TAXATION

This section describes the material Norwegian tax consequences that apply to shareholders resident in Norway and to non-resident shareholders in connection with the acquisition, ownership and disposal of shares and American Depositary Shares (ADS). The term “shareholder” refers to both holders of shares and holders of ADSs, unless otherwise explicitly stated.

Norwegian tax matters

The outline does not provide a complete description of all tax regulations that might be relevant (i.e. for investors to whom special regulations may be applicable), and is based on current law and practice. Shareholders should consult their professional tax adviser for advice about individual tax consequences.

Taxation of dividends received by Norwegian shareholders

Corporate shareholders (i.e. limited liability companies and similar entities) residing in Norway for tax purposes are generally subject to tax in Norway on dividends received from Norwegian companies. The basis for taxation is 3% of the dividends received, which is subject to the standard income tax rate. The standard income tax rate has been reduced from 24% in 2017 to 23% in 2018.

Individual shareholders resident in Norway for tax purposes are subject to the standard income tax rate (reduced from 24% in 2017 to 23% in 2018) in Norway for dividend income exceeding a basic tax free allowance. However, in 2018 dividend income exceeding the basic tax free allowance is grossed up with a factor of 1.33 before included in the ordinary taxable income, resulting in an effective tax rate of 30.59% (23% x 1.33). The tax free allowance is computed for each individual share or ADS and corresponds as a rule to the cost price of that share or ADS multiplied by an annual risk-free interest rate. Any part of the calculated allowance for one year that exceeds the dividend distributed for the share or ADS ("unused allowance") may be carried forward and set off against future dividends received for (or gains upon the realisation of, see below) the same share or ADS. Any unused allowance will also be added to the basis for computation of the allowance for the same share or ADS the following year.

Taxation of dividends received by foreign shareholders

Non-resident shareholders are as a starting point subject to Norwegian withholding tax at a rate of 25% on dividends distributed by Norwegian companies. It is the responsibility of the distributing company to deduct the withholding tax when dividends are paid to non-resident shareholders.

Corporate shareholders that carry on business activities in Norway, and whose shares or ADSs are effectively connected with such activities are not subject to withholding tax. For such shareholders, 3% of the received dividends are subject to the standard income tax rate (reduced from 24% in 2017 to 23% in 2018).

Certain important exceptions and modifications are outlined below.

This withholding tax does not apply to corporate shareholders in the EEA area that are equal to Norwegian private or public limited liability companies or certain other types of Norwegian entities, and that are further able to demonstrate that they are genuinely established and carry on genuine economic business activity within the EEA area, provided that Norway is entitled to receive information from the state of residence pursuant to a tax treaty or other international treaty. If no such treaty exists with the state of residence, the shareholder may instead present confirmation issued by the tax authorities of the state of residence verifying the documentation.

The withholding rate of 25% is often reduced in tax treaties between Norway and other countries. The reduced withholding tax rate will generally only apply to dividends paid on shares held by shareholders who are able to properly demonstrate that they are the beneficial owner and entitled to the benefits of the tax treaty.

Individual shareholders resident for tax purposes in the EEA area may apply to the Norwegian tax authorities for a refund if the tax withheld by the distributing company exceeds the tax that would have been levied on individual shareholders resident in Norway.

Procedure for claiming a reduced withholding tax rate on dividends

A foreign shareholder that is entitled to a reduced withholding tax rate on dividends, may request that the reduced rate is applied at source by the distributor. Such request must be accompanied by satisfactory documentation which supports that the foreign shareholder is entitled to a reduced withholding tax rate. It is expected that specific documentation requirements soon will be implemented in the regulations to the Norwegian Tax Payment Act, and the Norwegian Ministry of Finance has stated that these requirements should apply from 1 January 2019.

For holders of shares and ADSs deposited with Deutsche Bank Trust Company Americas (Deutsche Bank), documentation establishing that the holder is eligible for the benefits under a tax treaty with Norway, may be provided to Deutsche Bank. Deutsche Bank has been granted permission by the Norwegian tax authorities to receive dividends from us for redistribution to a beneficial owner of shares and ADSs at the applicable treaty withholding rate.

