

An aerial photograph of a vast desert landscape with numerous sand dunes. The dunes are illuminated by the warm, golden light of a low sun, creating long, dark shadows and highlighting the undulating ridges and valleys of the sand. The overall color palette is dominated by warm oranges, yellows, and deep blues.

mastering

challenges

Statoil and sustainable development 2006



Our performance at a glance

	2006	2005	2004
Financials¹			
Total revenues	425,166	387,411	301,443
Income before financial items, other items, income taxes and minority interest	116,881	95,043	65,085
Net income	40,615	30,730	24,916
Cash flows used in investing activities	40,084	37,664	31,959
Return on average capital employed after tax	27.1%	27.6%	23.5%
Operations			
Combined oil and gas production (thousand boe/d)	1,135	1,169	1,106
Proved oil and gas reserves (million boe)	4,185	4,295	4,289
Production cost (NOK/boe)	26.6	22.2	23.3
Reserve replacement ratio (three-year average)	0.94	1.02	1.01
Environment²			
Oil spills (cubic metres)	156.7	442	186
Carbon dioxide emissions (million tonnes)	10.0	10.3	9.8
Nitrogen oxide emissions (tonnes)	31,600	34,700	31,100
Discharges of harmful chemicals (tonnes)	15	40	167
Energy consumption (TWh)	49.4	50.4	48.1
Waste recovery factor	0.73	0.76	0.76
Health and safety			
Total recordable injury frequency ³	5.7	5.1	5.9
Serious incident frequency ³	2.1	2.3	3.2
Sickness absence ⁴	3.5	3.5	3.2
Fatalities ³	0	2	3
Organisation			
Employee satisfaction ⁵	4.6	4.6	4.6
Proportion of female managers ^{6*}	26%	25%	26%
Union membership (per cent of workforce), Statoil ASA ⁷	70	72	73
R&D expenditures ⁷	1,225	1,066	1,027

¹ Key figures given in NOK million

² Data cover Statoil-operated activities. Definitions on pages 30, 32, 38, 39 and 40

³ Data cover Statoil employees and contractors. Definitions on page 27

⁴ Total number of days of sickness absence as a percentage of possible working days (Statoil employees)

⁵ Working environment and organisation survey (Amou). Scale: 1 (lowest) – 6 (highest)

⁶ New reporting system implemented

⁷ NOK million

* Estimate

These are key indicators of Statoil's performance. Several of them are included in managers' performance pay contracts. For a more extensive overview of reporting indicators, see our annual report and accounts for 2006.

Measures and results

This page contains a schematic presentation of a total of 35 improvement goals that we discuss in the different chapters of this report. The goals are discussed by describing the measures and the degree to which the goals have been attained.

A colour code – green, yellow or red – indicates whether an action has been completed, is in progress or not implemented.

Chapter	Planned measures 2006	Results 2006		Planned measures 2007
Occupational health and the working environment Pages 23-24	Customise work to raise the real retirement age	Average retirement age in Statoil is 62.3	●	Maintain target of increasing real retirement age. Implement established policy for older employees
Safety Pages 25-26	Avoid fatal accidents and major accidents which endanger life, health, the environment and material assets	Zero fatal accidents	●	Continued commitment to combating dropped objects. New management training programme. Require more risk assessments
Safety Pages 25-26	Achieve noticeable improvement in personal injury and serious incident frequencies	Personal injury frequency up from 5.1 in 2005 to 5.7, serious incident frequency down from 2.3 to 2.1	●	Systematic training of contractor personnel to work at our land-based plants
Climate Pages 30-33	Continued measures to reduce annual greenhouse gas emissions by 1.5 million tonnes of carbon dioxide equivalent by 2010	Continued measures to reduce annual Measures contributing to 67% of the 2010 target completed	●	Continuing work on reaching the target in 2010 through major and minor measures, such as on Snøhvit
Target for zero harmful discharges Pages 38-40	Implement outstanding actions to achieve the goal of zero harmful discharges to the sea	Target appears to be reached. Several fields implemented measures to reduce discharges in 2005-06	●	Implement outstanding actions to achieve the goal of zero harmful discharges. Measure effects
CSR guidelines and commitments Pages 49-50	Develop a toolbox for developing and evaluating country-specific strategies for corporate social responsibility	Implemented	●	Develop learning module for planning and implementation of corporate social responsibility, including reassessment of CSR guidance tool

* Results achieved are calculated by comparing the actual volume of emissions with the amount which would have been released if special measures had not been taken.

● Not implemented ● In progress ● Implemented

It's about overcoming challenges



Young employees represented by (from left) Camilla Vatne Aamodt, Torunn Bogenes, Mikael Solymar and Børge Rygh Sivertsen hand a carbon-neutral passport to Nina Udnes Tronstad, executive vice president for health, safety and the environment.

At the initiative of our younger personnel, we purchased carbon dioxide allowances in 2006 to offset emissions from travel by our workforce. This may not be a big measure when compared with our total emissions, but it indicates our willingness to overcome the challenges faced in sustainability work.

Overcoming challenges is also central to our involvement in two demanding projects, Halten carbon dioxide and the Mongstad combined heat and power station. The greatly increased attention being paid to global warming and our experience of carbon capture and storage make this a natural topic to highlight in our 2006 sustainability report.

“Maintaining an aggressive approach to finding solutions which can reduce greenhouse gas emissions will be important for the trust shown in us by society,” says chief executive Helge Lund in an interview on page 5.

Contents

A sustainable Statoil	2
Chief executive Helge Lund	4
Results and events in 2006	8
Statoil today	9
Our history	10
Values and governing principles	11
People and the group	14
Interview with executive vice president for HR	16
Our people	19
Our suppliers	22
Occupational health and the working environment	23
Safety	25
The environment	28
Climate	30
Topic: A leader for carbon capture and storage	34
Impact assessments	38
Target for zero harmful discharges	38
Biological diversity	42
Products	44
Society	46
Challenges	48
CSR guidelines and commitments	49
Approach and partners	52
Topic: Statoil in Azerbaijan	54
Financial performance and spin-offs	60
Appendices	
GRI index	66
Global Compact	69
Report from Ernst & Young AS	70



A sustainable Statoil

Lars Olve Haukeland was one of 118 young Norwegians who secured an apprenticeship on our offshore installations or at our land-based plants in 2006. He is training to be an automation technician on the Sleipner platforms, which includes maintaining instruments. "I think I've got a super place to learn," he says.



Our research centre at Rotvoll in Trondheim is a front runner in testing and developing technology. Research vice president Sverre Ferry Utengen (left) and department manager Charlotte Bolkan study a sample of diesel oil produced from natural gas.



Sustainable development is about the way we run our business and accept social responsibility. We report in this chapter and the three which follow on operations we pursue which are significant to our support for the principles of sustainable development.

This reporting is important for an assessment of our business. We depend on access to new resources to grow and create value for our owners and for the societies in which we work. Access to new resources depends in turn on being trusted by governments, decision-makers and various stakeholders in the countries in which we want to operate.

By reporting on the results we have achieved and the challenges we face, we want to make an active contribution to building such trust.



Chief executive Helge Lund:

Responding to tougher demands with new solutions

“I don’t doubt for a moment that the greatly increased attention being paid to global warming will lead to tougher demands on industry, and perhaps especially on oil and gas companies,” says Mr Lund. “Maintaining an aggressive approach to finding solutions which can reduce greenhouse gas emissions will be important for the trust shown in us by society.

“But we also face growing demands over ethics – not only because the world has generally become more concerned with such issues, but also because people are investing more and more of their assets in pension funds. They want to know what they’re putting their money into. This means we’ve got to show that there’s quality and coherence between what we say and what we do.”

He makes these points when asked to identify the most important challenges facing our work for sustainable development. But he emphasises

that work on ethics and the commitment to reducing greenhouse gases are not challenges we have put on the agenda today or yesterday.

“When I talk with people in various parts of our business, I find that this work is characterised by an overall view and entrenched in our whole group,” he observes. “Our expressed goal of zero harm to people and the environment is rooted in our obligation to work for sustainable development. We’ve chosen to adopt an aggressive approach to the carbon dioxide challenges. In principle, we could have taken the opposite approach and been more passive. But that’s never been an issue. We’ve worked to limit carbon emissions for many years. This is also a sign that our managers and employees take work on sustainable development seriously.”

Global warming caused primarily by carbon emissions now completely overshadows all other environmental problems. Asked whether

“We’ve long had clear indications of a link between human activity and global warming.”

“Cut these costs, and treatment technology developed in Norway could become a global tool.”

he finds this surprising, Mr Lund says that an alternative view could be to question why people had not reacted more strongly before.

“We’ve long had clear indications of a link between human activity and global warming. So we might have more reason to be surprised that we haven’t acted more quickly to adopt global mechanisms. Over the past couple of years, however, this problem has become specific and real for each of us. So I’m more optimistic today about mobilising political and industrial energy to find solutions.”

The chief executive admits that the oil and gas industry always faces the risk of becoming a scapegoat. “To avoid such a stigma, however, we must demonstrate what we achieve through practical action.”

He notes that Statoil has so far made a strong contribution to reducing emissions through carbon storage and enhancing energy efficiency. Carbon emissions per unit produced from Statoil-operated facilities are 32% of the industry average.

“I think many of the answers lie along two development paths. One is that politicians succeed in instituting effective global mechanisms which allow us to concentrate our efforts where the effect is greatest, that is through efficient emission trading and similar solutions.

“The other is the technology track, and the industry must take the lead here in finding answers while politicians create incentives which encourage the development of new technological solutions. I want us in Statoil to make our mark in both these areas by adopting the global mechanisms and making an aggressive contribution to technological development.”

He emphasises the need to realise that technology results not from decisions but from development. “Our best contribution isn’t to formulate tough targets but to achieve something industrially which means that we ourselves and our collaborators can make further progress.

“We must constantly ask whether we’re sufficiently aggressive,” he adds, and believes we showed a forceful spirit in 2006 with the launch of two very demanding projects. These are the construction of the Mongstad combined heat and power (CHP) station and the collaboration with Shell on the development of the world’s largest offshore project, which aims to inject carbon dioxide in the Heidrun and Draugen fields for improved oil recovery (IOR).

The latter venture could convert carbon dioxide from an environmental problem which needs to be overcome through capture and storage into a resource in a value chain. But Mr Lund urges caution.

“Although value can be created by using carbon dioxide for IOR, we know this is very complex and demanding. So we must also continue to work on initiatives and projects which only involve a storage perspective. Storage is important for combating carbon problems.

“I’m concerned to ensure that Norwegian technology projects related to carbon management aren’t only exciting in Norway,” he says. “We must adopt a global perspective when developing this solution, and we must get the cost of capture and deposition so low that the technology can be applied internationally. If we can cut these costs together with good partners, treatment technology developed in Norway could become a global tool.”

Mr Lund is keen to see a global approach not only to environmental issues but also to the challenges which concern the way we work, the values we stand for and how these are practised.

“We must base ourselves on values and ethical principles which are just as fundamental and sustaining whether we’re in Angola, Nigeria, Algeria or Norway,” he emphasises.

He adds that we face a challenge when substantial oil and gas resources are administered by countries with weak governance structures. Good resource management can encourage growth and reduce poverty on a large scale in such nations, but big revenue flows can also lead to corruption and the concentration of resources on unproductive activities. The result could be a one-sided economy with poor competitiveness and great vulnerability to fluctuations in oil and gas prices.

“It’s essential that we understand and manage the risks posed by the countries we enter and for our business there,” Mr Lund explains.

“Equally important, however, is our cooperation with the authorities in those host nations with the aim of influencing developments in a positive direction. We further developed our guidelines and strategies in 2006 to strengthen our contribution in this area.

“In practice, this means that we pursue openness and transparency about our revenues and investments as well as the taxes we pay in the countries in which we have operations. Openness about financial transactions represents an important weapon against corruption. We must also be clear in our attitude to human rights and labour standards. And we’ll create positive spin-offs from our own business to support the development ambitions of host countries.”

Asked about the demands we face from time to time to promote our values more strongly, Mr Lund emphasises that these values apply regardless of where we are. “We communicate them broadly to governments, partners and stakeholders. But we won’t force them on others. We must be very conscious that we’re an industrial group with operations in many countries, each with their own set of values. We’ve got to concentrate on the job we’re set to do.

“Our local business and practice will be developed in line with our corporate values. We must demonstrate how we work with local and global suppliers, and how we work with local communities. Within such a mandate, we can manage in a way which earns respect and displays integrity wherever we are in the world.”

Mr Lund says that we do not become involved in countries if they breach principles which are important to us, just as investment funds refuse to put their money in certain companies.

“The critical limit for me is that we must be able to pursue our business in a responsible manner and in accordance with our values base and ethical platform. If we can’t, we shouldn’t be in that country. Unless we can develop a good, profitable and long-term business founded on our values base, we should find other places to be.”

“Openness about financial transactions represents an important weapon against corruption.”

“Our best contribution isn’t to formulate tough targets but to achieve something industrially.”

Results and events in 2006



Most sustainable for third time

We were ranked as the world's best oil and gas company in terms of sustainability by the Dow Jones Sustainability World Index for the third year in a row. According to the assessment, we integrate sustainability as an important element in our value creation and strategic planning. We also stand out for developing our human capital. "In an industry struggling with severe scarcity of human resources, a key competitive advantage is to be a leader in attracting, retaining and developing skilled human resources," the assessment added. "Statoil takes a lead in this respect."



Other recognitions

We remained on the FTSE4Good index, which measures the performance of companies meeting globally-recognised standards of corporate responsibility and facilitates investment in these. We were also included in the Goldman Sachs Environment, Social and Governance (ESG) index and rank third there among oil and gas companies from all over the world, after BG and Shell. Norway's Storebrand also awarded us its Best in Class symbol of excellence for a leading environmental and social performance. We were awarded a prize by the International Association for Impact Assessment (IAIA) in 2006 for our work on such studies.



Carbon-neutral travel

We became the first Norwegian company to start buying emission allowances to offset the carbon dioxide released by employee travel and air conditioning plants in buildings. This followed a proposal from a group of young personnel who have been commissioned to challenge us on environmental issues. (Page 31)

Mongstad CHP station

Carbon dioxide capture at the Mongstad combined heat and power station could put Norway on the world map as a prime mover for lower emissions. We will be forming a company with the Norwegian government and selected industrial enterprises to improve technology for carbon capture from combustion gases. (Page 36)

Horton affair closed

We reached a settlement in October with the US authorities in respect of our contract with Horton Investments relating to business development in Iran.

Stronger commitment to biodiversity



A revision of our environmental policy in 2006 established as a principle that we will seek to maintain biological diversity. We will accordingly be paying greater attention to this issue. (Page 42)

Tenth award of HSE prize



The chief executive's prize for health, safety and the environment was awarded for the 10th time, after 93 nominations had been received. Johan Kolstø, staff engineer in well technology, won for his efforts to prevent dropped objects and was presented with the prize by Nina Udnes Tronstad. (Page 27)

Carbon injection for IOR

Shell and Statoil signed an agreement in 2006 to cooperate on developing a large-scale facility for using carbon dioxide to improve oil recovery (IOR). (Page 36)

Taxpayer

We paid NOK 104.5 billion in taxes in 2006, including NOK 30.3 billion outside Norway and NOK 74.2 billion to the Norwegian government. (Page 61)

Statoil today

Statoil is an integrated oil and gas company based in Norway. We are the leading operator on the Norwegian continental shelf and are also experiencing strong growth in our international production.

