PROUD SPONSOR OF THE MUNCH MUSEUM SINCE 1991.

One of the key management principles for all Idemitsu group companies is to give back to the local communities in which they operate. Therefore, supporting the Munch museum has been a natural choice for IPN – a choice we are certain that Idemitsu founder and art collector Sazo Idemitsu would have applauded to. The close bond we share with Munch's art and the museum serves as an inspiration for employees and business associates alike.



Summer Night. The Voice. 1896

ANNUAL REPORT OF THE BOARD OF DIRECTORS 2016

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INTRODUCTION
Idemitsu Petroleum Norge AS (Idemitsu) is engaged in exploration for and development and production of crude oil and natural gas on the Norwegian Continental Shelf (NCS). Idemitsu was founded on 25 September 1989. On 2 October 1989, a 9.6 % interest in production licenses (PL) 057 and 089 was acquired from Statoil. These production licenses are located in the Tampen area in the northern North Sea, and comprise the Snorre, Tordis, Statfjord Øst, Sygna, and Vigdis fields.

In 2002, Idemitsu acquired a 15 % share in the Fram area as part of a State Direct Financial Interest (SDFI) divestment. Fram Vest and Fram Øst production started in 2003 and 2006, respectively. The Vega Sør development in PL 090 C was completed in 2010, and production of oil and gas commenced via the Gjøa platform. Idemitsu holds a 4.38 % share in the unitised Vega field. In 2013, Idemitsu acquired a 25 % share in the carved-out areas PL 090 G and H from ExxonMobil. The acquisition gave Idemitsu a total share of 28.8 % in the unitised Fram H-Nord field, which started production in September 2014.

In March 2015, the production started from the Knarr field in the northern North Sea, a field in which IPN holds a 25 % share.

Idemitsu is a part of the Japanese Idemitsu Kosan group. Idemitsu Snorre Oil Development Co., Ltd.

(ISD), a Japanese company registered in Tokyo, owns all the shares. An owner share in ISD of 50.5 % is held by the Idemitsu Kosan group. The remaining 49.5 % is held by the holding company Osaka Gas Summit Resources Co., Ltd, which is owned by fellow Japanese companies Osaka Gas (70 %) and Sumitomo (30 %).

Idemitsu's mission is to explore, develop, produce and sell hydrocarbons with the best possible economic return to the shareholders. Idemitsu's office is located in Oslo.

EXPLORATION & PORTFOLIO

In 2016, Idemitsu was awarded two new license shares in the 23rd licensing round. PL 851 and PL 609 C are both located in the Barents Sea and operated by Lundin Norway. Idemitsu holds a 30 % share in both licenses.

Idemitsu participated in five exploration and appraisal wellbores (including sidetracks) in 2016. All of the five wells encountered hydrocarbons. The Wisting II appraisal well (7324/7-3 S) encountered hydrocarbons in the Stø and Fruholmen formations, and successfully tested the possibility for horizontal drilling in the shallow reservoir sections.

On the Loppa High, exploration and evaluation activity is high in the PL 609 license where the Alta discovery was made in 2014. The license is operated by Lundin, and Idemitsu has a 30 % share. In 2016, the appraisal well 7220/11-3 A was drilled as a deepening of the 7220/11-3 which was drilled in September 2015. The well encountered several zones with very good reservoir properties, and injection and production testing was carried out. Also, the wildcat well 7220/6-2 R was drilled in 2016, and proved oil in the Ørn formation.

In the North Sea, the Cara well (36/7-4) was drilled in PL 636. The license is operated by Engie, and IPN has a 30 % share in the license. The well encountered oil and gas in the Agat formation, and formation testing showed good production and flow properties. According to the operator Engie, the recoverable oil equivalent is in the range of 4-11 MSm^3. The partners are evaluating a potential tie-in to the nearby Gjøa field.

In PL 089, the Laks prospect was drilled in the western part of the Vigdis field. The well proved oil in Tarbert and Ness formations, and the well was completed as a producer.

There is a number of promising discoveries in Idemitsu's portfolio, and the company is actively working with the operators to find development solutions which are robust in the current low oil price environment.

The Board of Directors is pleased that the project base of Idemitsu is expanding, and regards the potential on the NCS as being good. Idemitsu intends to take an active part in coming licensing rounds and will continue to seek further investment opportunities on the NCS.

PRODUCTION & OPERATIONS

The total net oil production from Idemitsu's producing fields in 2016 was significantly higher than in 2015. The production in the Fram area has been stable, while the fields in the Tampen area have produced better than expected. The Knarr field has increased production significantly after the phased start-up in 2015.

In the Snorre area, the Snorre Expansion Project (SEP) is currently being evaluated. The project consists of several new subsea templates which will be tied back to Snorre A. An investment decision and PDO is scheduled in late 2017.

In the Fram area, the current processing agreement with Troll expires in 2019. Negotiations with Troll for a new agreement are ongoing. A new gas module is currently being evaluated on Troll C to increase the production capacity for the Fram area. An investment decision is expected around summer 2017.

A development decision for the Byrding field was made in 2016. The Byrding well will be drilled from the Fram H-Nord template, and production is expected to start in 2017.

RESEARCH & DEVELOPMENT (R&D)

Idemitsu executes most of its R&D projects as common industry projects, with relevance for the company's activities in open and licensed exploration areas and in producing fields. Idemitsu also contributes with significant amounts to general and specific R&D activities undertaken by the operators of our partner-operated fields.

HEALTH, SAFETY, ENVIRONMENT & QUALITY (HSE&Q)

As the activity in the industry has dropped through 2016, there has been a growing concern that cost reduction could influence safety. HSE&Q remains important for Idemitsu as a partner in producing assets, development projects and exploration drilling. We are pleased to see that it is possible to make efficiency gains, and at the same time motivate to work together for safe operations. No serious incidents have been reported in any of our licenses in 2016.

IPN is following up exploration, field development and production activities through independent work and review of applications and plans, participation in partner workshops and audit of partners to verify that the activities where IPN is partner are planned and executed in accordance with Norwegian regulations and own expectations. This follow-up activity has a sharpened focus toward environmental management when the activity may influence vulnerable areas, or in areas where the environmental consequences are uncertain. For incident statistics and environmental reporting from partner-operated activities, reference is made to the respective operators' annual reports.

At the end of 2016, there were 56 permanent employees in IPN. The total sick leave for 2016 was 1.65 %. This is a reduction compared with the 2.4 % sick leave in 2015, mainly due to further reduction in long-term sick leave. The company continues to focus on ergonomics and work-life balance, and staff is provided with opportunities for maintaining a healthy lifestyle in order to prevent and mitigate long-term sick leave. No work related incidents or accidents were reported in 2016.