Dividends paid to shareholders (either directly or through a depositary) who have not provided the relevant documentation to the relevant party that they are eligible for the reduced rate, will be subject to withholding tax of 25%. The beneficial owners will in this case have to apply to the Central Office - Foreign Tax Affairs for a refund of the excess amount of tax withheld. Please refer to the tax authorities’ web page for more information and the requirements of such application: http://www.skatteetaten.no/en/person/Aksjer-og-verdipapirer/withholding-tax-refund-on-dividends/

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Taxation on the realisation of shares and ADSs
Corporate shareholders resident in Norway for tax purposes are not subject to tax in Norway on gains derived from the sale, redemption or other disposal of shares or ADSs in Norwegian companies. Capital losses are not deductible.

Individual shareholders residing in Norway for tax purposes are subject to tax in Norway on the sale, redemption or other disposal of shares or ADSs. Gains or losses in connection with such realisation are included in the individual's ordinary taxable income in the year of disposal, which is subject to the standard income tax rate, being reduced from 24% in 2017 to 23% in 2018. However, in 2018 the taxable gain or deductible loss is grossed up with a factor of 1.33 before included in the ordinary taxable income, resulting in an effective tax rate of 30.59% (23% x 1.33).

The taxable gain or deductible loss (before gross up) is calculated as the sales price adjusted for transaction expenses minus the taxable basis. A shareholder's tax basis is normally equal to the acquisition cost of the shares or ADSs. Any unused allowance pertaining to a share may be deducted from a taxable gain on the same share or ADS, but may not lead to or increase a deductible loss. Furthermore, any unused allowance may not be set off against gains from the realisation of the other shares or ADSs.

If the shareholder disposes of shares or ADSs acquired at different times, the shares or ADSs that were first acquired will be deemed to be first sold (the "FIFO" principle) when calculating gain or loss for tax purposes.

From 2017, individual shareholders may hold listed shares in companies resident within EEA through a stock savings account. If the conditions for the stock savings account are met, taxable gain or loss on shares owned through the stock savings account will be payable when the gain is withdrawn from the account whereas loss on shares will be deductible when the account is terminated. Dividends are not comprised by the stock savings account scheme and will thus be taxed pursuant to the ordinary rules described above.

A corporate shareholder or an individual shareholder who ceases to be tax resident in Norway due to Norwegian law or tax treaty provisions may, in certain circumstances, become subject to Norwegian exit taxation on capital gains related to shares or ADSs.

Shareholders not residing in Norway are generally not subject to tax in Norway on capital gains, and losses are not deductible on the sale, redemption or other disposal of shares or ADSs in Norwegian companies, unless the shareholder carries on business activities in Norway and such shares or ADSs are or have been effectively connected with such activities.

Wealth tax
The shares or ADSs are included in the basis for the computation of wealth tax imposed on individuals resident in Norway for tax purposes. Norwegian limited companies and certain similar entities are not subject to wealth tax. The current marginal wealth tax rate is 0.85% of the value assessed. The assessment value of listed shares (including ADSs) is 80% (reduced from 90% with effect from and including the income year 2018) of the listed value of such shares or ADSs on 1 January in the assessment year.

Non-resident shareholders are not subject to wealth tax in Norway for shares and ADSs in Norwegian limited companies unless the shareholder is an individual and the shareholding is effectively connected with the individual's business activities in Norway.

Inheritance tax and gift tax
No inheritance or gift tax is imposed in Norway.

Transfer tax
No transfer tax is imposed in Norway in connection with the sale or purchase of shares or ADSs.

United States tax matters
This section describes the material United States federal income tax consequences for US holders (as defined below) of owning shares or ADSs. It only applies to you if you hold your shares or ADSs as capital assets for tax purposes and are not a member of a special class of holders subject to special rules, including dealers in securities, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, insurance companies, partnerships, persons liable for the alternative minimum tax, persons that actually or constructively own 10% of the combined power of voting stock of Statoil or of the total value of stock of Statoil, persons that hold shares or ADSs as part of a straddle or a hedging or conversion transaction, persons that purchase or sell shares or ADSs as part of wash sale for tax purposes, or persons whose functional currency is not USD.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, and the Convention between the United States of America and the Kingdom of Norway for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Property (the ''Treaty''). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. For United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will generally be treated as the owner of the ordinary shares represented by those ADRs. Exchanges of shares for ADRs and ADRs for shares will not generally be subject to United States federal income tax.