Production outside Norway represented 15.7% of all output in 2006, which averaged 1,135,000 barrels of oil equivalent per day.

Represented in 34 countries, we have exploration and production activities in 15 of these. At 31 December 2006 we had 25,435 employees.

We are one of the world's largest sellers of crude

oil and a substantial supplier of natural gas to the European market.

We have substantial industrial activity and operate 1,803 service stations in Scandinavia, Poland, the Baltic states and Russia.

We are one of the world's most environmentally efficient producers and transporters of oil and gas.

Our goal is to create value for our owners through profitable and safe operations and sustainable business development without causing harm to people or the environment.



Our history



Chief executive Helge Lund (left) and Eivind Reiten, his opposite number at Hydro, arrive together at our head office in Stavanger on the afternoon of 18 December 2006. A few hours earlier, they had announced plans to merge our group with Hydro's oil and gas business.

Statoil was founded by a decision of the Norwegian Storting (parliament) in 1972. Wholly owned by the Norwegian state, the company's role was to be the government's commercial instrument in the development of the oil and gas industry in Norway.

In 1974 Mobil discovered the Statfjord field in the North Sea which was to have enormous significance for Statoil's development. We faced great challenges in developing Statfjord, one of the world's largest offshore oil fields. Statfjord came on stream in 1979 and we took over as operator eight years later. We have a 44% interest.

The 1980s saw us become a big player in the European gas market by entering into extensive contracts to develop and operate gas transport systems and terminals.

In the same decade, we were heavily involved in manufacturing and marketing in Scandinavia and established a comprehensive network of service

stations. In Denmark and Sweden, we acquired Esso's service stations, refineries and petrochemical industries.

The 1990s were characterised by intense technological innovation on the Norwegian continental shelf (NCS), with Statoil becoming a leading company within floating production facilities and subsea developments. Statoil grew strongly, expanded in product markets and made a commitment to international exploration and production in alliance with BP.

In 2001, Statoil was partially privatised with listings on the Oslo and New York stock exchanges. We have strengthened our position on the NCS, and our international exploration and production operations are set to increase substantially over the rest of the decade. In December 2006, the boards of Statoil and Hydro recommended a merger of Statoil and Hydro's oil and gas division.



The 10th anniversary of the start to gas deliveries from Troll fell on 1 October 2006. Just over 100 million cubic metres of gas flow daily from the eastern part of this field to the processing plant at Kollsnes near Bergen.

Values and governing principles

Our values and governing principles are binding for the way we behave, work and collaborate in-house and externally. We have clear growth targets, and ensuring our continued expansion depends on access to resources and confidence by the outside world in us as a group. Such confidence is the acceptance we receive from society as a result of the way various groups and stakeholders assess our business.

The Statoil Book

Our most important governing principles were collected during 2006 in a publication which has been named *The Statoil Book*. Its purpose is twofold – to clarify the values, principles and requirements which underpin our business, and to present these in a single readily-understandable overview.

The book describes our governing system under four main headings:

- values, health, safety and the environment, security and ethics
- people partnership and leadership principles
- performance management
- corporate policies which regulate our actions and decisions in significant areas.

In addition, the book contains descriptions of various requirements and work processes.

The figure below shows how our governing system is built up.

The governing system has three principal goals:

- strengthen our values, leadership principles and ethical standards
- ensure compliance with formal external and in-house requirements
- drive business performance through high-quality decisions, fast and precise execution, and continuous learning.

Values

We seek employees who identify with our values, and we draw on our values in developing and evaluating our personnel. Shared values are important for our ability to deal with the frequent changes which occur in the world at large and to meet demands for good corporate governance. They create a sense of security and an understanding of what is and is not acceptable. The obligation to observe our values and leadership principles, in word and action, is not negotiable.

Health, safety and the environment

Our overall goal is zero harm to people and the environment, and zero accidents or losses. HSE is a line management responsibility with us. Senior management has a special responsibility, but each employee is also responsible for reaching the targets.





Irina Romero,
trainee, Statoil

Q: How can we create a commitment to sustainable development among the group's own workforce?

A: Sustainable development implies a broad view of human welfare, a long-term perspective on the consequences of today's activities, and global cooperation to reach viable solutions.

Cultural diversity is a key element in a new strategy for sustainable development. The environment we inherited and which we will transmit to future generations is a combination of nature and culture.

Sustainable development thinking must be implemented right from the very start when shaping our operations. We must implement programmes which have great ability to bring people together.

Managers should try to build a network between companies to work on common sustainable development strategies and to contribute to the long-term work.

Scenario-building could be promoted, involving as many different perspectives as possible. These should focus on the role of business, how the links between society, business and environment will develop and change over coming years and how we can contribute to positive change.

Ethics in Statoil

Our value creation will rest on a high ethical standard which also forms the basis for our relationship with owners, employees, partners, customers, suppliers, governments and other stakeholders.

Governing model

Our governing model is presented in The Statoil Book. It unites commercial ambitions with organisational and employee development. The model covers the process from the definition of ambitions via execution until the results have been achieved and assessed, and it describes how our organisation and employees work to

realise our ambitions. We have called this process Ambition to Action. The purpose is to identify and implement the measures required for us to achieve our long-term ambitions.

Ambition to Action translates our long-term ambitions into more immediate strategic targets. These goals and the necessary measures are specified for the following five delivery areas:

- people and organisation
- health, safety and the environment
- operations
- market
- finance.



Area vice presidents Øyvind Bratsberg (left), Anne Therese Hestenes and Astrid Sørensen, together with executive vice president Terje Overvik, are being trained by Solveig Haaland on using a business mat in job reviews.

Anti-corruption

During 2006, more than 1,000 of our key personnel attended a seminar developed in-house on combating corruption. A special e-learning programme on this subject has also been produced. Aimed at our whole workforce, it was launched in March 2007.

Ethical issues appear regularly on the agenda

of the corporate executive committee and the management teams for our business areas. In such cases, they act as an ethics committee.

Employees have also been able to raise ethical dilemmas with our own ethics helpline for several years.

This is being followed up in our performance management system. On the basis of the goals and measures in Ambition to Action, individual targets are set for both delivery and behaviour – two dimensions given equal weight in the evaluation of all our employees.

People@Statoil

Since January 2006, a process we call People@Statoil has been adopted for following up our employees. The aim is to secure good and systematic personnel development for all personnel in line with our values and business challenges.

The People@Statoil dialogue is conducted between an employee and their manager, with agreement reached on both professional and personal development goals.

Corporate governance

Good corporate governance is a precondition for a healthy and sustainable company. Our governing structure and control mechanisms ensure that the business is conducted in an acceptable and profitable manner to the benefit of our employees, shareholders and other social interests.

Our articles of association and the Norwegian Public Limited Companies Act provide the legal framework for our operations. The articles describe the object of our business and specify the overall duties of the annual general meeting, the corporate assembly and the board.

A detailed description of our governing structure is presented in the chapter on corporate governance in our annual report and on our website at <http://www.statoil.com/cg>



Ahmed Nadir Dib,
trainee, Statoil

Q: How can we generate commitment to sustainable development among our own employees?

A: The workforce is our basic capital, and the object is to create value for our owners through profitable operations and sustainable commercial development.

Our shared values, as described in We in Statoil, provide a platform here. They define behaviour and qualities which provide clear pointers on how to work, do business and create new commercial opportunities.

One way to generate a commitment to sustainable development is to keep employees aware of the importance of maintaining the benefits of resource utilisation, fuelling innovation, and ensuring that future generations will also be able to enjoy a high quality of life.

This calls for an awareness campaign through seminars, meetings, active advertising on the intranet and circulation of reports. Guidelines should also be frequently updated in order to encourage experience transfer within the workforce.

Another goal should be to integrate economic, environmental and social considerations into decision-making at department level and to improve operations continuously. Implementing sustainable development principles is also crucial to the way we manage our operations.

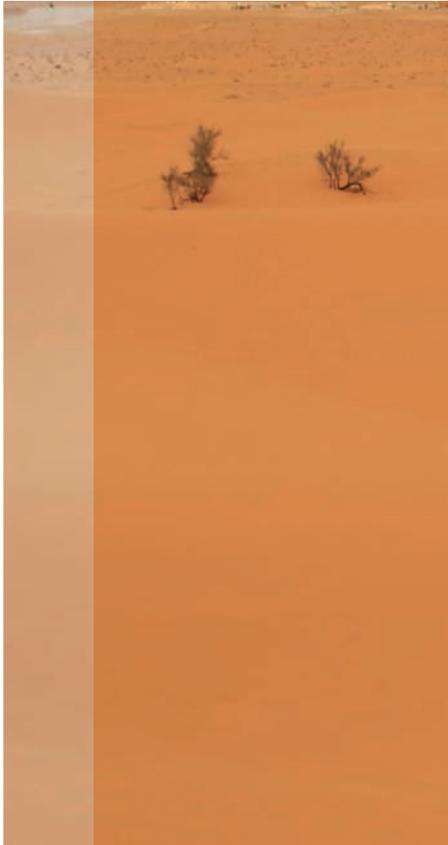
Horton affair concluded

A settlement was reached in October 2006 with the US authorities concerning our 2002 contract with Horton Investments Ltd on business development in Iran. Our agreements with the American authorities resolved all outstanding issues raised by the Horton affair in relation to US law.

As part of the settlement, we have hired a consultant for a three-year period to assess our internal control system and guidelines for ensuring compliance with the US Foreign Corrupt Practices Act.

People and the group

David Poole, our exploration manager for Algeria, hunts for hydrocarbons beneath the sand dunes of the Sahara. We spudded our first well on the 23,000-square-kilometre Hassi Mouina licence in November 2006. This was also our first exploration well as an operator on land.



Apprentice Linda Renate Stokka has plenty of steps to climb on Sleipner A in the North Sea. Our installations offshore and on land give her and her colleagues challenging and forward-looking career opportunities in the oil and gas business.



High oil prices over a long period have encouraged a sharp expansion in exploration activity and investment in new production capacity. Discoveries being made today are generally smaller but more demanding to develop. This has put pressure on all input factors, created difficulties throughout the industry in meeting published production targets, and prompted stiff competition over able specialists.

We are meeting these challenges by:

- developing profitable business activities, maximising value creation on the Norwegian continental shelf (NCS) and expanding internationally
- setting stringent standards for safety and efficient operation, and by pursuing technological innovation
- developing a healthy performance-oriented corporate culture, where personnel development, management and leadership are integrated in our business strategy.



Jens R. Jensen, executive vice president for corporate human resources is committed to developing employees and building a corporate culture.

Topic:

Putting values into practice is the key

“Execution is where the battle must be fought. The challenge has never been to formulate fine words and shape the best concepts for creating a winner culture. It’s about who gets this to work in practice, with precision and a quality which confers benefits on the company and its employees.”

Jens R Jenssen, executive vice president for corporate human resources, makes it plain where he believes energy needs to be concentrated in developing our corporate culture.

“We’ve defined a clear direction” says Mr Jensen. “We’re going to be globally competitive and a unique place to work for performance and development. We’ve developed very good and practical tools, but we’re still not good enough at applying them. That’s where we now have to put the emphasis. What creates winners is respect for the challenges, close monitoring and staying the course during execution.”

Asked whether companies which deliver good results over time share any special characteristics, Mr Jenssen identifies three factors.

“First, development of people, management and leadership must be integrated in the corporate

strategy. The key word here is identification of the expertise a company needs and development of employee competence, performance and attitudes.

“Second, a company needs clearly formulated values which underpin the whole business. People development is deeply entrenched in the values base.

“Finally, the values must be deeply rooted in the individual manager and employee. This means that they’re put into practice in everyday working.”

In response to the question of whether a large company can be run without an expressed values base, he says that values are an expression of the desired corporate culture.

“It’s never a question of whether you want a

culture. You've got that regardless, because a culture always emerges when people congregate. The choice you have is how systematic and clear you want to be in the work of shaping and developing this culture."

Clear

"We've opted to be clear and visible," says Mr Jenssen. "And we've always had an active attitude towards developing our corporate culture. So this work builds on a long tradition and an awareness that systematic construction of a culture is important for the business, for our reputation and not least in relation to the workforce."

He agrees that a company is vulnerable if it fails to communicate values.

"Employees lack a visible standard to work by. I'd go so far as to say that being informed about the company's attitude on important value issues is a right. This creates a sense of security and an understanding of what is and is not acceptable."

Expectations

"We find that many of the people who're interested in working for us appreciate our attitudes and values – the fact that we specify our clear expectations to them about compliance with our values," he adds. "If we're unclear here, we weaken our position in a tight labour market where we've got to fight for the talented people."

The question then is whether successful companies succeed because they manage to integrate their business strategies with the development of employees and the organisation.

"That's simple in theory, but challenging to achieve in practice," Mr Jenssen observes. "It calls for hard work and staying power."

"If it was easy and could be achieved with a snap of the fingers, there would have been many more companies in the class which we must and will occupy. We must build brick by brick. Execution calls for toilsome work by manage-

ment, employees and union officials. Everyone must pull in the same direction and share the same values base."

Toolbox

Our managers have a particularly important job in getting this to function, Mr Jenssen notes. But we also need a toolbox which provides frameworks and guidelines, he says, and points to *The Statoil Book*. This was developed in 2006 to bring together our values, leadership approach, important provisions, guidelines and processes affecting all employees.

"I'm very proud of this book," Mr Jenssen says. "Many companies don't have anything comparable. It's not the result of theoretical desk work. The contents have been tested against reality through an extensive and participatory process."

Tie together

Asked how People@Statoil will help to tie our corporate strategy together with the role and commitment of each employee, Mr Jenssen describes it as an important tool for people development.

"It's intended to clarify the relationship between ambition and action and between goals and performance, and to provide honest feedback as well as encouraging change and development. Your manager is meant to inform you about the strategic goals so that you can jointly set new personal targets."

"The basic questions which must be discussed and answered include: what is my job and my targets, what is my responsibility, how do I do my job, what development needs do I have and how do I implement them, and what is my potential and ambition for the future."

"These are simple but basic issues, but pursuing a good dialogue about them is demanding. It calls for training and motivation, openness and willingness. But it's crucial for creating a healthy performance-oriented corporate culture where people perform and develop, enjoy themselves and feel a sense of belonging."

Our people

Intense competition over input factors and resources

The oil and gas industry has benefited in recent years from high prices for its production. But the world in which it operates has also changed and is now characterised by tougher competition over licences, operatorships, input factors and experienced personnel.

To maintain our competitiveness, we must work constantly on productivity improvements and secure long-term growth in production and reserves. Continuous improvements to procurement processes and recruitment are also required, while we must ensure that we keep our best-qualified personnel for as long as possible.

Our strategy is to develop profitable commercial opportunities with maximum value creation on the NCS, pursue international growth and set strict standards for capital discipline.