Idemitsu has a policy of equal opportunity. In 2016, there were no women in the Board of Directors. No women are currently part of the Management. The number of female staff at the end of the year is 30 %.

There are inherent risks in offshore exploration and production activities. HSE&Q is therefore a core activity in the company, contributing to achieving the objectives set by the Managing Director through the company policies. HSE&Q has the active support from the Management. Idemitsu is committed to continual improvement, and the learning from our operator activities will be used to continue to improve internally and in our partner-operated activities on the NCS.

FINANCIAL RESULT

(1) Profit and loss statements

Idemitsu posted a profit after tax of 327 million NOK in 2016. This is a significant increase compared to 2015. Total sales income has increased by 15 % from 2015. The increase is mainly due to increased production from Knarr.

Operating expenses have decreased by 14 %. The main reason for the decrease is the impairment losses. In light of the current low oil price environment, the company has carefully reviewed all its producing fields and exploration assets for potential impairment loss. For the Knarr field the company has booked impairment loss of 238 million NOK, while impairment loss was 1 068 million NOK in 2015.

Operating expenses have also been affected by the decrease in exploration cost. The number of exploration wells has been lower than in 2015, and some of the drilled wells have been capitalised. Also the cost related to the income sharing agreement with Statoil has decreased significantly due to the lower oil price. On the other hand, the cost related to changes in inventory and over-/underlift has increased due to reduction of the underlift position in 2016.

(2) Balance sheets
Idemitsu has no long term loans at present. Extraordinary dividend of 370.3 million NOK was paid in December 2016. Equity represents 55 % of total assets at 31.12.16.

Capitalised 'Successful efforts exploration wells' increased by 236 million NOK in 2016. This is mainly due to the capitalisation of the drilling cost of the Wisting and Alta appraisal wells and the Cara exploration well. At the same time, ´Production facilities in operation´ has decreased significantly due to substantial depreciation and impairment loss on Knarr.

Abandonment accruals have decreased due to lower decommissioning estimates from the operators and a slightly higher discount rate.

(3) Cash flow statements
Total investment in productions facilities in 2016 was 545 million NOK, compared to 744 million NOK in 2015. Most of the investments have been made in Snorre and PL 089 in order to maintain production at the highest possible level in the years to come. In addition, the C-Øst well has been completed in the Fram area and contributed to substantial increase in the production.

Cash flow from operation is significantly higher than the operating profit. Depreciation and tax payments are the main differences between cash flow from operation and operating profit. In addition, impairment loss and changes in inventory have reduced the operating profit compared to cash flow.

The 2016 financial statement is given under the 'going concern' assumption. The Board of Directors confirms that this assumption is still valid.

FINANCIAL RISK

Market risk

Idemitsu is fully exposed to the oil price fluctuation risk. The company has most of its income in USD and cost in NOK. Most of the USD to NOK currency exchange risk was covered by short term foreign exchange contracts. Risk reductions by using the mentioned financial instruments will never exceed the actual risk position.

Liquidity risk

Idemitsu has no long term loans and a comfortable cash position. The cash flow from fields in production is strong and sufficient to cover the company's obligations even when the crude oil price is fairly low. It is expected that the company has substantial loan capacity based on the security of its producing assets.

Credit risk

The customers and banks which are doing business with Idemitsu are large and solid corporations. The company spreads its financial assets among several banks.

PAYMENTS TO AUTHORITIES

The company has prepared a report about payments to authorities which has been published on the company's web page, www.idemitsu.no.

OUTLOOK

Idemitsu's annual profits are closely linked to the crude oil price and exchange rates. These elements, especially the crude oil price, are difficult to estimate. Idemitsu expects the crude oil price to increase slightly in 2017 and 2018. Due to the stable income from fields with low/moderate cost level, Idemitsu can be profitable even at fairly low crude oil price. The company's liquidity is robust, and cash flow forecast is positive at current oil price levels.

The crude oil production and sales volume also affect the annual results. The production start on Knarr has significantly increased the company's daily oil production in 2016, but the daily production on Knarr is expected to gradually decrease in 2017.

The Board of Directors is not aware of any significant matters not already presented in this report or in the financial statements.

ALLOCATION OF THE ANNUAL PROFIT

THE PROFIT FOR THE YEAR OF NOK 326,610,510 IS PROPOSED ALLOCATED AS FOLLOWS:	
DIVIDENDS	0
RETAINED EARNINGS	326,610,510
TOTAL ALLOCATED	**326,610,510**

Oslo, 19 April 2017

MAKOTO HIRAI
Chairman

SEIJI CHIBA

HIROSHI ARIKAWA

TORGEIR VINJE

SHOGO HIRAHARA

FINANCIAL STATEMENT

PROFIT AND LOSS STATEMENTS

	NOTE	2016	2015
Operating revenue			
Sales of crude oil	1, 12	4 421 177 356	3 691 176 966
Sales of NGL	1	255 114 719	237 219 568
Sales of dry gas	1	160 449 631	277 414 057
Tariff income and other revenue	1	18 797 100	22 610 077
Total operating revenues		**4 855 538 806**	**4 228 420 667**
Operating expenses			
Production cost, processing tariff, CO_2 fee		1 254 233 728	1 226 408 737
Gas and transportation costs		42 595 684	43 484 528
Income sharing agreement	7	72 167 788	292 321 843
Changes in inventory and over- / underlift	9	148 236 957	- 295 178 223
Exploration costs	17	329 633 106	461 498 915
Salaries, social security, pension payments	2, 3	112 133 266	124 330 611
Other operating and administrative costs	3, 18	46 184 459	53 384 105
Ordinary depreciation	4, 5	1 894 532 858	1 832 547 798
Ordinary depreciation of production rights	5, 7	66 514 321	100 780 678
Impairment loss	5	238 000 000	1 068 000 000
Total operating expenses		**4 204 232 166**	**4 907 578 993**
OPERATING PROFIT		**651 306 640**	**- 679 158 326**

	NOTE	2016	2015
Financial income and expenses			
Interest income		25 175 639	21 967 948
Interest expense	10	82 000 140	113 343 554
Capitalised interest		0	414 625
Net foreign exchange gain (loss)	11, 12	14 253 569	- 93 393 080
Net financial items		**- 42 570 932**	**- 184 354 061**
PROFIT BEFORE TAXES		**608 735 707**	**-863 512 386**
Taxes on ordinary result	6	282 125 198	- 911 677 398
PROFIT FOR THE YEAR		**326 610 510**	**48 165 012**
Proposed dividend		0	0
Allocated to retained earnings		326 610 510	48 165 012
Total allocated		**326 610 510**	**48 165 012**