A ''US holder'' is a beneficial owner of shares or ADSs that is: (i) a citizen or resident of the United States; (ii) a United States domestic corporation; (iii) an estate whose income is subject to United States federal income tax regardless of its source; or (iv) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorised to control all substantial decisions of the trust.

You should consult your own tax adviser regarding the United States federal, state and local and Norwegian and other tax consequences of owning and disposing of shares and ADSs in your particular circumstances.

Taxation of dividends

The gross amount of any dividend (including any Norwegian tax withheld from the dividend payment) paid by Statoil out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) is taxable for you when you, in the case of shares, or the depositary, in the case of ADSs, receive the dividend, actually or constructively. If you are a non-corporate US holder, dividends paid to you will be eligible to be taxed at the preferential rates applicable to long-term capital gains as long as, in the year that you receive the dividend, the shares or ADSs are readily tradable on an established securities market in the United States or Statoil is eligible for benefits under the Treaty. To qualify for the preferential rates, you must hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet certain other requirements. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations.

The amount of the dividend distribution that you must include in your income as a US holder will be the value in USD of the payments made in NOK determined at the spot NOK/USD rate on the date the dividend distribution is includible in your income, regardless of whether or not the payment is in fact converted into USD. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your tax basis in the shares or ADSs and, to the extent in excess of your tax basis, will be treated as capital gain.

Subject to certain limitations, the 15% Norwegian tax withheld in accordance with the Treaty and paid to Norway will be creditable or deductible against your United States federal income tax liability, unless a refund of the tax withheld is available to you under Norwegian law. Special rules apply when determining the foreign tax credit limitation with respect to dividends that are subject to the preferential rates. Dividends will be income from sources outside the United States and will generally, depending on your circumstances, be either ''passive'' or ''general'' income for purposes of computing the foreign tax credit allowable to you. Any gain or loss resulting from currency exchange rate fluctuations during the period from the date you include the dividend payment in income until the date you convert the payment into USD will generally be treated as US-source ordinary income or loss and will not be eligible for the special tax rate.

Taxation of capital gains

If you sell or otherwise dispose of your shares or ADSs, you will generally recognise a capital gain or loss for United States federal income tax purposes equal to the difference between the value in USD of the amount that you realise and your tax basis, determined in USD, in your shares or ADSs. A capital gain of a non-corporate US holder is generally taxed at preferential rates if the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. If you receive any foreign currency on the sale of shares or ADSs, you may recognise ordinary income or loss from sources within the United States as a result of currency fluctuations between the date of the sale of the shares or ADSs and the date the sales proceeds are converted into USD. You should consult your own tax adviser regarding how to account for payments made or received in a currency other than USD.

PFIC rules

We believe that the shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, a gain realised on the sale or other disposition of the shares or ADSs would in general not be treated as a capital gain. Instead, unless you elect to be taxed annually on a mark-to-market basis with respect to the shares or ADSs, you would be treated as if you had realised such gain and certain "excess distributions" ratably over your holding period for the shares or ADSs. Amounts allocated to the year in which the gain is realised or the “excess distribution” is received or to a taxable year before we were classified as a PFIC would be subject to tax at ordinary income tax rates, and amounts allocated to all other years would be taxed at the highest tax rate in effect for each such year to which the gain or distribution was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during the period you held the shares or ADSs. Dividends that you receive from us will not be eligible for the preferential tax rates if we are treated as a PFIC with respect to you, either in the taxable year of the distribution or the preceding taxable year, but will instead be taxable at rates applicable to ordinary income.