We can point to substantial improvements in recent years and now occupy a strong position, both strategically and financially. Robust strategies and plans have been further developed to underpin our goal of long-term growth.

Reserve replacement

To create growth, our oil and gas reserves need to

be increased by more than we take out through production. We can secure expansion through the purchase of reserves (inorganic growth) as well as through exploration and improving recovery factors on existing fields (organic growth). Reserve replacement is achieved in the short term by bringing forward development projects for approval, by improving oil and gas recovery from the fields we operate, and by securing access to new reserves and resources through acquisitions or other forms of inorganic growth. Organic expansion is and will remain the most important approach for us, even though the inorganic variety has become more significant in recent years. We have farmed into oil and gas fields and exploration acreage in several countries. Some of the biggest acquisitions have been made in north Africa and the Gulf of Mexico. Our international positions are in areas where we could enjoy a technological edge which can be applied to expanding oil and gas output.

Our average reserve replacement rate was 94% in 2004-06. This is not satisfactory for securing long-term growth, and means that we must increase our efforts to acquire new resources in the time ahead – in part by stepping up our exploration activity.

We operate 28 fields producing roughly 2.6

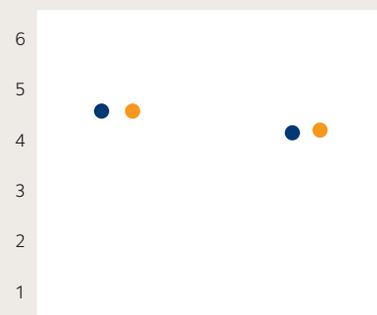


Inge Myhre pursues drilling and well completion on the Kristin platform in the Norwegian Sea. He has worked with oil and gas operations worldwide for 36 years, the last 19 for us. "Not a single day has been boring," he says. "I learn something new every day."

Results from our working environment survey in 2006

Some of the results from our Global People Survey (GPS), are shown in graphical presentations here and on the following pages. The GPS is carried out annually.

EXPERTISE



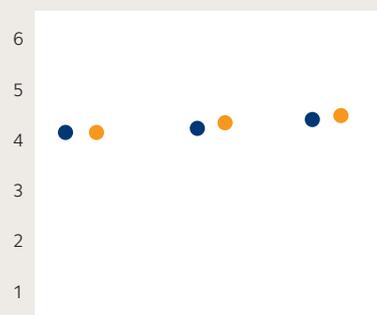
Utilising skills in job Systematic development

4.6 - 4.6 4.1 - 4.2

Assessment of opportunities to utilise skills and capabilities at work, systematic development and career opportunities according to gender, 2006. Source: GPS

● Men ● Women

CAREER OPPORTUNITIES



2004 2005 2006
4.2 - 4.2 4.3 - 4.4 4.4 - 4.5

I am satisfied with my career opportunities in Statoil.

Source: GPS

● Men ● Women

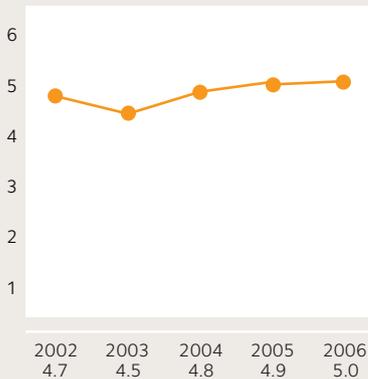
PRIDE IN WORKING FOR STATOIL



"I speak of Statoil to my friends as a good company to work for"

Source: GPS

STATOIL'S AMBITIONS



"I believe in Statoil's ambitions to become a recognised international oil and gas company"

Source: GPS

million barrels of oil equivalent per day. At 52%, their average recovery factor is high for the oil and gas industry. We are developing new technologies and expertise which will allow us to improve recovery from these reservoirs even further. Our ambition is to reach a recovery factor over a field's lifetime of 55% for subsea developments and 70% with platform-based wells.

Development

Our continued development as a competitive international group calls for constant improvement. Good change processes depend on dialogue with employees and on adaptability.

Improvements and changes must be implemented on a continuous basis if we are to hold our own against tough international competition. We have devoted substantial resources to establishing new business opportunities in the Gulf of Mexico, while opting to concentrate our downstream business on Scandinavia and the Baltic area. As a result of that decision, we have sold our service station chain in Ireland.

Change is necessary, but will often have a direct impact on our employees. Processes which call for cutbacks in one area at the same time as we need additional expertise and employees in others are particularly demanding.

We face a special year in 2007 with the planned merger with Hydro's oil and gas business. This will affect employees in both companies where the two have operations.

Dialogue

We take the attitude that open dialogue and communication with employees is the key to implementing good and orderly change processes. We want to make it clear why development and change are happening at the earliest possible stage, and seek to involve our employees in this work. Works councils have been established at both organisational and regional levels to help achieve an open dialogue, giving employees the opportunity to discuss issues with management. These bodies are also used to brief the workforce about our business operations. The way these formal collaboration arrangements function varies a little from

country to country, depending on national legislation and local worker-management relations. Employee representatives from all the countries within the European Union/European Economic Area in which we have operations participate in our European works council. This collaboration is based on an agreement which was renewed most recently in 2006.

We have a dialogue with external interest groups on issues relating to working conditions. An important partner is the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), a global body embracing more than 20 million members in 125 different countries. We have had an agreement with the ICEM on exchanging information since 1998.

Our principles

Our good experience with collaboration and well-entrenched labour standards provide the best basis for positive relationships in-house and externally.

We support the fundamental labour standards enshrined in International Labour Organisation (ILO) conventions and the Global Compact, a UN partnership programme with international business. The conventions on freedom from discrimination at work and the right to organise and conduct collective bargaining will be central to our business – not only for our own operations, but also in relation to suppliers/contractors with whom we cooperate.

Such important principles form the basis both for our values and for our human resources policy. These specify the attitudes and guidelines applied in our organisation to ensure equitable working conditions for our employees.

Results

All employees are encouraged to participate in People@Statoil, our annual group-wide organisation and working environment survey. Its results show that our personnel take a positive view of working for us.

- Results from the 2006 survey in a number of areas were the best since we began these annual polls. Employees were more confident of our ability to adapt and improve, and to exploit and develop expertise.

- Confidence that we would succeed in our international ambitions had strengthened.
- Personnel employed on the NCS were more satisfied across all the indicators.
- Confidence in the corporate management was at the same high level as in 2005.
- We are perceived as offering the best career opportunities.

cooperation between management and unions, and to exchanging personnel between organisational units. A growing number of employees also found their workload too high, while assessments of cost efficiency had become more negative.

Low employee turnover – particularly in the parent company, where it is less than 1% – also indicates that our working conditions are perceived as positive. Work is now under way in the downstream business to reduce its staff turnover which has traditionally been high. This has yielded positive results.

Employee assessments of areas such as safety and management were on a par with earlier years.

The only areas to show a negative trend related to

Planned measures 2005	Results 2005	Planned measures 2006	Results 2006
Ensure that women hold 20% of management posts in the business areas	Proportion of women managers below 20% in two of five business areas	Target maintained	Proportion of women in business area management teams is now 26% overall, with Exploration & Production Norway as the only area below target at 18% – up 2% from 2005
Increase proportion of local employees among managers in the international business	Number of managers recruited was stable	Target maintained	Proportion of non-Norwegian managers increased over the year from 39% to 46%
Introduce group-wide guidelines for recruitment during the first half of 2005	Achieved. Will be implemented when common HR policy for the group is in place	Prepare a common HR policy for the group	People Partnership, the new HR policy, incorporated in The <i>Statoil Book</i> , which contains all our governing requirements
Further develop and enhance the efficiency of the Statoil School in relation to commercial goals	Improvement programme launched for further development of the school concept, methods and technology	Establish Project Academy to develop our project expertise	Academy established and in operation
Develop and implement a common group system for establishing goals, performance and development of managers and employees	Implemented	Further developed, in part by establishing a common expertise module in the group and carrying out a full values study for all employees	People@Statoil further developed as an integrated personnel development tool. Employee and manager will jointly define development needs and performance targets, and evaluate results achieved

Sustainable development – measures for 2007

Diversity

We set specific targets in 2006 related to equal opportunities and locally-employed managers. Greater diversity, including an improvement in equal opportunities and more non-Norwegian managers, is a general requirement for recruitment and for structuring teams – including management ones. It will accordingly be incorporated in our various personnel processes, both by developing individuals towards defined jobs and by ensuring that personnel selection satisfies requirements for diversity – particularly when structuring management teams.

Personnel development and allocation

People@Statoil is an important tool for pursuing personnel development in our group, and will be further developed with new functions to meet our corporate requirements. Efforts will also be made to enhance the quality of execution, not least by implementing more training measures.

The People@Statoil dialogue is used to agree training measures through the Statoil School in a number of areas. Our offer of a home PC (the IT step) also requires each participant to pursue a training programme in their free time. The Statoil School's electronic courses will be made available in 2007 via home PCs, allowing all IT step participants to take advantage of learning opportunities relevant to our operations.

Merger

We reached agreement in December 2006 on a merger of Statoil with Hydro's oil and gas division, which has about 5,000 employees.

Integration planning has begun in 2007, and will include the creation of a new organisation. This involves such activities as appointing new managers, allocating personnel and integrating procedures and systems in both companies. In the HR area, this will call for coordination of HR policies, pay and working conditions, and so forth.

When implementing the merger, the equal status of both companies will be reflected in the allocation of jobs and duties. The process must help to build a common corporate culture which can lay the basis for safe and secure operation of our facilities and continued development of an international group.

Implementing this process will make big demands for a good collaboration with the unions in both companies.

Our Global People Survey of the working environment will provide a tool for measuring employee views on the way the merger process is implemented.

JOB SATISFACTION

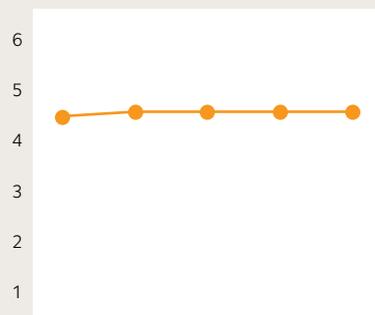


2002 2003 2004 2005 2006
4.6 4.6 4.6 4.6 4.6

"All in all, how happy are you in your job?"

Source: GPS

KNOWLEDGE AND SKILLS



2002 2003 2004 2005 2006
4.5 4.6 4.6 4.6 4.6

"I have the opportunity to utilise my expertise and abilities in my daily work"

Source: GPS



**Leif Sande, president,
Industry Energy trade union**

How can Statoil contribute to the development of international labour standards and good management-worker relations in the countries in which it has operations?

A: Statoil stands out from most other oil companies through its global agreement with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), which has 20 million members. This mutually-binding agreement covers relevant rights defined by the UN's International Labour Organisation (ILO). Through it, Statoil has shown a willingness to listen to the critical views of a counterpart on labour issues. This is extremely important for experience transfer, and strengthens both Statoil and the union movement.

The group signed the world's first global accord with Industry Energy (formerly Nopef) and the ICEM in 1998, which has provided the model for almost 40 subsequent agreements. My union has many years of experience with Statoil in such countries as Poland, Lithuania, Azerbaijan, Nigeria and the USA, and the way this global deal is practised has been very positive.

Statoil sets an international example for relations between management, the workforce and their unions. Where the union movement is concerned, this represents the group's most important export product.

Therefore, the union movement welcomes Statoil. We will do our best to ensure that this positive reputation continues in the proposed company, StatoilHydro.

Our suppliers

We have about 26,000 suppliers on a global basis, and purchased goods and services worth NOK 67.7 billion in 2006. This amount embraces deliveries we used as the operator of oil and gas exploration and production activities, for development projects, and for the operation and maintenance of facilities offshore and on land. It does not include purchases of crude oil, refined products, gas, methanol, real property or other goods for resale.

We work steadily to maintain firm and close relationships with our suppliers. As a general principle, our procurement is based on competition between a sufficient number of bidders. Suppliers and contractors invited to bid are pre-qualified. Such pre-qualification must be documented, and is based on the following criteria:

- previous experience
- ability to meet technical and operational requirements
- requirements for HSE management
- requirements for quality assurance
- commercial and financial considerations.

Our suppliers must always comply with local legislation while also satisfying the requirements we specify on such issues as labour rights and ethics. We participate regularly in and support activities aimed at enhancing the ability of our suppliers to raise standards in the areas mentioned above.

We select our suppliers/contractors on the basis of objective, checkable and pre-defined criteria such as those we have listed above. The oil companies on the NCS have jointly established the Achilles FKO system for qualifying suppliers of goods and services.

Together with other companies, we have actively advocated that the industry should

work to develop and adopt criteria which promote good corporate governance throughout the value chain. Achilles FKO will be used in these efforts. Checking suppliers for their social responsibility as part of the standards set for them by our industry – nationally and globally – has found acceptance. This requirement to demonstrate social responsibility is now being systematically implemented, but it will take some time before data are available and can be taken into account by each company in assessing suppliers.

We have taken the initiative towards a tightening of the revised Norwegian industry standards for contracts with a view to combating corruption. Our own standards have been reviewed and sharpened, particularly for the purchase of intellectual services.

Individuals are prohibited from playing more than one role in the procurement process. Clear requirements are also set to avoid conflicts of interest. In addition come rules on when and how to assess a supplier's integrity in order to ensure that a business relationship does not pose an undesirable risk.

HSE qualification

Key suppliers and those providing particularly important goods and services must be professionally qualified in HSE terms for the work. Such qualification can be general and independent of a specific delivery, or it can be related to a particular assignment. Suppliers must plan to pursue their business in a way which lives up to our standards and requirements.

We have developed a safe behaviour programme which puts the emphasis on understanding risk and the significance of each employee's own actions. Participants also include contractor personnel.

Occupational health and the working environment

Avoiding health hazards associated with our operations either on land or offshore is a major concern. We have worked for many years on measures to reduce such risks, including continuous improvements to our governing documents as well as risk assessments.

Several research and development projects have been pursued in recent years to develop new risk management tools for health and the working environment. Examples include the ChemiRisk, ErgoRisk and NoiseRisk projects. The first two of these yielded tools which we have long been using, while the last is nearing completion by the Norwegian Oil Industry Association (OLF).

Learning more

We are steadily learning more about health risks associated with the working environment, and risk-related conditions are better understood today. More information is available about possible health risks, less hazardous substances have been introduced and work processes have been changed to reduce risk. Better protective gear is being developed, and detailed checks are made to ensure the proper use of this equipment.

A steady improvement in the technical and physical working environment can be documented. This is because we know more, and technical developments reflect that increased knowledge. One example is the reduction in the level of noise on newer installations because occupational health and working environment standards, backed by close monitoring, have influenced planning and technical design.

We also participate in a number of research projects, which represent an important element in our continuous efforts to improve the technical and physical working environment. Examples include:

- *Health, coping and shift work:* Being pursued in cooperation with Norway's National Institute of Occupational Health, this project was initiated partly at the request of the unions. It represents pioneering work because little research has been done on the relationship between shift work and coping.