BALANCE SHEETS

	NOTE	31.12.2016	31.12.2015
FIXED ASSETS			
Intangible fixed assets			
Successful efforts exploration wells	5, 17	1 449 228 321	1 212 841 614
Total intangible fixed assets		**1 449 228 321**	**1 212 841 614**
Tangible fixed assets			
Production facilities in operation	5, 8, 10	3 891 649 157	5 690 595 113
Production facilities under development	5	95 627 598	9 603 576
Furniture, fixtures and cars	5	8 647 397	16 224 577
Total tangible fixed assets		**3 995 924 152**	**5 716 423 267**
Financial fixed assets			
Employee long term receivables		31 475 903	36 169 648
Other long term receivables	15	94 621 658	104 972 108
Total financial fixed assets		**126 097 561**	**141 141 756**
TOTAL FIXED ASSETS		**5 571 250 034**	**7 070 406 637**

	NOTE	31.12.2016	31.12.2015
CURRENT ASSETS			
Stocks and underlift			
Inventory and underlift	9	273 998 801	427 090 526
Debtors			
Accounts receivable		54 458 748	41 629 246
Receivables from group companies	16	234 030 515	207 692 125
Other current assets		407 991 763	531 561 166
Total debtors		**696 481 026**	**780 882 536**
Bank			
Bank and cash	3, 14	1 547 035 349	84 202 782
TOTAL CURRENT ASSETS		**2 517 515 177**	**1 292 175 843**
TOTAL ASSETS		**8 088 765 211**	**8 362 582 481**

BALANCE SHEETS

	NOTE	31.12.2016	31.12.2015
EQUITY			
Restricted equity			
Share capital	13	727 900 000	727 900 000
Retained earnings			
Retained earnings	13	3 727 116 064	3 767 747 020
TOTAL EQUITY		**4 455 016 064**	**4 495 647 020**
LIABILITIES			
PROVISIONS			
Pension liabilities	2	26 275 800	38 577 622
Deferred tax	6	58 863 818	447 863 285
Abandonment accrual	10	2 138 728 868	2 233 388 786
Total provisions		**2 223 868 486**	**2 719 829 692**

	NOTE	31.12.2016	31.12.2015
Current liabilities			
Short term bank loan		0	140 944 000
Suppliers payable		87 827 130	129 291 831
Payables group companies	16	2 460 771	9 913 482
Accrued payroll taxes, VAT, etc.		12 404 297	39 355 175
Taxes payable	6	573 514 481	0
Other current liabilities and overlift	7, 9, 14	733 673 983	827 601 281
Total current liabilities		**1 409 880 661**	**1 147 105 769**
TOTAL LIABILITIES		**3 633 749 147**	**3 866 935 462**
TOTAL EQUITY AND LIABILITIES		**8 088 765 211**	**8 362 582 481**

Oslo, 19 April 2017

MAKOTO HIRAI
Chairman

SEIJI CHIBA

HIROSHI ARIKAWA

TORGEIR VINJE

SHOGO HIRAHARA

CASH FLOW STATEMENTS

		2016	2015
Cash generated from / used in operating activities			
Profit / (loss) before taxes for the year		608 735 707	- 863 512 386
Taxes paid		216 727 403	- 464 952 371
Ordinary depreciation	5	1 961 047 179	1 933 328 476
Interest expense, asset ret. obligation	10	67 895 019	90 018 509
Pension accrual	2	1 600 609	5 508 032
Impairment loss		238 000 000	1 068 000 000
Previously capitalised wells expensed		106 412 509	50 741 735
Decommissioning expense		- 586 413	- 39 245 558
(Gain) / loss on sale of fixed assets		25 716	0
Change in inventory and short term assets and liabilities (excl. dividend payment)		- 242 439 644	- 710 022 765
Net cash flow from operations	**A**	**2 957 418 085**	**1 069 863 672**
Cash flow used for investments			
Investment in furniture and fixtures and cars	5	- 2 282 635	- 11 375 287
Proceeds from sales of fixtures and cars		0	189 568
Investment in production facilities	5	- 544 847 317	- 743 656 129
Investment in successful exploration wells	5, 17	- 436 211 565	- 604 045 393
Net cash flow to investments	**B**	**- 983 341 517**	**-1 358 887 241**

		2016	2015
Cash flow used for financing			
Share capital increases / (decreases)		0	0
Paid dividend	13	- 370 300 000	- 358 600 000
New loans		0	1 757 837 861
Loan repayments		- 140 944 000	-1 616 893 861
Net cash flow to financing	**C**	**- 511 244 000**	**- 217 656 000**
NET MOVEMENT IN BANK AND CASH	**A+B+C**	**1 462 832 568**	**- 506 679 569**
Bank and cash at 1 January		84 202 782	590 882 351
BANK AND CASH AT 31 DECEMBER		**1 547 035 349**	**84 202 782**

ACCOUNTING PRINCIPLES

GENERAL

The financial statements of IPN have been prepared in accordance with Norwegian Accounting Act and Generally Accepted Accounting Principles in Norway. The accounting language for Idemitsu is English. The accounting currency is NOK.

The 2016 accounts were approved by the Board of Directors on 19 April 2017.

CLASSIFICATIONS

Assets linked to the flow of goods, receivables falling due within one year, and assets not determined for permanent ownership and use are classified as current assets. Other assets are classified as non-current. Liabilities falling due within one year are classified as current liabilities. Other liabilities are classified as non-current. Cash and cash equivalents include bank deposits.

INTERESTS IN OIL AND GAS LICENSES

The company's interests in oil and gas licenses on the Norwegian Continental Shelf are booked under the respective lines in the profit and loss statements and the balance sheets.

REVENUES

Revenues from the production of oil and gas properties in which Idemitsu has an interest with other companies are recognised on the basis of volumes lifted and sold to customers during the period (sales method). When Idemitsu has lifted and sold more than the ownership interest, an accrual is recognised for the cost of the overlift. When Idemitsu has sold less than the ownership interest, costs are deferred for the underlift. Tariff revenue and other revenue is recognised when title and risk pass to the customer.

DEFERRED TAXES / TAX EXPENSE

Tax expense comprises payable tax and deferred tax. The deferred tax asset or liability is calculated based upon net temporary differences between assets and liabilities recognised in the financial statements and their bases for tax purposes after offsetting for tax loss carry forwards and special tax deductions. The full liability method is followed and the asset or liability is not discounted to a net present value. Tax rates adopted for 2017 (24 % for corporate tax and 54 % for special tax) are used when calculating deferred tax.