Foreign Account Tax Compliance Withholding

A 30% withholding tax will be imposed on certain payments to certain non-US financial institutions that fail to comply with information reporting requirements or certification requirements in respect of their direct and indirect United States shareholders and/or United States accountholders. To avoid becoming subject to the 30% withholding tax on payments to them, we and other non-US financial institutions may be required to report information to the IRS regarding the holders of shares or ADSs and to withhold on a portion of payments under the shares or ADSs to certain holders that fail to comply with the relevant information reporting requirements (or hold shares or ADSs directly or indirectly through certain non-compliant intermediaries). However, such withholding will not apply to payments made before January 1, 2019. The rules for the implementation of this legislation have not yet been fully finalised, so it is impossible to determine at this time what impact, if any, this legislation will have on holders of the shares and ADSs.

EXCHANGE RATES

The table below shows the high, low, average and end-of-period exchange rates for the Norwegian krone for USD 1.00 as announced by Norges Bank (Norway's central bank).

The average is computed using the monthly average exchange rates announced by Norges Bank during the period indicated.

For the year ended 31 December	Low	High	Average	End of Period
2013	5.4438	6.2154	5.8753	6.0837
2014	5.8611	7.6111	6.3011	7.4332
2015	7.3593	8.8090	8.0637	8.8090
2016	7.9766	8.9578	8.4014	8.6200
2017	7.7121	8.6781	8.2712	8.2050

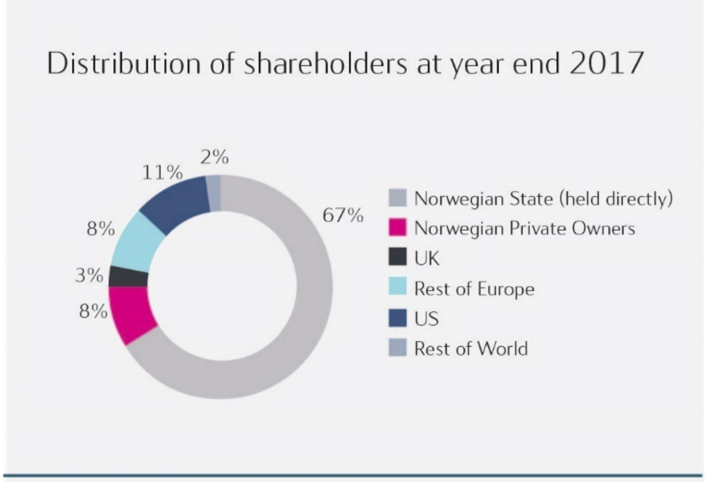
	Low	High
2017		
September	7.7192	7.9726
October	7.8906	8.2161
November	8.1140	8.3043
December	8.2050	8.4103
2018		
January	7.6760	8.1055
February	7.6579	7.9836
March (up to and including 14 March 2018)	7.7393	7.9369

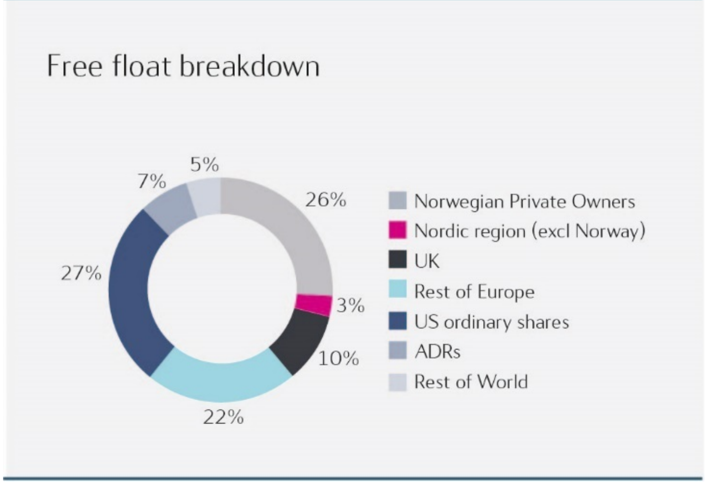
On 14 March 2018, the exchange rate announced by the Norges Bank for the Norwegian krone was USD 1.00 = NOK 7.7393

Fluctuations in the exchange rate between the NOK and USD will affect the amounts in USD received by holders of American Depositary Shares (ADSs) on the conversion of dividends, if any, paid in Norwegian kroner on the ordinary shares, and they may affect the USD price of the ADSs on the New York Stock Exchange.