- *Presence of legionella in salt water:* This project is being conducted with the Sintef research foundation. Its results could lead to changes in procedures for water management offshore.
- *Development of ErgoRisk:* This tool is being developed with the University of Bergen to assess the risk of physical work operations in order to prevent the development of musculo-skeletal problems among employees.

Ten years of low sickness absence

Sickness absence in our parent company, Statoil ASA, was 3.5% in 2006 – considerably lower than the Norwegian average. According to figures for the first nine months of the year from Statistics Norway, sickness absence nationally was 6.9%. Over the past decade, our performance on this indicator has varied between 3% and 3.6%, with 3.4% as the average. Sickness absence among our employees in Norway has thus been low and stable for 10 years.

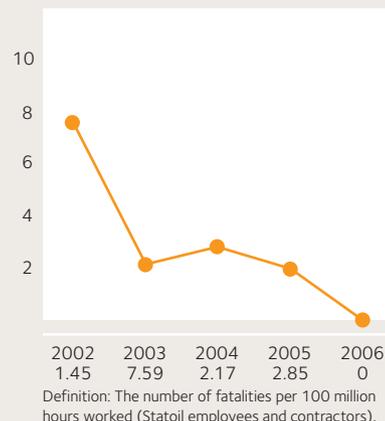
The Norwegian government, the Confederation of Norwegian Enterprise (NHO) and the Norwegian Confederation of Trade Unions (LO) concluded an inclusive workplace (IA) agreement in 2001. Statoil ASA signed up to this the following year. Its principal targets are to follow up people on sick leave, reduce sickness absence, customise work for people with disabilities and raise the real retirement age.

Prevention important

Our parent company has worked in accordance with IA principles for many years. Measures have been adopted to alleviate and prevent ill health. The aim is to intervene before such problems lead to absence from work. Many preventive measures have been adopted, such as campaigns to encourage employees to cycle to work, eat healthily and take exercise.

Work to promote presence was adopted by our offshore catering service during the late 1990s. One measure was to introduce network meetings where the person on sick leave, together with their doctor, their manager and the safety delegate, discuss opportunities for an early return to work.

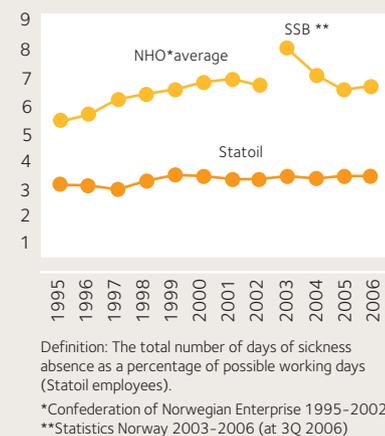
FATAL ACCIDENT FREQUENCY



LOST-TIME INJURY FREQUENCY



SICKNESS ABSENCE





Faiga Karim (left) and Ahmed Hammodan trade gas for us on the London spot market.

Disability

High standards are set for employee health. The alternative for employees who lose their medical certificate is a transfer to other work either within Statoil or externally.

Our retirement age in Norway is 67 for personnel on land and 65 for offshore workers, but many retire earlier. Statoil ASA is planning measures aimed at older employees to ensure that more personnel stay at work for longer. The average retirement age for employees is currently 62.3. A number of flexible arrangements have been introduced in a special programme for older workers, which concentrated in 2006 on the following issues:

- information and dialogue on customising work so that older personnel are ensured meaningful jobs and opportunities to develop their expertise
- a mentor scheme to secure better expertise transfer and guidance for younger employees, with personnel aged more than 55 being nominated for a mentor role by their manager
- employees aged 62 or above who remain in work get an extra week's holiday
- a trial scheme which allows employees to combine 80% of a full-time job with a pension from the age of 62 while maintaining their full pension entitlement – based on employee application, and conditional on the job concerned being suitable for part-time working.

Planned measures 2006	Results 2006	Planned measures 2007
Maintain low level of sickness absence in the group	3.5%	Maintain target. Extend established schemes for promoting presence and rehabilitation
Customise work to raise the real retirement age	Average retirement age in Statoil is 62.3	Maintain target of increasing real retirement age. Implement established policy for older employees
Special policy for older employees to be developed	Policy for older employees: 80% job, 90% pay and 100% pension basis. Managers can sanction customising for employees aged over 55, etc	
Adopt inclusive workplace (IA) methodology throughout group	Dialogue meetings with employees on long-term sick leave. Customising to optimise, and measures to promote presence	Target maintained.
		Extend established system for chemical management to the whole group

Safety

International growth and a high level of activity on the NCS make big demands on our ability to operate safely. So a priority job is to manage safety in new geographical areas where the culture for and understanding of safety work are less well developed than on the NCS.

To achieve good results, we put great emphasis on collaboration with our suppliers/contractors. The most important priority areas for reaching the goal of zero harm are:

- improving the safety culture
- preventing oil spills and gas leaks
- reducing the risk of dropped objects.

We have worked systematically for many years to reduce serious incidents, giving great weight to reporting incidents, near misses or conditions which could have serious consequences.

No fatalities were suffered in connection with our operations in 2006, when 107 million working hours were recorded. The number of serious incidents declined, while personal injuries increased. Our personal injury and serious injury frequencies per million working hours look like this:

The serious incident frequency has declined from 3.2 in 2004 to 2.1 in 2006. The serious incident frequency is measured by the number of serious (red) incidents per million hours worked. It includes both potential and actual injuries. There has also been a decline in robberies from 158 in 2004 to 64 in 2006.

Avoiding gas leaks is very important for an operator. We have worked actively with this problem, achieving a big reduction in such incidents on our offshore installations and at our land-based facilities. However, the Visund platform which we operate in the northern North Sea was shut down for four months during 2006 following a serious gas leak.

Dropped objects

Objects dropped from a height represent a major hazard, and can cause serious injury to personnel. Systematic efforts have been made

in 2006 to avoid dangerous situations and the chief executive's prize for health, safety and the environment for 2006 was awarded to this work.

Investigations

To strengthen our investigative expertise, a separate team has been established to lead inquiries into the most serious HSE-related incidents. This team, which began its work in 2006, will also contribute to training and experience transfer within our group. The investigation unit is attached to the corporate audit function in order to ensure its independence when pursuing inquiries.

Safe behaviour

The safe behaviour programme has become a cornerstone in our efforts to get people to act in safer ways. Through encouraging individuals and organisational entities to work on improving their own behaviour and avoiding errors, it aims to make everyday life injury-free. More than 30,000 people had taken the programme by 31 December 2006.

Positive trend

Evidence that the programme is making a difference comes from our own measurements as well as from studies by the International Research Institute of Stavanger (Iris). According to an interim status report from the latter, our corporate culture has been strengthened and the main elements in the programme – technically known as barriers – have increased understanding of how to prevent accidents. Safety work has traditionally devoted much attention to technical barriers, but the safe behaviour programme has strengthened and expanded barrier thinking through an emphasis on human action. The “caring about each other” barrier, in particular, has had a positive effect in-house and with our suppliers. One change is that employees in collaborating companies and at suppliers/contractors say it has become easier to talk with our managers and employees on safety issues. According to the Iris study, they feel more equal and included in operations.



Erik Syrstad,
country manager, Statoil Libya

Q: How can Statoil contribute to the development of international labour standards and good management-worker relations in the countries in which it has operations?

A. A fundamental job is to learn and understand as much as possible about the host countries in which we operate, and to approach their local culture and religion with curiosity, respect and a degree of humility. We are proud of our values and of the corporate culture we bring with us. But we must equally be aware of the local values and traditions and leave preconceived ideas at home.

Libya is a country where traditional values relating to family and respect, friendship, helpfulness and generosity are strong and alive. The open-minded foreign visitor will quickly learn many new things, one being that money does not necessarily buy respect. Relationships between local staff and expatriates must be based on mutual understanding and respect. That sounds obvious and easy, but requires management focus and time.

We have to show our local staff that we live by our values every day, and devote enough time to discussing what expectations and meaning they attach to such words as professional, truthful and caring. In that way, we can gain a collective understanding of what these terms mean in our daily work.



Helicopters stationed offshore ensure speedy transport to hospital for sick or injured personnel, such as on the Heidrun platform in the Norwegian Sea.

Offshore helicopter response

Our airborne search and rescue (SAR) service responded to 168 call-outs in the North and Norwegian Seas during 2006. Roughly 70% of these related to acute illness and the rest to injuries. Many emergency response and evacuation jobs were also carried out.

The SAR service provides acute medical response for personnel on fixed installations and on supply or standby ships. It comprises two helicopters, one stationed on Statfjord in the Tampen area and the other on Heidrun in the Norwegian Sea. These services were established in 1981 and 2001 respectively.

Both nurses and rescue personnel are on the helicopters during call-outs. The nurses are specially trained in anaesthesia or intensive care, and do temporary duty every year in hospital casualty departments.

These helicopters play an important emergency response role in the Tampen and Halten/Nordland areas. The SAR machine on Statfjord also forms part of the emergency response system in the UK sector, and performs assignments for Shell UK. Our overall SAR service represents an important resource for Norway's joint rescue coordinating centres.

Fast treatment important

Starting treatment as soon as possible is crucial in cases of acute illness and serious injury. Patients are treated on the spot and en route to hospital in Bergen, Kristiansund or Trondheim.

Cardiovascular problems requiring SAR call-outs in the Tampen area have risen considerably over the past 15 years to more than 40% today. This increase could be attributable to the rising average age of offshore personnel and to lifestyle illnesses becoming more prominent.

Collaboration on acute medicine

The SAR service collaborates during call-outs with our duty medical officers in Stavanger, Bergen or Kristiansund. All procedures are quality-assured by doctors at Bergen's Haukeland Hospital. We cooperate with its casualty department on standards of acute medicine and maintenance of procedures.

Medical treatment of heart patients takes place on offshore installations today. Patient information is transferred via the internet to cardiac specialists on land. Treatment is initiated once the specialist has verified a diagnosis, while doctors at the hospital begin to prepare for the patient's arrival.

A number of offshore personnel have survived heart attacks because treatment could be started on the spot.

Planned measures 2006	Results 2006	Planned measures 2007
Avoid fatal accidents and major accidents which endanger life, health, the environment and material assets	Zero fatal accidents	Continued commitment to combating dropped objects. New management training programme. More risk assessments required
Achieve noticeable improvement in personal injury and serious incident frequencies	Personal injury frequency up from 5.1 in 2005 to 5.7, serious incident frequency down from 2.3 to 2.1	Systematic training of contractor personnel to work at our land-based plants
Follow-up activities in safe behaviour programme	Follow-up activities implemented as planned	Continued follow-up of safe behaviour programme, nationally and internationally
		Prepare proactive safety indicators

Ten years with HSE prize

The chief executive's prize for health, safety and the environment was awarded for the 10th time in 2006, and went to Johan Kolstø and a team devoted to identifying and reducing the threat of dropped objects offshore.

A staff engineer in well technology, Mr Kolstø has worked on the dropped objects issue since the late 1990s. Special dropped object inspection teams were established in 2003-04 along with an inspection system covering every area of drilling and well operations on fixed and mobile installations. Since 2004, the team has visited all the fixed and floating installations on the NCS which we either operate or charter in order to identify the risk of dropped objects. A total of 20,000 risks have been logged, and the number of serious incidents related to dropped objects in drilling, well operations and production has halved over the past couple of years.

A manual on best practice has also been created under the title *Securing Securely*, which makes use of photographs to illustrate each safety recommendation.

The jury's assessment notes: "Dropped objects represent one of the major threats of serious personal injury to employees. The candidate has played a key role in work on combating such incidents over many years, and has adopted new solutions. These efforts have yielded demonstrable results. Statoil's commitment has led to industry initiatives in this area."

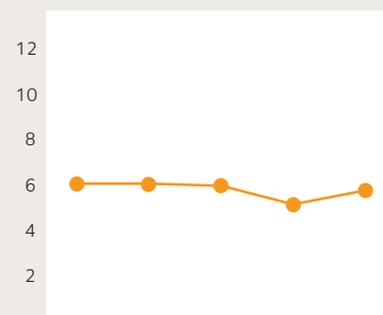
The prize was established to highlight and reward good HSE work, and chief executive Helge Lund says that it has established itself as very prestigious. It attracts growing public attention, and has become entrenched both in our own organisation and with our partners.

A total of 93 candidates were nominated for the 2006 prize. All our employees can submit nominations. The prize is given for a good contribution in one or more of the following fields: health and the working environment, the natural environment, safety, emergency response and security. It can be awarded to individuals, teams or organisational entities within our group, contractor/suppliers or others who do work for us.



"Safe equipment, work processes and behaviour – our commitment is focused on the whole value chain," says Johan Kolstø. He won the chief executive's HSE prize in 2006 on behalf of a team which has worked to identify and reduce the threat of dropped objects.

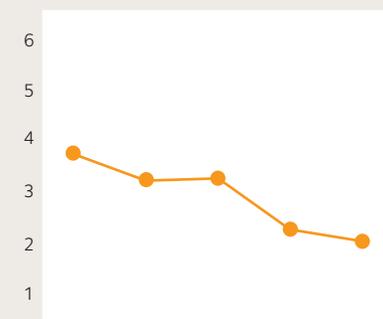
TOTAL RECORDABLE INJURY FREQUENCY



Year	2002	2003	2004	2005	2006
Frequency	6.0	6.0	5.9	5.1	5.7

Definition: The number of fatalities, lost-time injuries, cases of alternative work necessitated by an injury and other recordable injuries excluding first-aid injuries per million working hours (Statoil employees and contractors).

SERIOUS INCIDENT FREQUENCY

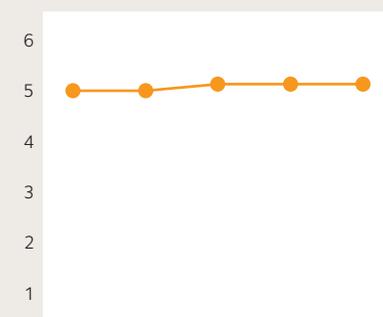


Year	2002	2003	2004	2005	2006
Frequency	3.8	3.2	3.2	2.3	2.1

Definition: The number of incidents of a very serious nature per million working hours (Statoil employees and contractors).

An incident is an event or chain of events which has caused or could have caused injury, illness and/or damage to/loss of property, the environment or a third party.