For tax purposes, offshore development costs are depreciated straight line over 6 years. From May 2013, capital expenses on the Norwegian Continental Shelf earn 22 % uplift on the total capital expenses; previously the uplift rate was 30 %. Uplift can be deducted from the special income tax base over a period of four years from the time of investment. The effect of uplift is recognised as earned in the year it becomes deductible and included in payable tax calculation. Uplift reduces the special petroleum tax paid by oil companies under the current tax regime. No deferred tax asset is recognised for uplift that will become deductible in the future. Current tax rates are 25 % corporate tax and 53 % special tax.

DEVELOPMENT COSTS, DEPRECIATION AND IMPAIRMENT

All offshore development costs are capitalised from the time when a discovery is deemed to give future commercial production. Development costs are depreciated using the Unit of Production (U.O.P.) method. Under this method, the annual depreciation charge is based on the percentage of the remaining estimated producible reserves of an oil field actually extracted in a given year. Certain future investments are required to produce the remaining estimated producible reserves. These future investments are included in the depreciation base. The resulting U.O.P. depreciation charge is estimated to be equal to the depreciation of current investments over the reserves exploitable from the current investments.

PP&E and other non-current assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indications of impairment may be decline in oil price, change in future investments or changes in reserve estimates.

If the net recorded value after deduction of accumulated depreciation for a field exceeds its net present value (calculated as future cash flows discounted at the weighted average cost of capital), an impairment loss is charged. For the purpose of impairment testing, assets are grouped together at the lowest possible level at which asset-specific cash flows can be identified. Oil and gas prices are based on the group’s own long-term price expectations, USD/NOK rate at the balance sheet date and long-term forecasts for production and expenditure. Previous impairment is reversed if the basis for impairment is no longer present.

CAPITALISED INTEREST COSTS

All interest costs associated with the development of production fields are capitalised up to production start and are thereafter depreciated using the U.O.P. method.

CAPITALISED GENERAL AND ADMINISTRATIVE COSTS
All direct general and administrative costs associated with the development of petroleum fields are capitalised according to man hours spent on each field up to production start and are thereafter depreciated using the U.O.P. method.

PRODUCTION RIGHTS
Production rights (cost related to the acquisition of licenses) related to unproved property are initially classified as Intangible assets. Production rights are reclassified from Intangible assets to Production facilities under development after the plan for development has been approved. Production rights are depreciated using the U.O.P. method from start-up of production together with the field development costs.

FURNITURE, FIXTURES AND CARS
Fixed assets are recorded in the balance sheet at cost after deduction of accumulated ordinary depreciation. Ordinary depreciation is based on cost and is calculated on a straight line basis over the estimated economic life of the asset, which is 3 or 5 years.

EXPLORATION COSTS
Exploration costs are accounted for in accordance with the Successful efforts method. Under this method, all costs associated with the exploration of licenses are expensed as incurred, with the exception of drilling and testing costs of exploration wells where a commercial discovery is made. Exploration wells where the status of a discovery is pending are initially capitalised as Intangible assets, and impaired fully if the discovery is later deemed non-commercial. If a pending well turns out to be dry or non-commercial after the balance sheet date but before the account closing date, such information is recognised as a subsequent event and the drilling and testing cost for the well is fully expensed.

Exploration costs can remain capitalised for more than one year. The main criteria for continued capitalisation are that there must be concrete plans for future drilling in the license, a development decision is expected in the near future, or the well is pending capacity on existing infrastructure.

If the wells discover commercial reserves, the capitalised exploration costs are reclassified to Production facilities under development after the plan for development has been approved. Exploration costs are depreciated using the U.O.P. method from start-up of production together with the field development costs.

ASSET RETIREMENT COST

Obligations related to future abandonment and decommissioning of production facilities are recorded at net present value (NPV) in the balance sheets. According to the net present value method, the company records as liability the net present value of future abandonment and decommissioning cost with a corresponding amount recognised as increase to the related property, plant and equipment. The discount rate used is a risk free rate adjusted for a credit premium. Any change in the estimated present value is reflected as an adjustment to the liability and the corresponding asset, and is depreciated along with this asset. Interest cost related to the time value of the liability is booked as financial cost.

LEASING ARRANGEMENTS

Significant lease contracts that meet the definition of finance leases (i.e leases on conditions which mainly transfer economic risk and control to the company), are recognised as PP&E (asset) and depreciated on a systematic basis over the lease period. Operational leases are expensed as incurred.

SALARY PRESENTATION IN PROFIT AND LOSS STATEMENTS

The Accounting Act § 6-1 requires salaries to be presented separately in the profit and loss statements. Such detailed information is not available in the license accounts, and salaries from the license accounts are therefore included in the respective lines in the income statement.

PENSION COSTS

The company finances a collective defined benefit retirement plan which covers all its local employees. This plan is administered by a Norwegian insurance company. In accordance with actuarial calculations the net present value of the future pension obligations is estimated and compared with the value of all funds paid and previously saved. The difference is shown in the balance sheets under 'Other long term liabilities' or 'Financial fixed assets'. Paid pension premiums and changes in net liability are recorded under 'Salaries, social security, pension payments' in the profit and loss statements, except for Remeasurement gain/loss which is booked directly to equity.

Pension obligations are recorded in accordance with IAS 19.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the exchange rates prevailing at the time of the transaction. Unrealised gains and losses arising from the individual revaluation of long term assets and liabilities at year-end rates are recognised through the profit and loss statement. Short term assets and liabilities are revalued individually at year-end rates, and unrealised gains and losses are recognised through the profit and loss statement.

FINANCIAL INSTRUMENTS

Financial instruments, which

> are classified as current assets,
> are included in a trading portfolio, and held with the intention to sell
> are traded on a stock exchange, authorised market or equivalent regulated foreign market, and
> have satisfactory diversity of ownership and liquidity

are recognised at fair value on the balance sheet date. Other investments are recognised at the lower of average acquisition cost and fair value at the balance sheet date.

ACCOUNTS RECEIVABLE

Trade receivables and other receivables are recognised at nominal value, less the accrual for expected losses of receivables. The accrual for losses is based on an individual assessment of each receivable.