MAJOR SHAREHOLDERS

The Norwegian State is the largest shareholder in Statoil, with a direct ownership interest of 67%. Its ownership interest is managed by the Norwegian Ministry of Petroleum and Energy.





Pursuant to the exchange ratio agreed in connection with the merger with Hydro's oil and gas activities, the State's ownership interest in the merged company was 62.5%, or 1,992,959,739 shares, on 1 October 2007. In accordance with the Norwegian parliament's decision of 2001 concerning a minimum state shareholding in Statoil of two-thirds, the Government built up the State's ownership interest in Statoil by buying shares in the market during the period from June 2008 to March 2009. In March 2009, the Government announced that the State's direct ownership interest had reached 67% and the Government's direct purchase of Statoil shares was completed.

As of 31 December2017, the Norwegian State had a 67% direct ownership interest in Statoil and a 3.30% indirect interest through the National Insurance Fund (Folketrygdfondet), totaling 70.30%. See note 17 Shareholder’s equity and dividends regarding the Norwegian State and the scrip option.

Statoil has one class of shares, and each share confers one vote at the general meeting. The Norwegian State does not have any voting rights that differ from the rights of other ordinary shareholders. Pursuant to the Norwegian Public Limited Liability Companies Act, a majority of at least two-thirds of the votes cast as well as of the votes represented at a general meeting is required to amend our articles of association. As long as the Norwegian State owns more than one-third of our shares, it will be able to prevent any amendments to our articles of association. Since the Norwegian State, acting through the Norwegian Minister of Petroleum and Energy, has in excess of two-thirds of the shares in the company, it has sole power to amend our articles of association. In addition, as majority shareholder, the Norwegian State has the power to control any decision at general meetings of our shareholders that requires a majority vote, including the election of the majority of the corporate assembly, which has the power to elect our board of directors and approve the dividend proposed by the board of directors.

The Norwegian State endorses the principles set out in "The Norwegian Code of Practice for Corporate Governance", and it has stated that it expects companies in which the State has ownership interests to adhere to the code. The principle of ensuring equal treatment of different groups of shareholders is a key element in the State's own guidelines. In companies in which the State is a shareholder together with others, the State wishes to exercise the same rights and obligations as any other shareholder and not act in a manner that has a detrimental effect on the rights or financial interests of other shareholders. In addition to the principle of equal treatment of shareholders, emphasis is also placed on transparency in relation to the State's ownership and on the general meeting being the correct arena for owner decisions and formal resolutions.

Shareholders at December 2017	Number of Shares	Ownership in %
1 Government of Norway	2,226,522,461	67.00%
2 Folketrygdfondet	109,611,652	3.30%
3 BlackRock Institutional Trust Company, N.A.	38,778,958	1.17%
4 Dodge & Cox	37,602,850	1.13%
5 Lazard Asset Management, L.L.C.	31,942,660	0.96%
6 Fidelity Management & Research Company	29,861,026	0.90%
7 INVESCO Asset Management Limited	28,939,947	0.87%
8 SAFE Investment Company Limited	25,560,235	0.77%
9 The Vanguard Group, Inc.	24,773,677	0.75%
10 KLP Forsikring	17,764,920	0.53%
11 Storebrand Kapitalforvaltning AS	17,202,662	0.52%
12 State Street Global Advisors (US)	16,814,356	0.51%
13 DNB Asset Management AS	14,656,121	0.44%
14 UBS Asset Management (UK) Ltd.	12,027,810	0.36%
15 Northern Cross LLC	11,606,485	0.35%
16 Epoch Investment Partners, Inc.	10,856,350	0.33%
17 Allianz Global Investors GmbH	8,893,846	0.27%
18 Renaissance Technologies LLC	8,454,901	0.25%
19 FMR Investment Management (U.K.) Limited	8,173,719	0.25%
20 AXA Investment Managers UK Ltd.	7,921,254	0.24%

Source: Data collected by third party, authorised by Statoil, December 2017.

EXCHANGE CONTROLS AND LIMITATIONS

Under Norwegian foreign exchange controls currently in effect, transfers of capital to and from Norway are not subject to prior government approval. An exception applies to the physical transfer of payments in currency exceeding certain thresholds, which must be declared to the Norwegian custom authorities. This means that non-Norwegian resident shareholders may receive dividend payments without Norwegian exchange control consent as long as the payment is made through a licensed bank or other licensed payment institution.