ZERO MINDSET IN PRACTICE



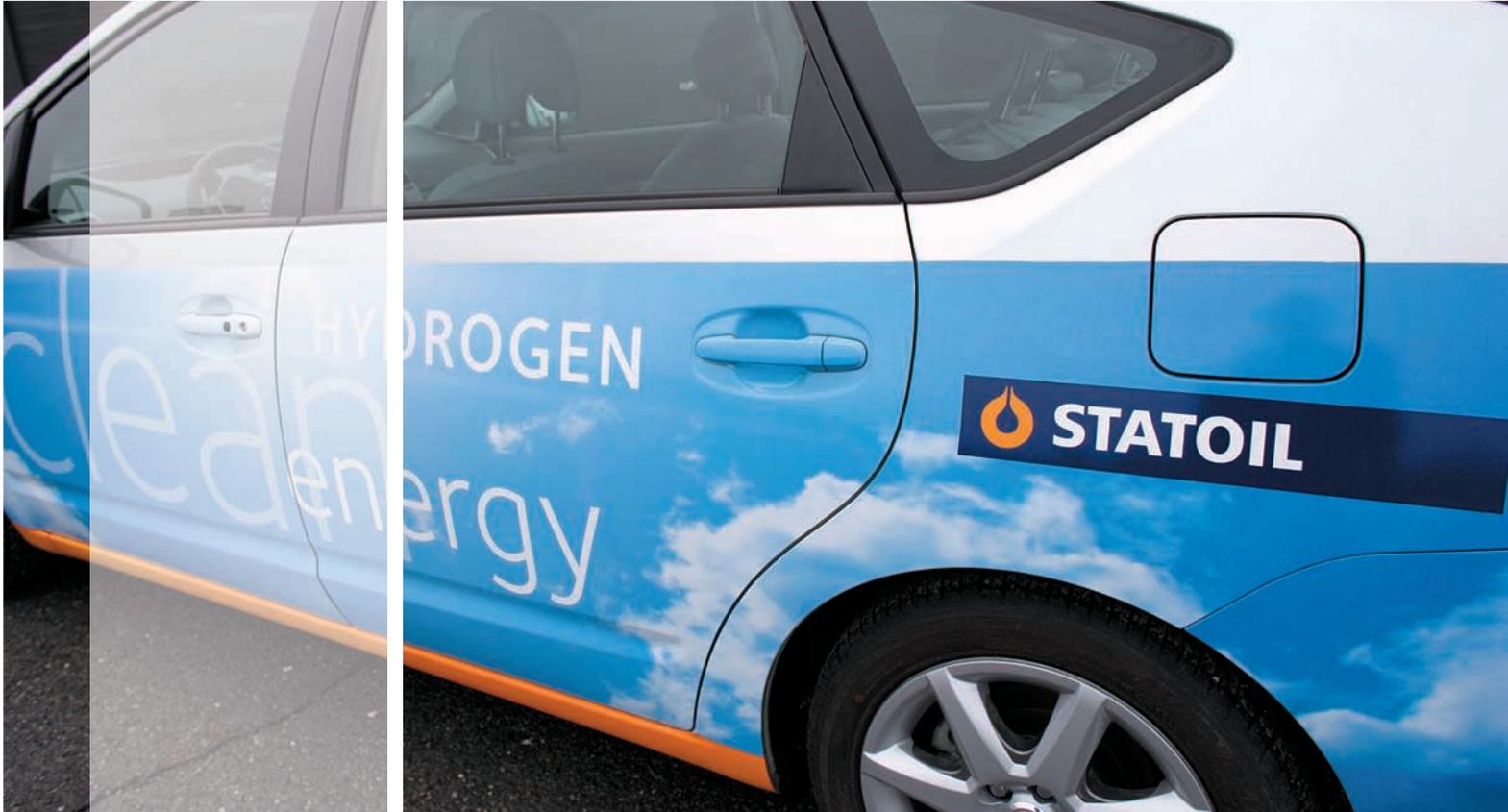
Year	2002	2003	2004	2005	2006
Frequency	5.0	5.0	5.1	5.1	5.1

"In my entity, the zero mindset (zero accidents, harm or losses) forms the basis for planning and implementing our work"

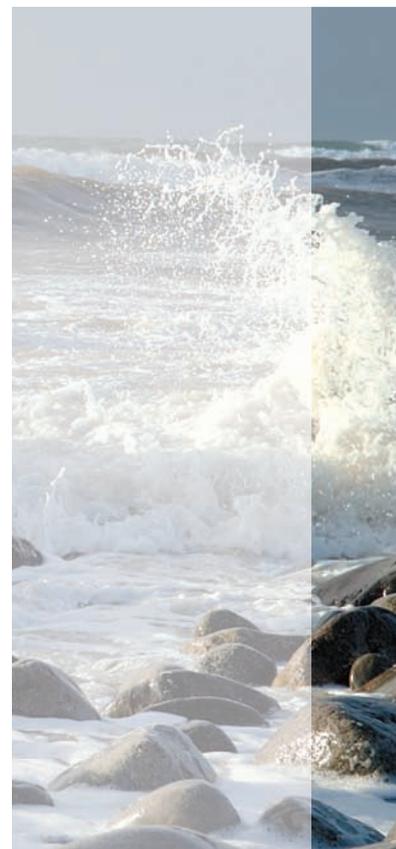
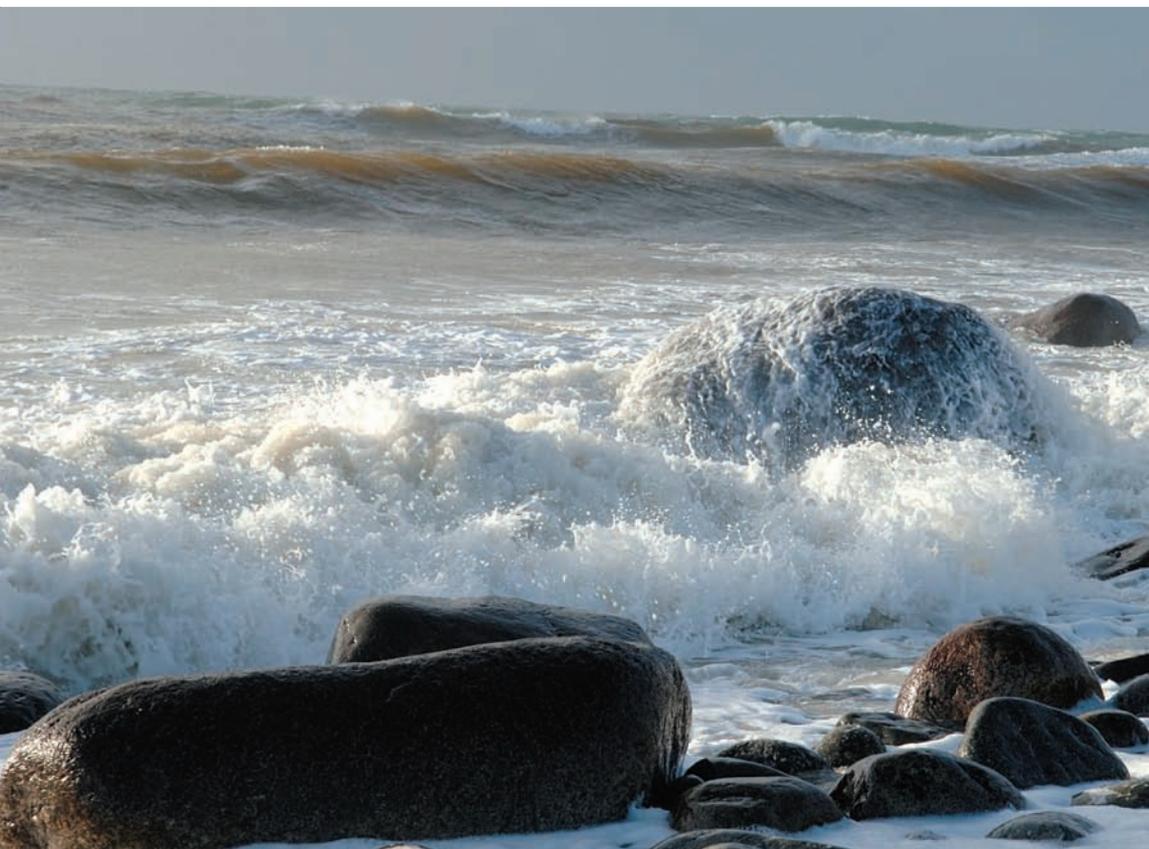
Source: GPS

The environment

Filling up a non-polluting car is fully possible, and hydrogen could become an important energy carrier in the future – not least for cars like this. We are heavily involved in technological and commercial projects focused on environmentally-adapted motor fuels.



Working on oil and gas offshore involves environmental risks. Our goal of zero harmful discharges to the sea nevertheless remains unchanged. The drilling operations which began on Snøhvit in the Barents Sea during 2004 were completed in August 2006 without harmful discharges.



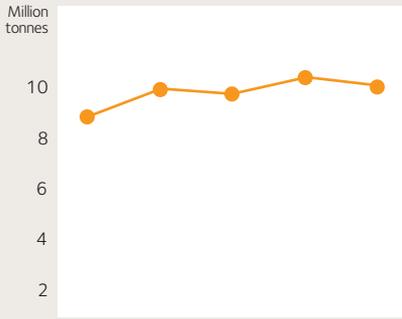
The consequences of global warming caused primarily by carbon dioxide emissions overshadow all other environmental problems, and are almost certain to result in tougher operating standards for the oil and gas industry. These are tending towards a blanket ban on harmful discharges to the sea, while measures to preserve biological diversity are becoming more stringent. Motor fuel markets are changing, with the increasing trend towards adding biological components.

We are meeting these challenges by:

- making a strong commitment to environmental and climate research in order to identify new solutions for reducing carbon emissions
- developing expertise throughout the carbon dioxide chain
- being a leader for biofuels in our markets
- staying at the forefront in developing various environmental management tools.

Climate

CARBON DIOXIDE (CO₂) EMISSIONS



2002 2003 2004 2005 2006
8.9 10.0 9.8 10.3 10.0

Definition: Total emissions of carbon dioxide from Statoil operations (in million tonnes)

Carbon dioxide emissions embrace all sources such as turbines, boilers, furnaces, engines, flares, drilling of exploration and production wells, well testing/workovers and residual emissions from the carbon dioxide separation plant for natural gas on Sleipner T. The distribution of products (by Statoil's road tankers, boats or railway) to customers (private, companies, petrol stations, airports) is included. Support services such as helicopter traffic, supply and standby ships and shuttle tankers are excluded.

Energy efficiency

Our goal is to achieve, through various measures, an annual reduction of 1.5 million tonnes of carbon dioxide equivalent by 2010, compared with the emission level if no action were taken. We have implemented more than 100 measures, large and small, and are well on our way to reaching this target. Carbon emissions deriving from our operator role, rather than our equity interests, totalled 10 million tonnes in 2006. The amount emitted in

2005 was 10.3 million tonnes. Carbon emissions on the NCS in 2006 were 40.2 kilograms per unit of oil equivalent produced.

We make our biggest contributions to energy efficiency by designing new facilities so that they consume as little energy as possible. Examples of such energy-efficient installations include Åsgard B, Kvitebjørn, Kristin, Snøhvit, Gjøa and the Mongstad CHP station. Our energy consumption per tonne of oil and gas produced

Carbon-neutral personnel

We take responsibility for reducing carbon emissions.

In 2006, we became the first company in Norway to buy carbon dioxide emission allowances to offset our travel activities and heating/cooling of our premises. These allowances are purchased in and extracted from the world market, and will not be used for other purposes. This means that a corresponding quantity of carbon dioxide will be reduced or eliminated elsewhere in the world.

The main purpose of this project is to raise awareness and knowledge of our climate obligations and environmental challenges, and of the significance of the Kyoto protocol.

Emissions from our travel activities and heating/cooling of buildings are estimated to total two tonnes of carbon dioxide per employee per year, or just under 50,000 tonnes per year for our whole group. Although that corresponds to less than 0.5% of the total carbon dioxide we release, this action is a good illustration of our commitment to achieving an overall reduction in such emissions. The allowance purchase is not a one-off measure, but will be repeated annually.

We secure allowances for this project in part from our investment in the World Bank's Community Development Carbon Fund



Anne Margrethe Mellbye (right) hands out proof that our employees are carbon-neutral when they work and travel.

(CDCF). This supports emission-reducing projects in developing countries.

The project has been promoted by Energy, a group of our young employees who will challenge us in the environmental area.

Statoil Sweden launched a Climate Neutral service in November 2006. Paying a voluntary environmental supplement allows consumers to neutralise their carbon emissions when they fill up or buy heating products at our Swedish service stations. A Climate Calculator launched at the same time allows customers in Sweden to check how much it would cost to make their consumption climate-neutral. Private and business customers can enter their annual consumption of oil products in the calculator, which has been posted on www.statoil.se/klimat (Swedish only).

is less than half the industry average. When we also produce energy through efficient gas turbines and make extensive use of heat recovery, our carbon emissions per tonne of oil and gas produced are about a third of the industry average.

Reduced emissions from Gjøa

The Gjøa field off the mid-Norwegian coast is a good example. Its plan for development and operation (PDO) was submitted in December 2006 on the basis that most of its power would be transmitted from land. Replacing the traditional solution of generating electricity from turbines on the field, this could reduce annual carbon emissions by up to 110,000 tonnes. In addition comes a reduction of up to 100 tonnes per year in the release of nitrogen oxides. Gjøa is due to come on stream in 2010. Together with Troll, Gjøa provides an example of electricity transmission from land to offshore installations. Both fields will draw on power from the north Hordaland region, where the Mongstad energy project is due to be a key electricity generator from 2010. This solution will help to ensure that the CHP station now under construction at Mongstad is highly energy-efficient. Gjøa's remaining power needs will be met by one gas turbine with a heat recovery unit to cover process requirements on the platform.

Zero flaring on the NCS

We meet the Norwegian requirement of zero

flaring on the NCS, and our goal is to flare no surplus gas. Some of our installations have yet to reach that target. We flare in our Sincor heavy crude project in Venezuela and at the Mongstad refinery in Norway, but are working actively to reduce this. We participate in the global gas flaring reduction (GGFR) programme administered by the World Bank. Membership of the GGFR commits us to reduce flaring as a result of operational disruptions. We work actively to communicate our experience of flaring technology from the NCS. The GGFR resolved in 2006 to continue its work until 2009, and has received strong support from international companies and government authorities.

Kyoto mechanisms

The European Union established its emission trading system for carbon dioxide in January 2005. Norway introduced emission trading for the same installations as the EU, but excluded activities already subject to the country's carbon tax. We have built up expertise and systems, and participate actively in trading with European Union allowances (EUAs). These transactions are conducted on leading exchanges such as the European Climate Exchange and Nord Pool, but also bilaterally.

We expect oil and gas operations to be incorporated in the emission trading system from 2008.



Børge Brende, Conservative Party member of the Storting (parliament), deputy chair of the energy and environment committee

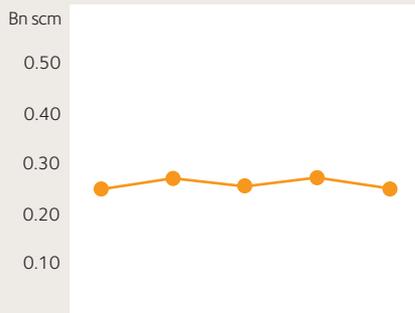
Q: What are the most effective measures the oil and gas industry could adopt to combat climate change?

A: Norway has undertaken in the 1997 Kyoto protocol to limit the growth in its overall greenhouse gas emissions to 1% from 1990 to 2008-12. To achieve that goal, we must adopt the protocol's tools in addition to national measures. These include the clean development mechanism, whereby credits are given for relevant investments in developing countries.