INVENTORIES AND OVER-/UNDERLIFT OF PETROLEUM PRODUCTS

Inventories are recognised at the lower of cost and net realisable value and booked under ‘Current assets’. Liabilities arising from lifting more than the company’s share of the field’s petroleum production (overlifting) are valued at production cost, and booked under ‘Other current liabilities and overlift’. Full production cost including indirect cost is used for crude oil. For natural gas liquids and dry gas, full production cost after separation from crude oil is included.

RESEARCH AND DEVELOPMENT

The company’s research and development costs are expensed as incurred.

MAINTENANCE

Maintenance costs are expensed as incurred. Significant costs incurred in order to increase production capacity or extend the useful economic life of production facilities are capitalised.

CASH FLOW MODEL

The indirect model is used. ‘Cash and bank’ includes bank deposits available for use at year-end, except as noted for restricted funds.

NOTES TO THE ACCOUNTS

NOTE 1) SALES

CRUDE OIL
All of the company's crude oil production is sold to the ultimate parent company, Idemitsu Kosan Co., Ltd (IKC). The crude oil is sold on a FOB (Free On Board) basis. Idemitsu Kosan Co., Ltd. sells this oil directly on to European buyers. Idemitsu Petroleum Norge AS receives the norm price linked price less a margin for Idemitsu Kosan Co., Ltd. This margin covers all sales and transportation and shipping activities as well as swapping arrangements to secure crude oil supply to Japan. In 2016, a total of 12 million barrels was sold (2015: 8.7 million barrels).

NGL
All NGL from Tampen and Fram is sold FOB Kårstø/Kollsnes on long term contracts. NGL from the Vega Unit and Knarr fields is sold to UK buyers.

DRY GAS
All dry gas from Tampen and Fram is sold at exit Kårstø/Kollsnes on long term contracts. Dry gas from the Vega Unit and Knarr fields is sold in the UK.

TARIFF INCOME
Vigdis well stream is processed at the Snorre TLP. Idemitsu has a 9.6 % share of both fields. The processing tariff revenue and cost, which are booked under 'Tariff income' and 'Production cost, processing tariff' respectively, have no net profit impact on the company's accounts.

REVENUE SPLIT BY GEOGRAPHIC AREA (BY PLACE OF DELIVERY) (MILLION NOK)	2016	2015
Norway	4 606	4 069
U.K.	249	159
TOTAL	4 856	4 228

1 customer (IKC) accounts for more than 10 % of the sale.

NOTE 2) PENSIONS

Pension rights for Japanese employees are covered in Japan by group companies. Idemitsu has a group pension insurance with DNB covering 48 local employees. The group pension insurance is in accordance with the requirements stated in Norwegian pension legislation. Net pension obligations are recorded under 'Provisions' in the Balance sheets. The annual change in net obligation is recorded as expense under 'Other operating and administrative costs' in the Profit and loss statements, except Remeasurement gain/loss which is booked directly to equity. Accounting of pension cost is done in accordance with IAS 19. The company has adopted the revised IAS 19 Employee Benefits for NGAAP.

	BELOW 12G		ABOVE 12G	
(ALL AMOUNTS IN NOK)	**2016**	**2015**	**2016**	**2015**
Service cost	9 268 550	18 195 002	4 056 649	4 474 424
Financial cost	655 833	809 647	59 007	103 067
Net pension cost	**9 924 383**	**19 004 649**	**4 115 656**	**4 577 491**
REMEASUREMENTS LOSS (GAIN) BOOKED TO EQUITY	**-9 901 109**	**-14 143 464**	**-4 001 322**	**-1 440 118**

	BELOW 12G		ABOVE 12G	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Estimated pension obligations	83 543 514	86 464 766	25 852 681	25 360 464
Pension plan assets (market value)	57 494 950	52 438 080	25 625 445	20 809 528
Net pension obligation - overfinanced / (underfinanced)	**-26 048 564**	**-34 026 686**	**-227 236**	**-4 550 936**

ECONOMICAL ASSUMPTIONS	BELOW 12G 2016	BELOW 12G 2015	ABOVE 12G 2016	ABOVE 12G 2015
Discount rate (OMF rate)	2.60 %	2.50 %	2.60 %	2.50 %
Expected compensation increase	2.25 %	2.50 %	2.25 %	2.50 %
Expected return on pension plan assets	2.60 %	2.50 %	2.60 %	2.50 %
Adjustments in National Insurance base rate	2.00 %	2.25 %	2.00 %	2.25 %
Adjustments in pensions	2.00 %	2.25 %	0.00 %	0.00 %

NOTE 3) ADMINISTRATION COSTS

There were no external directors in 2016. One of the employed Directors has received a remuneration of NOK 30 000. Total compensation to the Managing Director was 3.2 million NOK in 2016 (2015: 2.9 million NOK).

SPLIT OF COMPENSATION TO MANAGING DIRECTOR (NOK)	2016	2015
Salary	2 475 611	2 038 126
Retirement allowance	39 519	8 617
Other allowances	712 868	804 326
Total salary Managing Director	**3 227 998**	**2 851 069**

No employee has options, profit sharings or severance pay agreements. There are no loans or pledges of security to the Managing Director or board members. The amount of loan to employees was 31.5 million NOK at 31 December 2016 (31 December 2015: 36.2 million NOK). The company had 56 employees at the end of 2016 (2015: 54 employees).

The company has a restricted bank account for employee withholding tax. The balance on this bank account was 5.3 million NOK at 31 December 2016.

SPLIT OF PAYROLL EXPENSES (NOK)	2016	2015
Wages and salaries	86 414 800	87 683 627
Social security tax	13 606 236	14 907 711
Pensions including pension liability	11 695 677	21 287 105
Allowances	416 553	452 168
Total	**112 133 266**	**124 330 611**

SPLIT OF FEES TO AUDITORS (NOK EX VAT)	2016	2015
Deloitte, audit fee	415 000	402 000
Deloitte, other services*	764 163	954 033

* Other services include quarterly reviews, review of internal control and JV audit services.

NOTE 4) RESERVES – UNAUDITED

The reserve numbers shown below are the estimated total producible remaining reserves in the currently producing and developing fields. The estimates represent the company's share of proven and probable reserves (P50). Estimates of proven and probable reserve quantities are uncertain and change over time as new information becomes available. Contingent resources that may become proven in the future are excluded from the reserve numbers in the table below.