There are no restrictions affecting the rights of non-Norwegian residents or foreign owners to hold or vote for our shares.

5.2 USE AND RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

Since 2007, Statoil has been preparing the Consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European union (EU) and as issued by the International Accounting Standards Board. The IFRS standards have been applied consistently to all periods presented in the 2017 Consolidated financial statements.

Statoil is subject to SEC regulations regarding the use of non-GAAP financial measures in public disclosures. Non-GAAP financial measures are defined as numerical measures that either exclude or include amounts that are not excluded or included in the comparable measures calculated and presented in accordance with generally accepted accounting principles. The following financial measures may be considered non-GAAP financial measures:

a) Net debt to capital employed ratio before adjustments and Net debt to capital employed ratio adjusted
b) Return on average capital employed (ROACE)
c) Organic capital expenditures
d) Free cash flow
e) Adjusted earnings after tax

a) Net debt to capital employed ratio

In Statoil's view, the calculated net debt to capital employed ratio before adjustments and net debt to capital employed ratio adjusted gives an alternative picture of the current debt situation than gross interest-bearing financial debt.

The calculation is based on gross interest bearing financial debt in the balance sheet and adjusted for cash, cash equivalents and current financial investments. Certain adjustments are made, e.g. collateral deposits classified as cash and cash equivalents in the Consolidated balance sheet are considered non-cash in the non-GAAP calculations. The financial investments held in Statoil Forsikring AS are excluded in the non-GAAP calculations as they are deemed restricted. These two adjustments increase net debt and give a more prudent definition of the net debt to capital employed ratio than if the IFRS based definition was to be used. Similarly, certain net interest-bearing debts incurred from activities pursuant to the Owners Instruction from the Norwegian State are set off against receivables on the Norwegian State's direct financial interest (SDFI). Net interest-bearing debt adjusted for these items is included in the average capital employed. The table below reconciles the net interest-bearing debt adjusted, the capital employed and the net debt to capital employed adjusted ratio with the most directly comparable financial measure or measures calculated in accordance with IFRS.

Calculation of capital employed and net debt to capital employed ratio (in USD million, except percentages)	2017	2016	For the year ended 31 December 2015
Shareholders' equity	39,861	35,072	40,271
Non-controlling interests	24	27	36
Total equity (A)	39,885	35,099	40,307
Current finance debt	4,091	3,674	2,326
Non-current finance debt	24,183	27,999	29,965
Gross interest-bearing debt (B)	28,274	31,673	32,291
Cash and cash equivalents	4,390	5,090	8,623
Current financial investments	8,448	8,211	9,817
Cash and cash equivalents and current financial investment (C)	12,837	13,301	18,440
Net interest-bearing debt before adjustments (B1) (B-C)	15,437	18,372	13,852
Other interest-bearing elements [1]	1,014	1,216	1,111
Marketing instruction adjustment [2]	(164)	(199)	(214)
Net interest-bearing debt adjusted (B2)	16,287	19,389	14,748
Calculation of capital employed:			
Capital employed before adjustments to net interest-bearing debt (A+B1)	55,322	53,471	54,159
Capital employed adjusted (A+B2)	56,172	54,488	55,055
Calculated net debt to capital employed:			
Net debt to capital employed before adjustments (B1/(A+B1)	27.9%	34.4%	25.6%
Net debt to capital employed adjusted (B2/(A+B2)	29.0%	35.6%	26.8%

1) Other interest-bearing elements are cash and cash equivalents adjustments regarding collateral deposits classified as cash and cash equivalents in the Consolidated balance sheet but considered as non-cash in the non-GAAP calculations as well as financial investments in Statoil Forsikring AS classified as current financial investments.