If we agree that the world faces a global challenge, we must also seek the most cost-effective measures to achieve the biggest and fastest cuts in greenhouse gas emissions. The oil and gas industry can contribute here by reducing its global greenhouse gas emissions in line with Norway's commitments, on top of national action. Expanding power transmission from land to installations offshore is an obvious way to help reduce greenhouse gas emissions from the Norwegian continental shelf. While we debate whether to build gas-fired generating capacity on land in Norway, a number of such facilities work offshore. They emit more greenhouse gas per unit of energy produced than a modern land-based conventional gas-fired power station would do.

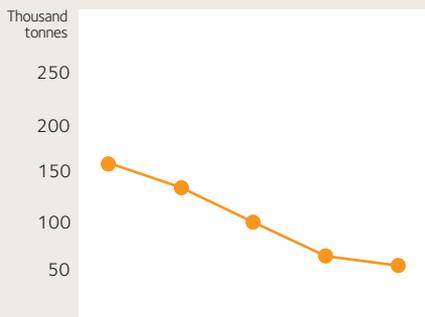


FLARING



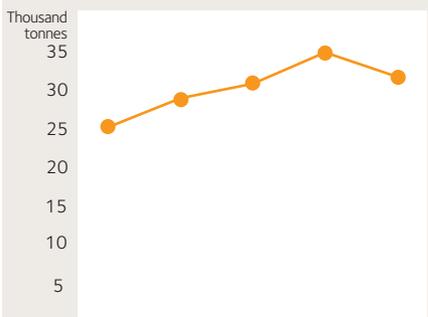
2002 2003 2004 2005 2006
0.25 0.28 0.26 0.29 0.25
Definition: Flare gas (billion scm) on the Norwegian continental shelf (Statoil operations).

NON-METHANE VOLATILE ORGANIC COMPOUND (nmVOC) EMISSIONS



2002 2003 2004 2005 2006
160 133 100 68 56.8
Definition: Total emissions of non-methane volatile organic compounds (nmVOC) from Statoil operations on the NCS, including offshore loading (in thousand tonnes).

EMISSIONS OF NITROGEN OXIDES (NO_x)



2002 2003 2004 2005 2006
26.4 29.9 31.1 34.7 31.6
Definition: Total emissions of nitrogen oxides from Statoil operations (in thousand tonnes).

We are working on opportunities which can generate certified emission reductions as specified in the Kyoto protocol. Our expertise in carbon capture and storage can thereby be utilised to realise projects which reduce greenhouse gas emissions outside Norway.

The Kyoto mechanisms – joint implementation and clean development – allow countries with obligations under the protocol to implement emission-reducing measures in other countries. This aims to achieve the most cost-effective carbon reductions across national boundaries.

Signed in 2006, the first agreement on such certificates covers a project in the Kursk region of Russia. Greenhouse gas emissions are expected to be cut by a total of 1.2 million tonnes of carbon equivalent in 2008-12 by repairing leaks in the region's gas pipelines. We are the buyer of these emission certificates for this five-year period.

Work has also been pursued with projects in Algeria, Iran, China and Mexico. An agreement with Mexico's Pemex to reduce gas flaring on the Tres Hermanos field was signed in early 2007. This project is expected to yield two million tonnes of carbon equivalent over a 10-year period.

New and renewable energy

Our new energy business unit is intended to pursue commercial development in such areas as reducing greenhouse gas emissions, increasing the use of cleaner energy carriers and developing new energy solutions by focusing on hydrogen, energy efficiency, renewable energy, and carbon management. Growing concerns over energy security and the need to cut greenhouse gas emissions strengthen the basis for our business development in these areas.

The new energy unit works on solutions which can lead to more efficient energy utilisation among users through lower consumption and reduced greenhouse gas emissions.

Combined heat and power (CHP) – also called co-generation – provides high energy efficien-

cy. This technology represents the EU's single most important measure for reducing energy consumption. It also improves security of supply and cuts greenhouse gas emissions. The EU is encouraging national government support schemes to increase its share of energy production based on co-generation.

Through a roughly 90% holding in Denmark's EC Power, we are involved in the development and production of small-scale co-generation plants. Fuelled by natural gas or diesel oil, these provide 10-20 kilowatts of electricity plus as much again in heat. They are marketed in Germany, the UK and Denmark. We are also considering business opportunities offered by larger CHP stations.

Energy from landfills

Through Norway's Energikilden AS, which we own 82%, we are involved in co-generation from landfill gas. Burning this energy source – which consists largely of methane – reduces greenhouse gas emissions because it has a bigger effect on the climate than carbon dioxide. Energikilden brought its largest generating facility so far into operation in 2006. The Knivåsen CHP station delivers water-borne heat to a housing estate under construction outside Drammen. It comprises a gas engine with the capacity to generate 830 kilowatts of electricity and about 1,000 kilowatts of heat.

At the end of 2006, Energikilden had six generating units in operation with a total capacity of 3,000 kilowatts of "green" electricity. Output in 2006 came to roughly 12.8 million kilowatt-hours, up from 9.5 million in 2005 and corresponding to the annual consumption of 640 Norwegian homes.

World's first tidal turbine

We have an interest in Norway's Hammerfest Strøm AS, which develops technology for generating energy from tidal currents, and have taken part in its project management. This company has developed and installed a 300-kilowatt prototype which ranks as the world's first tidal turbine to deliver electricity directly to the grid on land.

Installed in 50 metres of water in the Kval Sound outside Hammerfest, this facility has been in operation for more than three years with good results. The project is a good example of the way oil and gas technology can be applied to developing solutions for renewable energy.

Fuel cells with Volvo

Swedish-based Powercell AB was created jointly by Volvo and us in 2005 to develop and commercialise hydrogen and fuel cell technology. Its first product is an auxiliary generator for heavy

vehicles, which reforms diesel into hydrogen for use in a fuel cell to deliver electricity to the driver’s sleeping cabin when the vehicle is stationary. This will help to eliminate running on idle, yielding an annual carbon reduction of about 30 tonnes for an American articulated lorry as well as substantial cuts in nitrogen oxide and particulate emissions. Field tests of the generator are planned in 2008-09.

We also deliver renewable energy through wood pellets for heating and biological motor fuels.

Planned measures 2006	Results 2006	Planned measures 2007
Continue work to include Norway’s petroleum sector in the emission trading system from 2008	Still awaiting a clarification from the Norwegian authorities	Strategy for achieving involvement in the emission trading regime from 2008
Continue measures to reduce annual greenhouse gas emissions by 1.5 million tonnes of carbon dioxide equivalent by 2010	Measures contributing to 67% of the 2010 target completed	Continuing work on reaching the target in 2010 through major and minor measures, such as on Snøhvit

Proposed solutions for recognising carbon capture and storage as clean development mechanism projects

Norway’s first hydrogen pump

We have a long tradition of being an early adopter of new and environmentally-adapted motor fuels. Driven by a desire to contribute to technological and commercial development, we are working systematically to gain practical experience with hydrogen as a fuel.

Norway’s first hydrogen service station opened in Stavanger during August 2006. Intended to be a demonstration project, this facility will initially serve a limited number of vehicles. It represents the starting point for the Norwegian HyNor hydrogen highway and its Scandinavian equivalent. The station offers pure hydrogen as well as a mix of hydrogen and natural gas known as hythane.

Our hydrogen commitment is long term. We cooperate with many players in a variety of sectors and also participate in a number of national and international fora. We took over as chair of the Norwegian Hydrogen Forum in 2006, and became head of the HyNor project in January 2007.



Liv Signe Navarsete, Norway’s minister of transport and communications, attended the opening of our hydrogen pump at Forus outside Stavanger.

 www.statoil.com/newenergy

Emission trading

The Kyoto protocol commits industrial countries to reduce their emissions of gases which contribute to the greenhouse effect and climate change.

These cuts can be made in several ways which extend across national frontiers.

1. Emission trading: permits purchase and sale of allowances allocated to each country through the protocol
2. Joint implementation: makes it possible to secure credits by investing in emission-reducing measures in countries which have Kyoto commitments to cut carbon dioxide output
3. Clean development mechanism: permits credits to be secured by investing in projects in developing countries which do not have Kyoto commitments.

Emission trading in the EU

Each EU country sets a ceiling for national emissions, and allocates carbon dioxide allowances to its companies up to this limit. The ceiling is set lower than expected emissions from normal operation by these companies. An allowance confers the right to emit one tonne of greenhouse gas. If a company exceeds its allocated ceiling, it must purchase extra allowances. Those facilities which have more allowances than they need can sell them to others. Companies which lack sufficient allowances must either buy more or reduce their emissions.

Such allowances represent a cost-effective way of reducing global carbon emissions. Because they have a value and can be traded, they will encourage the cheapest emission-reducing measures to be implemented first.

Topic:

A leader for carbon capture and storage

The UN Intergovernmental Panel on Climate Change (IPCC) expressed its conclusions and warnings even more clearly than before when it published its first scientific report since 2001 on 2 February 2007.



Our Halten carbon dioxide project together with Shell in mid-Norway aims to use this gas as a commercial tool in a value chain before storing it securely beneath the seabed. Success would mean a breakthrough for the industry's ability to reduce greenhouse gas emissions.

Instead of being released to the air from a gas-fired power station at Tjeldbergodden (see the illustration), carbon dioxide would be captured, piped back offshore to the Draugen and Heidrun fields, and used to wash extra oil out of the reservoirs. It would then be stored in sub-surface geological formations.

The gas-fired power station would supply Draugen and Heidrun with electricity, eliminating the need to generate power offshore and reducing their carbon emissions to a minimum.

Electricity from Tjeldbergodden would also be supplied to industry and households in the region.

Our climate strategy recognises that a connection exists between the production and consumption of fossil fuels, carbon dioxide emissions and global warming. As an oil and gas company, we are part of the problem – but we are also working actively to be part of the solution.

Four areas form the pillars of our commitment to reducing the impact of our operations on the climate:

- make ever more efficient use of available energy
- develop clean energy carriers, with the aim of creating a profitable business based on sustainable energy production and increased use of renewables
- use carbon emission trading (including the Kyoto clean development and joint implementation mechanisms) and the EU emission trading scheme (ETS) as important tools for achieving cost-effective reductions in global emissions, and contribute actively to ensuring continued emission trading after 2012, the time horizon for the Kyoto agreement
- work actively to firm up and implement solutions for carbon capture and storage.

Big in capture and storage

We are regarded as a world leader for capturing and storing carbon dioxide. Many of the roughly 15–20 power station projects launched by other companies over the past two years with such carbon management schemes have benefited from our experience.

Major carbon dioxide challenges lie ahead in the continued development of our international business. This partly reflects the fact that the oil and gas to be produced are heavier or more polluted than their equivalents on the NCS, and that more energy will be needed to recover them.

We moved in 2006 from managing carbon dioxide in the wellstream, as in the Sleipner area and on Snøhvit, to planning a reduction in such emissions from a wider part of our business – such as refining and electricity generation.

Five big ones

“Unless we succeed with carbon capture and storage at an acceptable cost, the world will find itself in a very difficult position,” Claude Mandil, director-general of the International Energy Agency (IEA), warned in an interview with *Statoil Magazine* in 2006.

We are currently involved in five large-scale commercial capture and storage projects. These are presented below.

Injecting carbon dioxide in the Sleipner area

Our environmental flagship is carbon dioxide deposition in the Sleipner area of the North Sea. In October 2006, we celebrated the 10th anniversary of the start of carbon injection into the sub-surface. Over that decade, roughly a million tonnes of carbon dioxide have been stored annually in a geological formation about 1,000 metres beneath the seabed. This adds up to almost one year’s carbon emissions from all petroleum operations on the NCS.

Before production from the Sleipner West field began, its gas was known to contain 4–9.5% carbon dioxide. But the European buyers would accept no more than 2.5%. The solution was to separate carbon dioxide from the natural gas on the Sleipner T treatment platform, which stands on Sleipner East. Rather than releasing the carbon dioxide, we resolved to return it below ground through a well on Sleipner A.

We thereby acquired the world’s first carbon separation plant on an offshore installation, and also became the first oil company in the world to store this greenhouse gas beneath the seabed. Many lessons from this project have been made available to other research and commercial initiatives.

Carbon injection on Snøhvit

When production begins in 2007, gas from the Snøhvit field we operate in the Barents Sea will be piped 143 kilometres to a gas liquefaction and export plant at Melkøya outside Hammerfest.

Before the gas is cooled for liquefaction, its carbon dioxide content will be separated out and returned by pipeline for injection in a saline

aquifer beneath the actual gas reservoir. Roughly 700,000 tonnes of the greenhouse gas are due to be stored every year. This reduces carbon dioxide emissions by just over 40% compared with releasing it to the air. A monitoring programme partly financed by the EU will keep track of what happens to the stored carbon dioxide as an important element in a coordinated effort to learn as much as possible from early projects of this type worldwide.

Representing the first time that carbon dioxide is transported from land to an offshore formation, this solution will set a standard for future developments in vulnerable Arctic climates.

Carbon injection on In Salah

We collaborate with BP and Sonatrach on a land-based carbon injection project on In Salah in the Algerian Sahara. This gas field came on stream in 2004, and roughly 1.2 million tonnes of carbon dioxide are due to be injected annually into a saline aquifer.

Halten carbon dioxide project

We and Shell are investigating opportunities for creating a carbon value chain on the basis of a gas-fired power station at Tjeldbergodden in mid-Norway. This would deliver carbon dioxide to improve recovery from the Draugen and Heidrun fields on the Halten Bank in the Norwegian Sea. We and Shell are also assessing the possibility of electrifying these platforms, which would mean bringing them close to zero emissions of carbon dioxide and nitrogen oxides.

The carbon value chain would comprise:

- an 860-megawatt gas-fired power station at our Tjeldbergodden methanol plant, generating 7.1 terawatt-hours annually
- a facility to capture more than 85% of the carbon dioxide in the power station's flue gases
- a pipeline to transport about 2.5 million tonnes of carbon dioxide per annum for IOR on Draugen and, later on Heidrun, after which the carbon dioxide would be stored permanently in the sub-surface.

About six terawatt-hours of electricity will be available for the local grid, corresponding to roughly 5% of current Norwegian hydroelectric-

ity production. The captured carbon dioxide represents about 5% of Norway's total greenhouse gas emissions, or the amount emitted by around one million cars.

Choice of technology concept will be made by the end of 2007. An investment decision is planned for late 2008. Following possible project sanction, the installations could be operational by late 2011/early 2012.

Establishing a carbon chain will be important for the sustainable development targets set by both Shell and by Statoil, and will be one of the biggest carbon projects in the world today. It also offers substantial social utility in a local and regional perspective. Stable electricity generation in mid-Norway would help to alleviate the long-term power supply position in this region.

A development depends on the involvement of other industrial companies and power utilities, and on substantial government financing and participation.

Mongstad energy project

Our Mongstad energy project (EVM) will probably be Norway's largest energy-saving measure. Construction work began on our industrial site at Mongstad north of Bergen on 16 January 2007, with completion of a combined heat and power (CHP) station scheduled for early 2010. Due to deliver heat and power to the refinery, as well as electricity to the region and to the Troll and Gjøa fields in the North Sea, this facility will be fuelled by surplus refinery gas as well as Troll gas piped in a new line from the Kollsnes receiving terminal.