RESERVE NUMBERS (UNAUDITED)
The Idemitsu net remaining reserves (P50) at the end of 2016 are broken down as follows:

	MILLION Sm^3	MMBOE
Snorre	6.60	41.5
Tordis	0.70	4.4
Vigdis	0.86	5.4
Statfjord Øst & Sygna	0.11	0.7
Fram area	1.7	10.7
Byrding	0.23	1.5
Vega Unit	0.76	4.8
Fram H-Nord	0.03	0.2
Knarr	1.70	10.7
Total (31.12.16)	**12.7**	**80.0**

The net remaining reserves at the beginning of 2016 were 12.9 million Sm^3 (81 mmboe). During 2016, 1.86 million Sm3 (11.7 mmboe) of net crude oil was produced. Net NGL and dry gas production from Fram and Vega was 0.22 million Sm^3oe in 2016 (1.4 mmboe). Effects of changes to new projects such as the Byrding, Snorre model update and Fram model update, infill wells and re-evaluation of the reserves have increased the volume by 1.90 million Sm^3 (12.0 mmboe). Thus, the remaining reserves at the end of 2016 is 12.7 million Sm^3 (80.0 mmboe) with a net decrease of 0.2 million Sm^3 (1.3 mmboe) during 2016.

Idemitsu accounts only for reserves of crude oil in the Tampen fields and in Knarr, where reserves of NGL and dry gas have very little net economic value for the company. In Fram and Vega the natural gas liquids and dry gas are included. For Snorre the reserves from the Snorre Expansion Project (SEP) are not included, as this project has not been finally sanctioned yet.

NOTE 5) FIXED ASSETS (1 000 NOK)

A) PRODUCTION FACILITIES UNDER DEVELOPMENT	2016	2015
Cost 1.1	9 604	4 263 775
Additions in the year	6 018	216 509
Transferred from Successful efforts exploration wells	93 412	9 604
Transfer to fields in operation	-13 407	-4 480 284
BOOK VALUE 31.12	**95 628**	**9 604**

Depreciation method: No depreciation before production

B) PRODUCTION FACILITIES IN OPERATION	2016	2015
Cost 1.1	22 903 730	18 607 712
Additions in the year	376 861	-184 266
Disposal in the year	-	-
Transferred from facilities under development	13 407	4 480 284
Cost 31.12	23 293 997	22 903 730
Accumulated depreciation 1.1	-15 916 134	-13 993 198
Depreciation, production facilities	-1 884 699	-1 822 155
Depreciation, production rights	-66 514	-100 781
Accumulated depreciation 31.12	-17 867 347	-15 916 134
Accumulated impairment loss 1.1	-1 297 000	-229 000
Impairment loss Fram H-Nord		-33 000
Impairment loss Knarr	-238 000	-1 035 000
Accumulated impairment loss 31.12	-1 535 000	-1 297 000
BOOK VALUE 31.12 INCL. PRODUCTION RIGHTS	**3 891 650**	**5 690 595**
Book value 31.12 production rights	*222 245*	*288 759*

Depreciation method: Unit of production

Impairment testing

Impairment testing of each cash-generating unit is performed when impairment triggers are identified. At 31.12.16 the the low crude oil prices and stronger NOK vs USD are considered to be triggers. An impairment loss is recognised if the book value of an asset exceeds its value in use. The following assumptions have been used for calculation of Value in use:

Discount rate (post tax)	7 %
Inflation	2 %

CRUDE OIL PRICE	
2017	56
2018	62
2019	66
2020	71
2021	75
2022	77
2023	79
2024	81
2025	83
2026->	CPI adjustment

C) SUCCESSFUL EFFORTS EXPLORATION WELLS	2016	2015
Cost 1.1	1 212 842	669 142
Additions in the year	436 212	604 045
Expensed in the year	-106 413	-50 742
Transfer to Production facilities under development or in operation	-93 412	-9 604
BOOK VALUE 31.12	**1 449 228**	**1 212 842**

Depreciation method: No depreciation before production

D) FURNITURE, FIXTURES AND CARS	2016	2015
Cost 1.1	66 277	55 115
Additions in the year	2 283	11 257
Disposals in the year	-163	-95
Cost 31.12	68 397	66 277
Accumulated depreciation 1.1	-50 052	-39 683
Depreciation in the year	-9 834	-10 393
Depreciation on disposed assets	137	24
Accumulated depreciation 31.12	-59 749	-50 052
BOOK VALUE 31.12	**8 647**	**16 225**

Depreciation method: Linear 3/5 years

NOTE 6) TAXES (NOK)

DIFFERENCE BETWEEN PROFIT BEFORE TAX AND TAX BASIS	2016	2015
Profit (-loss) before tax	608 735 707	-863 512 386
Permanent differences	15 412 605	4 507 415
Movement temporary differences		
Movement temporary differences – fixed assets	939 034 551	2 337 776 072
Movement temporary differences – others	-328 251 508	-1 183 146 964
Tax basis – corporate tax (25 %) (2015: 27 %)	**1 234 931 354**	**295 624 136**
– financial items w/o special tax effect	684 506	32 065 702
– uplift	-511 879 530	-327 689 838
Tax basis – special tax (53 %) (2015: 51 %)	**723 736 331**	**-**

TAX COST OF THE YEAR	2016	2015
Payable tax	692 313 094	79 818 517
Correction prior years	-1 706 793	-32 261 757
Change deferred tax	-408 481 103	-959 234 158
TOTAL TAX COST	**282 125 198**	**-911 677 398**

DEFERRED TAX LIABILITY RELATED TO TEMPORARY DIFFERENCES 31.12		2016		2015
Fixed assets		619 976 659		1 551 591 810
Other temporary differences		-544 510 225		-902 249 837
Net temporary differences corporate tax		**75 466 434**		**649 341 973**
Carry forward uplift		-		-110 610 291
Net temporary differences special tax		**75 466 434**		**538 731 683**
Deferred corporate tax	24 %	18 866 609	25 %	162 335 494
Deferred special tax	54 %	39 997 210	53 %	285 527 792
TOTAL DEFERRED TAX		**58 863 818**		**447 863 285**

RECONCILIATION OF NOMINAL AND EFFECTIVE TAX RATE 2016	INCOME	TAX AMOUNT	EFFECTIVE TAX RATE
	(MNOK)	(MNOK)	
Profit (-loss) before tax	609	475	78.0 %
Uplift earned	-385	-204	-33.5 %
Permanent differences	15	12	2.0 %
Financial items applied onshore only	1	0	0.1 %
Tax adjustment prior years		-2	-0.3 %
Total		**282**	**46.3 %**

RECONCILIATION OF PAYABLE TAX 31.12 (MNOK)	2016	2015
Payable tax for the income year	692	80
Receivable tax prior years	5	-
Paid installment tax	114	405
Payable (-receivable) tax in balance sheet	**573**	**-325**

NOTE 7) LICENSE INTERESTS

The Petroleum Act states that transfer of interest in production licenses is subject to approval by the Norwegian government. The government can set certain conditions for approval related to the tax treatment of the transfer of interest (§10 ruling).