2) Marketing instruction adjustment is an adjustment to gross interest-bearing financial debt due to the SDFI part of the financial lease in the Snøhvit vessels that are included in Statoil's Consolidated balance sheet.

b) Return on average capital employed (ROACE)

This measure provides useful information for both the group and investors about performance during the period under evaluation. Statoil uses ROACE to measure the return on capital employed, regardless of whether the financing is through equity or debt. The use of ROACE should not be viewed as an alternative to income before financial items, income taxes and minority interest, or to net income, which are measures calculated in accordance with GAAP or ratios based on these figures. ROACE was 8.2% in 2017, compared to negative 0.4% in 2016 and 4.1% in 2015. The change from 2016 is due to an increase in adjusted earnings after tax.

Calculated ROACE based on Adjusted earnings after tax and capital employed adjusted	For the year ended 31 December		
(in USD million, except percentages)	2017	2016	2015
Adjusted earnings after tax (A)	4,528	(208)	2,465
Average capital employed adjusted (B)	55,330	54,772	59,712
Calculated ROACE based on Adjusted earnings after tax and capital employed adjusted (A/B)	**8.2%**	**-0.4%**	**4.1%**

c) Organic capital expenditures

Organic capital expenditures are capital expenditures excluding acquisitions, capital leases and other investments with significant different cash flow pattern. In 2017, a total of USD 1.4 billion were excluded from the organic capital expenditures. Among items excluded from the organic capital expenditure in 2017 were signature bonus for the Carcara North production sharing contract in Brazil, acquisition cost for a 10% stake in the BM-S-8 licence in Brazil and bonus for the extension of the Azeri-Chirag-Deepwater Gunashli (ACG) Production Sharing Agreement in Azerbaijan.

In 2016, a total of USD 4.0 billion were excluded from the organic capital expenditures. Among items excluded from the organic capital expenditure in 2016 were investment in ownership in Lundin Petroleum AB, acquisition of a 66% operated interest in the offshore licence BM-S-8 in Brazil and acquisition of a 50% stake in the Arkona offshore wind farm in Germany.

For more information, see note 3 Segment, line item Additions to PP&E, intangibles and equity accounted investments and, note 4 Acquisitions and divestments to the Consolidated financial statements.

d) Free cash flow

Free cash flow includes the following line items in the Consolidated statement of cash flows: Cash flows provided by operating activities before taxes paid and working capital items, taxes paid, capital expenditures and investments, (increase) decrease in other items interest bearing, proceeds from sale of assets and businesses and dividend paid.

e) Adjusted earnings after tax

Adjusted earnings are based on net operating income and adjusts for certain items affecting the income for the period in order to separate out effects that management considers may not be well correlated to Statoil's underlying operational performance in the individual reporting period. Management considers adjusted earnings to be a supplemental measure to Statoil's IFRS measures that provides an indication of Statoil's underlying operational performance in the period and facilitates an alternative understanding of operational trends between the periods, and uses this metric in determining variable remuneration and awards of LTI grants to members of the corporate executive committee. Adjusted earnings adjust for the following items:

- Certain gas contracts are, due to pricing or delivery conditions, deemed to contain embedded derivatives, required to be carried at fair value. Certain transactions related to historical divestments include contingent consideration, carried at fair value. The accounting impacts of changes in fair value of the aforementioned are excluded from adjusted earnings. In addition, adjustments are also made for changes in the unrealised **fair value of derivatives** related to some natural gas trading contracts. Due to the nature of these gas sales contracts, these are classified as financial derivatives to be measured at fair value at the balance sheet date. Unrealised gains and losses on these contracts reflect the value of the difference between current market gas prices and the actual prices to be realised under the gas sales contracts. Only realised gains and losses on these contracts are reflected in adjusted earnings. This presentation best reflects the underlying performance of the business as it replaces the effect of temporary timing differences associated with the re-measurements of the derivatives to fair value at the balance sheet date with actual realised gains and losses for the period
- **Periodisation of inventory hedging effect:** Commercial storage is hedged in the paper market. Commercial storage is accounted for by using the lower of cost and market price. If market prices increase above cost price, there will be a loss in the IFRS income statement since the derivatives always reflect changes in the market price. An adjustment is made to reflect the unrealised market value of the commercial storage. As a result, loss on derivatives is matched by a similar adjustment for the exposure being managed. If market prices decrease below cost price, the write-down and the derivative effect in the IFRS income statement will offset each other and no adjustment is made