The development project forms part of efforts to strengthen, further develop and improve energy efficiency for the Mongstad plants. In future, a large part of the refinery's energy supply will take the form of waste heat from the CHP station. Substantial utilisation of this heat gives the latter a high energy efficiency which will be about 70% at start-up. When the future facilities at Mongstad are gradually connected to the CHP station, the energy efficiency will rise to about 80%.

Total investment in the EVM project will be just over NOK 4 billion.



Statoil's Kai B Lima (left) and Thorbjørn Nyland from Shell head the Halten carbon dioxide project.

We have awarded Denmark's Dong Energy a 20-year licence to build, own and operate the CHP station.

The oil refinery will be upgraded and connected to this facility.

Mongstad carbon dioxide

We will be joining forces with the government and selected industrial enterprises to form a company which can improve the technology for capturing carbon dioxide from flue gases. This is the first alliance of its kind in Norway aimed at qualifying solutions for and reducing the cost of carbon management. The new technology will be tested at Mongstad using relevant flue gases from the refinery and CHP station.

Total new and existing carbon emissions from

the CHP station and the refinery are set to reach 2.7 million tonnes per year in 2010. The first stage of the carbon capture project, due to be ready at about the same time as the CHP station, will remove some 100,000 tonnes per year. Transport and storage of the captured carbon dioxide will be the Norwegian government's responsibility. A final storage solution has yet to be determined.

The next stage will be a full-scale plant for capturing carbon dioxide from the CHP station and other emission sources at the refinery. This facility will be able to handle more than two million tonnes of the greenhouse gas every year.

A final decision on the size and type of the full-scale plant will be taken in 2012.

Carbon capture and storage

We have gained experience of capturing carbon dioxide from natural gas under very high pressure in the Sleipner area of the North Sea. Such pressures mean we can theoretically treat the carbon-rich natural gas with water. This is then separated and reduced to atmospheric pressure so that the carbon dioxide is released, just as it is when opening a bottle of mineral water. In practice, carbon capture from natural gas uses a mixture of water and a chemical from the amine group which jointly provide more efficient separation.

Capturing carbon dioxide from a gas turbine's exhaust fumes is considerably more complicated because it must take place at atmospheric pressure with a high oxygen content. Today's carbon capture process from flue gases also utilises a mixture of water and an amine. This liquid comes into contact with the gases in a large treatment column. The amine selected must have a greater affinity for binding with carbon dioxide than the one used with natural gas. It must also withstand an oxygenated atmosphere. To liberate carbon

dioxide, the water/amine mix must be heated – an expensive and energy-consuming process.

Once the carbon dioxide has been captured, it must be dewatered to eliminate the risk of corrosion during pipeline transport.

Large volumes of carbon dioxide are transported through pipelines. They can also be shipped in tankers after liquefaction by a combination of cooling and increased pressure. Pipeline transport is highly efficient, since the carbon dioxide is in liquid form and has significantly lower friction than either water or oil.

Carbon storage uses carefully chosen geological formations where the likelihood of leaks to the atmosphere is minimal. In practice, this means permeable formations sealed by overlying impermeable rocks. Issues relating to the standards which should apply in choosing storage formations and monitoring reservoir developments during and after injection will be high on the agenda for legislators in many countries.



Dr Fatih Birol,
chief economist,
International Energy Agency

Q: What are the most effective measures which the oil companies could adopt to combat climate change?

A: In its alternative policy scenario, the 2006 edition of our *World Energy Outlook* notes that energy-related carbon dioxide emissions could be significantly reduced up to 2030. Almost 80% of this cut could result from more efficient production and use of energy, and about 20% from switching to low- or zero-carbon fuels.

Oil companies could play a significant role in reducing emissions by promoting more efficient technologies in the upstream sector, especially for non-conventional oil. This would involve providing industrial expertise to support the development of biofuels as an alternative to conventional fuels in the transport sector and by providing expertise and investment capacity to support further technological development of renewable energy sources.

In the longer term, the contribution of oil companies is pivotal to bringing down the costs of carbon capture and storage, which is key to monitoring the concentration of greenhouse gases in the atmosphere over the coming decades.

Impact assessments

All new business activity requires that we know as much as possible about the areas affected by these projects, so the best possible account can be taken of their impact on health, society and the environment. We accordingly draw up extensive impact assessments. Baseline investigations and impact assessments were conducted in 2006 before starting seismic survey work in Libya. Such evaluations were also prepared ahead of exploration drilling on land in Algeria and the development of Norway's Gjøa field.

Such assessments are important tools for integrating HSE considerations in project planning. In the Langeled pipeline project, for instance, they helped to avoid harmful effects on the lobster fishery along the route to the UK landfall.

Regional impact assessments have been

employed for the past 12 years to provide a better picture of the overall effects of all petroleum activities on the NCS. This has been a collective effort by most of the companies working in these waters, in which we have played a leading role. An update of the regional assessment for the North Sea was completed during 2006, and is subject to public consultation in 2007. It is expected to be very useful for both the authorities and the companies in planning and approving new development projects in this part of the NCS.

We were awarded a prize by the International Association for Impact Assessment (IAIA) in 2006 for our work on such studies. In its citation, the IAIA says that the award has been presented to us for our outstanding work on giving weight to environmental considerations in oil and gas operations, both regionally and globally.

Target for zero harmful discharges

An increase in the release of produced water from petroleum operations on the NCS prompted the Norwegian authorities to set a target of zero harmful discharges by the end of 2005. We submitted binding plans to the Norwegian Pollution Control Authority (SFT) in 2003 on how this goal was to be reached.

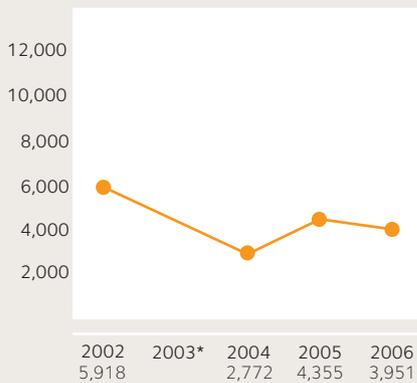
chemicals with more environment-friendly alternatives, treating produced water, injecting water and chemicals, and cutting water production are all methods for reducing the environmental risk associated with discharges of produced water.

Status of work on zero discharges

We have worked continuously since 2003 to release fewer chemicals which might be environmentally harmful to the sea from our operations on the NCS. Such discharges were reduced by 96% in 2003-06. The authorities took the view that the goal of reducing hazardous chemical additives had largely been achieved in 2006.

Expected and planned cuts in the content of oil and naturally-occurring substances in produced water when released to the sea have been delayed on several of our NCS installations. The new CTour treatment technology is installed on Statfjord, but problems have been encountered

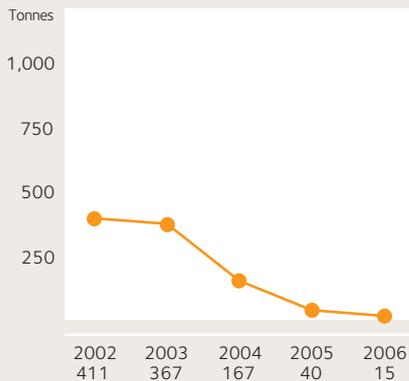
ENVIRONMENTAL IMPACT FACTOR (EIF)



EIF shows the development in estimated damage potential from planned discharges of produced water to sea, including contributions from natural chemical components and added production chemicals. It also shows the sum of EIF values for Statoil-operated installations on the NCS.

*Data for 2003 are not included.

DISCHARGES OF QUESTIONABLE CHEMICALS



Definition: Discharges of possibly harmful chemicals to sea from Statoil operations on the NCS (in tonnes). Questionable chemicals are defined by national legislation.

Environmental management tool

We have headed the development of the environmental impact factor (EIF) to help manage the discharge of produced water. This has been adopted as a standard tool by the oil companies on the NCS over the past five-six years and is accepted by the government as an environmental management instrument.

The EIF is used to rank different technology solutions and to provide a good foundation for choosing measures which yield the biggest environmental gain. Minimising the use of chemicals, replacing environmentally-hazardous

in the start-up phase with two of these installations. The SFT will receive final acknowledgement in 2008 whether the zero discharge goal has been met.

The environmental risk related to the release of produced water from fields we operate was reduced by 67% in 2006 compared with 2000, despite an increase in the water volume over this period.

New tools are being tested for discharges to the sea from drilling as well as for emissions to the air. Such tools are also under development at the moment for acute oil spills at sea, discharges to the sea from land-based plants, and discharges to soil and fresh water from activities on land.

Drilling and the environment

In cooperation with seven other oil companies, we have extended the EIF concept to embrace discharges from drilling. This tool can be used to assess the environmental risk posed by various discharge solutions, such as transporting cuttings polluted by water-based mud to land as an alternative to releasing them to the sea, positioning the mooring spread to avoid damaging possible important natural resources such as coral banks, and choosing the most environment-friendly chemicals for drilling use.

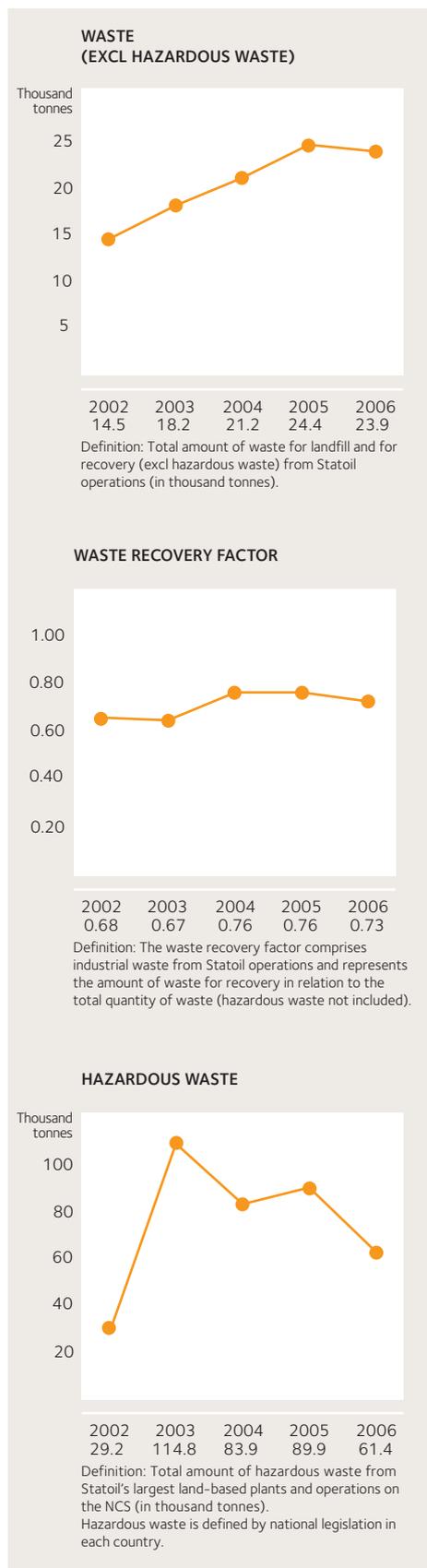
The completed tool is currently being tested, and was used in connection with discharges from drilling the Edvarda and Tornerose exploration wells in the Norwegian and Barents Seas respectively during 2006. Plans also call for the EIF to be used in our international exploration operations in 2007.

Reduced emissions to the air

We have collaborated closely since 2002 with several research institutes to develop the EIF-Air tool for assessing the utility of solutions for reducing emissions to the air from our oil and gas operations, and for identifying which are the best. This relates first and foremost to nitrogen oxide emissions, but also covers the release of sulphur dioxide and volatile organic compounds (VOC). Development of the tool has now been completed, and it is undergoing tests on a number of installations.

EIF-Air can identify the best location for reducing emissions, and which measures are best on a specific installation. It can be used with nitrogen oxide emissions from facilities offshore, on land and on ships.

It takes account of total deposition and the vulnerability of the ecosystem within each



OIL SPILLS

Cubic metres



2002 2003 2004 2005 2006
200 288 186 442 157

Definition: Unintentional oil spills to the natural environment from Statoil operations (in cubic metres).

The rules for reporting oil spills were changed in 2006 to accord with international standards. Only spills that reach the natural environment are included for 2006.

All unintentional oil spills reaching the natural environment from Statoil operations are included in the figure. However, also spills that did not reach the natural environment have been included for downstream market operations before 2006.

geographic locality in the area concerned. Great weight has been given to estimating the impact on those areas where emissions are under consideration. Environmental factors so far incorporated in the model include deposition of nitrogen, pollution of surface water and soil, over-fertilisation of vegetation and ozone production/depletion.

Measuring EIF-Air values allows the environmental risk presented by various emission scenarios to be compared. The concept has primarily been developed for Norwegian conditions but, providing relevant data from other parts of the world are available, it could be extended for international use.

Responding to accidental spills

We pursued various research activities in 2006 to strengthen our oil spill response in an Arctic climate and icy waters. The Norwegian government has indicated that more knowledge is needed about cleaning up oil spills in far northern waters, particularly in winter cold and darkness.

A letter of intent for a three-year collaboration to strengthen oil spill response in the far north was signed with Eni in the summer of 2006. We will jointly work to test and adopt new technol-

ogy and learn more about cleaning up spills in coastal zones. Research projects have been launched to improve our knowledge of oil pollution in a north Norwegian climate and to develop chemical clean-up methods for coastal and shoreline zones.

We have supported a number of research activities which have yielded new knowledge and technology to enhance the efficiency of oil spill response for operations in icy waters. A major international research collaboration was initiated and financed in 2006 by six oil companies, and we currently chair its executive committee. Through extensive laboratory experiments as well as field trials in Canada, Svalbard and the edge of the pack ice in the Barents Sea, this three-year project aims to discover more about oil diffusion patterns under differing ice conditions as well as to come up with new technology tailored to work in icy waters.

Our lubricants factory at Nynäshamn in Sweden suffered an oil spill of 104 cubic metres on 29 September 2006. Our spill response functioned efficiently, and a total of 31 cubic metres escaped to the sea. According to the Swedish coastguard, no more than 65 litres got past the booms.

Planned measures 2006

Reduction in nmVOC emissions for offshore loading. All installed facilities in normal operation to meet the reduction requirement. Three-four new units due to be installed to meet requirements in 2007

Implement outstanding actions to achieve the goal of zero harmful discharges to the sea

Approve and implement calculation tool. Develop improved user interface for EIF-Air. Further development of EIF for discharges from land-based plants to the sea

Area-specific drilling waste management plan to be completed

Results 2006

Reduction in nmVOC emissions for offshore loading: two units installed in 2006. Reduction in nmVOC for offshore loading takes place through VOC industrial cooperation for all owner companies in fields with offshore loading. Total nmVOC reduction from the fields, including Heidrun, was 50,774 tonnes. Reduction in nmVOC for storage was 28,510 tonnes. Regularity has been below specification

Target appears to be reached. Several fields implemented measures to reduce discharges in 2005-06

EIF-air, EIF-drilling and EIF-acute oil spills were tested. First EIF version for land-based plants with emissions to sea assessed with regard to toxicity of discharges. Work begun on risk tool for discharges to soil and fresh water

Plan completed and adopted for drilling campaign on Hassi Mouina

Planned measures 2007

Reduction in nmVOC emissions for offshore loading. One unit installed in 2007. All shuttle tankers loading oil from fields on the NCS will have nmVOC reduction plants. Work to improve regularity under way

Implement outstanding actions to achieve the goal of zero harmful discharges. Measure effects

Implement EIF-air and EIF-drilling. Develop further and test EIF land-based plants with emissions to sea. Test EIF-acute.