In connection with Idemitsu's 1989 acquisition of a 9.6 % interest in PL 057 and PL 089 from Statoil, such a § 10 ruling was made. In the ruling 1 019 million NOK was classified as Production rights with no depreciation for tax. In the Assignment Agreement for the purchase of the shares in PL 057 and PL 089, Idemitsu and Statoil agreed that Statoil shall receive 50 % of the excess monthly value of petroleum production from these licenses if the norm price exceeds USD 20/bbl, inflation adjusted from 1989. There is a cap on the total amount. In 2016, the norm price exceeded this level in March-December. The cost related to the income sharing agreement is expensed on a monthly basis and accrual is made in the Balance sheets under 'Other current liabilities and overlift' until payment is made. The payment due under this agreement for 2016 was 126.3 million NOK, booked as a liability 31.12.16 (liability 31.12.15: 338.5 million NOK).

NOTE 8) INTERESTS IN NORWEGIAN PRODUCTION LICENSES (31.12.16)

PRODUCTION LICENSE	BLOCK(S)	EXPIRY YEAR	PRODUCING FIELDS	OPERATOR	INTEREST	
057	34/4	2018	Snorre	Statoil	9.6 %	
089	34/7	2024	Snorre, Tordis, Vigdis	Statoil	9.6 %	
			Statfjord Øst	Statoil	4.8 %	1)
			Sygna	Statoil	4.32 %	2)
090	35/11	2024	Fram	Statoil	15 %	
090 B	35/11	2024		Statoil	15 %	
090 C	35/11	2024	Vega Unit	Wintershall	15 %	3)
090 E	31/2	2024		Statoil	15 %	
090 F	35/11	2024		Statoil	40 %	
090 G	35/11	2024	Fram H-Nord	Statoil	40 %	4)
090 HS	35/11	2024		Statoil	15 %	
293	34/12, 35/7,10	2039		Eni	15 %	
293 B	35/10	2039		Statoil	20 %	
318	35/2	2044		Statoil	20 %	
318 B	35/4,5	2044		Statoil	20 %	
318 C	6203/10	2044		Statoil	20 %	
373 S	34/2,3,5,6	2038	Knarr	Shell	25 %	

1) According to current unitisation agreement where PL 089 and PL 037 each has 50 % interest.

2) According to first and final unitisation agreement between PL 089 and PL 037.

3) According to the redetermination effective from 1 January 2015, Idemitsu holds a 4.38 % share in the unitised Vega field.

4) According to the final unitisation agreement with PL 248 E, IPN holds a 28.8 % share in the unitised Fram H-Nord field.

PRODUCTION LICENSE	BLOCK(S)	EXPIRY YEAR	PRODUCING FIELDS	OPERATOR	INTEREST
537	7324/7,8	2018		OMV	20 %
609	7220/6,9,11,12 7221/4	2017		Lundin	30 %
609 B	7120/1,2	2017		Lundin	30 %
609 C	7220/12, 7221/10	2020		Lundin	30 %
614	7324/9, 7325/7	2018		Statoil	40 %
630	31/1, 35/10	2022		Statoil	20 %
630 BS	35/10	2022		Statoil	20 %
636	36/7	2019		Engie	30 %
638	34/2, 34/3, 34/6, 35/1, 35/4	2019		Shell	20 %
851	7220/9, 7221/7, 7221/8	2021		Lundin	30 %

NOTE 9) INVENTORY AND OVER-/UNDERLIFT

ALL NUMBERS IN MILLION NOK		2016	2015
CRUDE OIL UNDERLIFT AND INVENTORY		INVENTORY VALUE	INVENTORY VALUE
Value recorded as asset 31.12	A	180	329
Stock of spare parts etc. held by operators	B	94	98
TOTAL INVENTORY VALUE	**A+B**	**274**	**427**

ALL NUMBERS IN MILLION NOK	2016	2015
CRUDE OIL OVERLIFT	NET LIABILITY	NET LIABILITY
Value recorded as Other current liabilities and overlift 31.12	9	9
TOTAL OVERLIFT	**9**	**9**

NOTE 10) ASSET RETIREMENT COSTS

The Norwegian government may, at the termination of production or expiration of a license, require Idemitsu to remove offshore installations. Given reserve estimates at license expiry, Idemitsu finds it unlikely that the Norwegian government will exercise its option to take over the installations. With current and expected future fishery and environmental concerns, it is likely that the Norwegian government or international institutions and legislation will require the installations to be removed. It is also necessary to close down all production and injection wells as their use is completed. Furthermore, Idemitsu is required to cover its share of removal of Gassled pipelines and installations.

Abandonment and decommissioning obligations are recorded at net present value. Reference is made to Accounting Principles.

ALL NUMBERS IN MILLION NOK	2016	2015
Provision for abandonment liability 1 January	2 233	2 894
Change of estimate	-108	-734
Effect of changed discount rate	-53	23
Actual decommissioning expenditure	-1	-40
Interest effect on the NPV obligation	68	90
Provision for abandonment liability 31 December	**2 139**	**2 233**

In the calculation of net present value at year-end 2016, an inflation rate of 2 % and a discount rate of 3.20 % have been used. At year-end 2015 the discount rate was 3.04 %. All the liability is long term.

There are significant uncertainties inherent in the calculations of abandonment and decommissioning costs, which is highly dependent upon future technology levels and the degree of removal required. Idemitsu obtains abandonment and decommissioning cost estimates from the operators. The estimates are reviewed by Idemitsu's own technical staff. The removal estimates are based upon complete removal and onshore disposal of any installations not below the seabed. Pipelines will be cleaned and left buried. Well closure cost includes cleaning wells and installing cement plugs in the permeable zones and upper part of the well.

NOTE 11) FINANCIAL INSTRUMENTS

Revenues are largely denominated in USD, while investments and operating costs generally accrue in NOK. Idemitsu uses forward exchange contracts to minimise this NOK exposure. All foreign exchange contracts entered into are spot or short term.

Idemitsu had no forward exchange contracts outstanding as of 31.12.16.

Idemitsu is aiming to keep a neutral exposure in USD financial assets/ liabilities. Excess USD is exchanged to NOK on a monthly basis.

NOTE 12) FINANCIAL RISK

MARKET RISK
Idemitsu is fully exposed to the oil price fluctuation risk. The company has most of its income in USD and cost in NOK. Most of the USD to NOK currency exchange risk was covered by short term foreign exchange contracts. Risk reductions by using the mentioned financial instruments will never exceed the actual risk position.

LIQUIDITY RISK
The company has no long term loans and a comfortable cash position. The cash flow from fields in production is strong and sufficient to cover the company's obligations even when the crude oil price is fairly low. It is expected that the company has substantial loan capacity based on the security of its producing assets.

CREDIT RISK
The customers and banks which are doing business with the company are large and solid corporations. The company is spreading its financial assets among several banks.

NOTE 13) EQUITY

The share capital consists of 7 279 shares of NOK 100 000, all fully paid. All shares are owned by Idemitsu Snorre Oil Development Co. Ltd. in Japan. Group accounts are prepared by the ultimate parent company, Idemitsu Kosan Co., Ltd. and are available at www.idemitsu.co.jp. The parent company is located in Tokyo, Japan.

CHANGES IN EQUITY	
Retained earnings 31.12.15	3 767 747 020
Profit 2016	326 610 510
Extraordinary dividend	-370 300 000
Remeasurement booked to equity (Pension)	3 058 535
Retained earnings 31.12.16	**3 727 116 064**

NOTE 14) OTHER LIABILITIES AND COMMITMENTS

Idemitsu, as all other oil companies operating on the Norwegian Continental Shelf, has unlimited liability for possible compensation claims arising from its offshore operations, including pollution. To cover these liabilities, Idemitsu has obtained insurance covering such liabilities up to 1 230 million NOK for 100 % share. The deductible is 82 million NOK. Liabilities arising from well blow-outs are covered up to 2 214 million NOK for a 100 % share. In case that liabilities arising from well blow-outs of which the water depth is more than 3,000 ft or located in the Barents sea, those are covered up to 3 280 million NOK for a 100 % share, with a deductible of 82 million NOK.

Offshore assets are insured at replacement value with third party insurance companies.

Through its license ownership interests, Idemitsu has certain obligations for future investments and drilling activities. Total committed investment for exploration well drilling was 128 million NOK at 31 December 2016, related to one exploration well in the PL 609 license. Furthermore, Idemitsu has committed to investments in the Byrding development, which is scheduled to be completed in 2017. Based on latest investment estimates, the remaining committed investment for Byrding as of 31 December 2016 was 157 million NOK (Idemitsu share). There are also substantial investments planned in fields where PDOs are not yet submitted or approved by the government.

Idemitsu does not have any leasing agreements that can be defined as financial leases. Current leasing agreements are operational and the expenses are included under ‘Other operating and administrative costs’. Operating leases include the lease agreement in PL 373 S with Teekay for the Petrojarl Knarr FPSO. In the Knarr license there is an open contract with Mitsui for purchase of casing on closed consignment. If the surplus of casing cannot be resold or used for additional wells in the license, the license has an obligation to pay for the remaining stock, including interest. The maximum exposure for Idemitsu for this obligation is 4.3 million USD.

Idemitsu is committed to certain dry gas delivery, transportation, and processing obligations as an integral part of the license activity. These obligations are not in excess of planned future production. The company has obtained a bank guarantee towards Gassco for the committed tariff payments in Gassled over the two coming years. In relation to this guarantee, the company has a mortgaged deposit of 49.7 million NOK in DNB.

NOTE 15) OTHER LONG TERM RECEIVABLES

Prepaid tariff from Vega Sør to Gjøa has been recorded as 'Other long term receivables' in the Balance sheets. This pre-payment will be recovered through lower tariff at Gjøa during the production period for Vega.

NOTE 16) TRANSACTIONS WITH GROUP COMPANIES

PAYABLE / RECEIVABLE 31.12 (EXCEEDING 100 000 NOK)

COMPANY	ACCOUNTS PAYABLE 2016		ACCOUNTS PAYABLE 2015	
Idemitsu Kosan Co. Ltd	JPY 7 779 532	NOK 572 830	JPY 7 355 783	NOK 538 245
Idemitsu Kosan Co. Ltd	USD 3 804	NOK 33 023	USD 1 124 770	NOK 9 908 099
Idemitsu Petroleum U.K.	GBP 174 685	NOK 1 853 932	GBP -	NOK -
Idemitsu Kosan Co., Ltd	USD 27 149 712	NOK 234 030 515	USD 23 517 931	NOK 207 169 451
Idemitsu Oil & Gas, Vietnam		NOK 0		NOK 332 545

SALES AND PURCHASES GROUP COMPANIES (NOK)

COMPANY	2016		2015	
	SALES	PURCHASES	SALES	PURCHASES
Idemitsu Kosan Co., Ltd	4 421 177 356	7 245 407	3 502 979 401	6 700 225
Idemitsu Petroleum U.K.		2 285 472		101 737

NOTE 17) EXPLORATION COST

Drilling and testing cost for wells with commercial discoveries or where status of discovery is pending is capitalised. Following are the expensed and capitalised exploration costs in 2016 and 2015. Capitalised exploration is the gross capitalised amount, before transfer of exploration wells to Production facilities under development or in production.

ALL NUMBERS IN 1000 NOK	2016		2015	
	EXPENSED	CAPITALISED	EXPENSED	CAPITALISED
License exploration cost	313 291	436 212	423 452	604 045
Internal exploration cost	16 342		38 047	-
Total	**329 633**	**436 212**	**461 499**	**604 045**

NOTE 18) R&D

The R&D activity consists mainly of participation in common industry projects. Some of the R&D expense is charged to Idemitsu's operated license under the sliding scale rules. Idemitsu will also pay R&D charged to the partner operated licenses under the sliding scale rules by other operators.

ALL NUMBERS IN 1000 NOK	2016	2015
R&D expense	678	647

AUDITOR'S REPORT 2016

AUDITOR'S REPORT 2016

Deloitte.

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To the General Meeting of Idemitsu Petroleum Norge AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Idemitsu Petroleum Norge AS showing a profit of NOK 326 610 510. The financial statements comprise the balance sheet as at 31 December 2016, the income statement and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with 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 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 Annual 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 for the preparation in accordance with law and regulations, including 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. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

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 those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the 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.

Oslo, 19 April 2017
Deloitte AS

Mette Herdlevær

Mette Herdlevær
State Authorised Public Accountant

PHOTO:
Birdy (page 8, 17)
Idemitsu (page 2)
Tommy M. Egebjerg/Idemitsu (page 14, 15, 16)
Jarle Nyttingnes (page 1, 7)
Munchmuseet (page 18)
Shutterstock (page 6)
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Zinc (page 4, 7, 9, 13, 20)