Plan document will be updated as experience and knowledge grow.

Complete action plan for most efficient reduction of nitrogen oxide emissions after Norwegian tax imposed



Teeming with life on the seabed

A unique environmental collaboration between our group and leading marine scientists has demonstrated that a flourishing seabed fauna is only affected to a limited extent by drilling activities.

According to this study, crabs, scallops and fish return to their previous haunts as soon as the oil companies have finished their wells.

Together with Britain's National Oceanographic Centre in Southampton, one of the world's top marine science bodies, we have been pursuing pioneering environmental research on the seabed since 2006. This scientific and environmental ROV partnership using existing industrial technology (Serpent) project is an example of how the oil industry and research institutes can cooperate to mutual benefit.

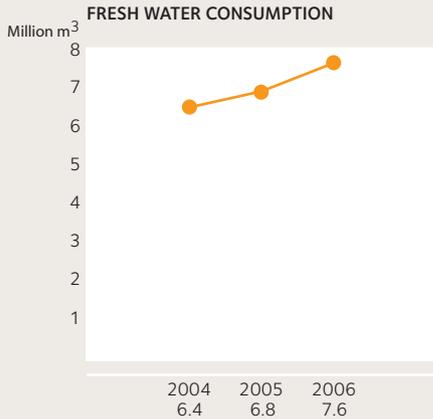
The collaboration involves the scientists borrowing spare capacity on remotely-operated vehicles (ROVs) used by our mobile drilling rigs to take samples and to observe and film seabed life. This allows them to gather data in waters and at depths they would otherwise have been unable to access. So far, the work has led to the discovery of new species and unobserved behaviour in known species.

For our part, we secure greater understanding of the way drilling operations affect the seabed and its megafauna – such as sponges, crabs, large scallops and fish. Results from the initial studies on the NCS are optimistic for both the environment and the industry.

This work has shown that drilling causes only limited disturbance to the seabed soil close to the wellhead. The bottom teems with life even within a radius of 100 metres.

We largely use "green" environment-friendly chemicals in all our drilling operations. So no toxic substances which harm seabed fauna have been found. The impact is transitory, and life returns to normal once the well has been completed.

Studies were conducted in 2006 with the Uranus, Edvarda and Morvin exploration wells in the Norwegian Sea, Tornerose in the Barents Sea and Brugdan off the Faroes. They have yielded new knowledge about the biology of these waters. Due to continue in 2007 on a further three wells, the work is being funded through our Find Hydrocarbons research programme.



Definition: Fresh water consumption is all fresh water consumed from public installations, wells, lakes, streams and rivers for Statoil-operated activities.

Biological diversity

Biodiversity embraces all living organisms and their ecosystems, and is very important for supplies of food, medicines and natural resources. But it also has great significance in a spiritual, cultural and aesthetic context. Preserving biodiversity is a key element in sustainable development and occupies a central place in our environmental work.

Our environmental policy was revised in 2006, giving an even more prominent place to concern for biodiversity. Our commitment to maintaining such diversity and important ecosystem functions was elevated to the status of a principle.

We have launched a drive to achieve greater integration of environmental, social and health



Water is a vulnerable resource which needs to be managed sensibly.

Principles for water use

Water is essential for all life, and strongly integrated in the oil and gas business. The environmental implications of consuming and polluting water are considerable, and represent one of the industry's major challenges.

All our activities at Statoil involve producing and handling large quantities of water, and we observe the principle of zero harm to people and the environment in this context. We have long experience of safeguarding water resources, with particular reference to treatment and pollution prevention.

Reduced consumption

We developed a new management principle for water in 2006. This specifies that we will continuously seek ways of reducing the use of fresh water, and will protect water quality through the design and operation of our installations, by recycling and by actively preventing water pollution. The expansion in our

international operations presents us with new challenges. We aim to manage water resources in a sustainable manner, and with great vigilance in areas where water is in short supply.

Water production

In connection with the Hassi Mouina exploration licence in Algeria, we concluded an agreement in late 2006 with the local authorities on securing water supplies for the village of Fatis. Some 3,500 of its residents have no local source of fresh water today. We will drill a well and erect a water tower.

Water research

Our research activities are being expanded in such areas as treatment of produced and waste water, injection of produced water and desalination technology to produce clean process water. We believe that our experience from water treatment related to operations on the NCS can be transferred to other areas.

considerations when developing our projects, as well as challenges relating to biodiversity. We plan to review operations and activities in our various business areas during 2007 with the overall aim of making a positive contribution to biodiversity.

Arctic, Middle East and north Africa

We participate actively in a working party on biodiversity in the International Petroleum Industry Environmental Conservation Association (IPIECA) and the International Association of Oil & Gas Producers (OGP). The aim is to enhance the attention paid to this issue by the petroleum industry in general, and to continue developing guidelines and tools for preserving diversity. We were actively involved during 2006 in organising and staging meetings concerning biodiversity and petroleum activities in the Arctic and in arid parts of the Middle East and north Africa.

UN collaboration

We are a partner in the Proteus programme launched by the World Conservation Monitoring Centre (WCMC), part of the UN Environment Programme (UNEP). Proteus is a collaboration between various international organisations and companies, including a number of oil companies. It provides access to relevant and reliable information about biodiversity through a decentralised system of databases. In 2006, the partners in the programme resolved to give priority to a full

updating of the database for protected areas before the next UN environment and development meeting in 2012. We also cooperate with UNEP Grid-Arendal, a similar centre for environmental information about testing and further development of methods for integrated ecosystem management and the involvement of local communities in northern Russia.

Marine biological diversity

Our environmental monitoring activities now embrace greater work on biodiversity in the deep waters of the Norwegian Sea than before, in part through participation in the Serpent programme (see page 41). This involves the use of equipment deployed on our subsea installations for mapping and monitoring. We also participate together with several other oil companies in a major international collaboration project to learn more about the effect of noise on marine mammals and other organisms in the sea.

In addition, we sit on the executive committee for a programme which surveys research about seabirds. We took the initiative on this work together with the Norwegian Institute for Nature Research, and it was implemented in 2005 for the Lofoten-Barents Sea area with contributions from the Norwegian Oil Industry Association (OLF), the Ministry of the Environment, and the Ministry of Petroleum and Energy.

Planned measures 2006	Results 2006	Planned measures 2007
Studies under way to specify challenges faced with biodiversity	Study of challenges in Arctic areas and integrated ecosystem management carried out with UNEP Grid-Arendal. Challenges related to biodiversity in the various specific projects	Prepare overview of environmental aspects relating to biodiversity in various business areas, including examples of measures which make a positive contribution to preserving diversity
Continue collaboration and contribute to international conference on impact assessment	IAIA06 conference (800 delegates from 90 countries) in Stavanger in collaboration with environment ministry. We were principal sponsor and actively involved in planning and execution	Encourage informal networks on impact assessment directed towards development aid through the Oil for Development programme of the Norwegian Agency for Development Cooperation (Norad) and oil and gas development in Arctic areas
Participate in the mapping programme associated with drilling activities, further develop Seapop programme and take part in research programme on marine noise	Seapop seabird programme implemented in the Lofoten-Barents Sea area	Seapop to be continued. We also support a project for fitting Arctic gulls with satellite transmitters in the Norwegian and Russian Arctic

* IAIA (International Association of Impact Assessment)

Products

We produce and sell a broad range of products developed from both fossil and renewable sources. Our ambition is to develop efficient products which meet customer requirements while causing the lowest possible resource consumption and environmental impact.

All production requires energy and entails emissions to the air and discharges to water and the ground. It is often the case that the cleaner the product, the more energy is needed to produce it. We require lifecycle analyses for all new products and components. That also applies to the introduction of new processes if they are expected to have a substantial impact on environmental characteristics.

We cooperate with the Conservation of Clean Air and Water in Europe (Concawe) organisation on studies of energy use and carbon emissions from motor fuel, production processes and engine technology. The database yielded by this work forms the starting point for selecting environmentally appropriate solutions.

Conventional fuels will dominate

We must constantly develop our product quality

in order to keep abreast of innovation, not least in engine and exhaust treatment technologies. Conventional fuels will continue to dominate for many years to come, and we are therefore working to make petrol and diesel oil more environment-friendly. Combined with modern engines and exhaust treatment systems, fuel improvements can make conventional technology environmentally competitive.

Developing lubricants

Concern for the environment also extends to handling and developing lubricants. In a research project with Luleå University of Technology, Statoil Lubricants in Sweden has studied which base oils yield the smallest energy loss in turbine bearings. Our specially selected synthetic ester yielded the best results. One outcome of our product development is the TurbWay SE turbine oil, which utilises this base oil. We can therefore deliver a high-performance product which is energy-saving, biodegradable and based on renewable raw materials.

Biofuels cut carbon emissions

Using biofuels is one of the few options for reducing carbon emissions in the transport



Our Amager Landevej service station in Copenhagen offers Danish motorists Bio95, an unleaded petrol containing 5% ethanol. Our ambition is to be a leader for biopetrol and biodiesel in the markets where we sell motor fuels.

sector. This is why a number of countries, particularly EU members and the USA, have established ambitious targets and action plans for expanding their use. According to the 2006 World Energy Outlook from the IEA, annual consumption of biofuels in the EU will increase from two million tonnes in 2004, to 27-36 million tonnes by 2030.

Biofuels reduce greenhouse gas emissions because they are based on renewable raw materials. At the same time, we are also assessing problems associated with their production. We are working actively on challenges related to climate impact, biodiversity and social consequences in order to make the right strategic choices.

Our ambition is to contribute to a reduction in carbon emissions not only in our own business but also by offering our customers motor fuels with a growing proportion of biological components. We want to be the leader for bioproducts in our markets. Estimates suggest that our sales of biofuels in Scandinavia, Poland and the Baltic states in 2006 reduced total carbon emissions by 67,000 tonnes.

Sweden biggest market

Our biggest market for biofuels is Sweden. All

the 95 octane petrol and diesel oil we sell in Sweden contains up to 5% biocomponents. E85, or petrol with 85% bioethanol, is also available at 190 of our stations. We sold some 20 million litres of E85 in Sweden in 2006, and 1.3 million litres of biogas from four stations. Statoil Sweden's aim is to sell E85 from 260 stations by the end of 2007.

We are the only oil company in Denmark to offer petrol containing up to 5% bioethanol, which is designated Bio95 in that market. Sales of this grade began in the summer of 2006.

In Norway, we started adding up to 5% biodiesel to our autodiesel in the autumn of 2006, and will have this fuel on sale at about 200 stations during the first half of 2007. Sales of E85 are already under way at certain stations in Oslo.

Petrol and diesel oil containing up to 5% biocomponents were sold in Latvia and Lithuania during 2006.

Wood pellets represent an alternative to heating oil, natural gas and electricity. We are a substantial supplier of wood pellets in Scandinavia and intend to continue our commitment to this product. We sold 140,000 tonnes in 2006.

 www.statoil.com/traded_products

Planned measures 2006	Planned measures 2007
Results 2006	We will replace 3% of our motor fuel sales with biofuels in 2007

Society

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline was opened in 2006. We are a partner in this system, which snakes for 1,768 kilometres from Azerbaijan via Georgia to Turkey's Mediterranean coast. Its length equals the distance from London to Rome.



Brothers Baruz and Novruz Azizgulu Azizgulu oglu moved in 2006 to the village of Sangachal near Baku, capital of Azerbaijan. Their father is employed as a welder at an engineering works, and they are hoping for a better life if he gets a job at the local oil terminal.



More than 90% of the world's proven oil and gas reserves lie in countries outside the OECD. If these resources are well managed, they can encourage growth and reduce poverty on a large scale in such nations. With weak governance systems, however, large and concentrated revenue flows can lead to corruption, unproductive use of resources and social unrest.

We meet these challenges by contributing to sustainable development on the basis of our core activities in the countries in which we operate:

- making choices based on the way they affect both our own and the host country's interests
- securing openness, combating corruption and showing respect for human rights and labour standards
- generating positive spin-offs from our core business in order to support the host country's development ambitions.

Challenges

Contributing to sustainable, resource-led development is not only an ethical imperative but also something which host governments today expect from oil companies which have been invited to help develop their national resources.

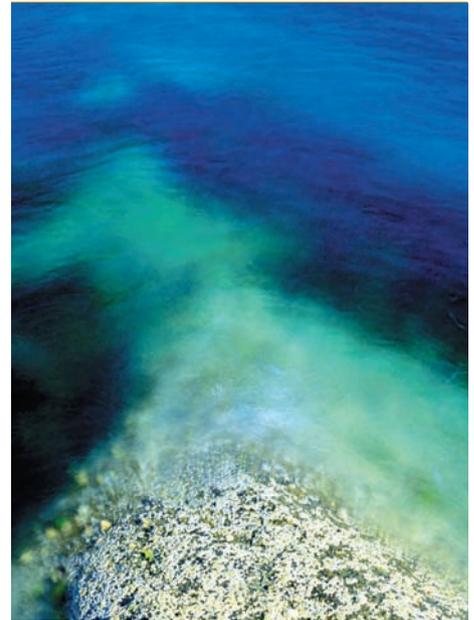
Demanding more from the industry

Higher oil prices have created a renewed sense of the strategic and economic value of petroleum resources. More than two-thirds of the world's remaining oil reserves are controlled by national oil companies. Host governments have raised licence fees and taxes, set high targets for local content in procurement and employment, and made social contributions part of bid evaluations. Nations with hydrocarbons now expect that will lead to better development effects from their resource wealth, and that oil and gas companies will contribute to these.

More than 90% of the world's proven oil and gas reserves are found in non-OECD countries.¹ With global energy consumption set to rise by 70% up to 2030, such nations are expected to account for 75% of the increase. Global energy security will depend entirely on stable development in these economies. If managed well, their rich oil and gas resources can stimulate growth, reduce poverty and contribute to stable development. Poor management could lead to the opposite.

Inherent risks

The first step to successful resource management is recognition of the inherent risks. Natural resource abundance may crowd out non-resource exports and foreign investments, or tempt governments to under-invest in education and other long-term measures. The result could be non-competitive and undiversified economies which leave their populations vulnerable when prices decline or resources dry



up. Large and concentrated revenue streams may encourage corruption and unproductive use of resources in both public and private sectors. In the worst case, competition over access to resources could end in violent conflict.

Statoil as a player

Experience shows that none of these risks are unavoidable, and that resource wealth is a strong driver for growth and sustainable development when managed well. We have seen examples of this in both developed and underdeveloped nations. We ourselves have been a key player in managing Norway's oil wealth, which has attracted the attention of new oil countries worldwide. Oil companies cannot themselves prevent adverse outcomes, but can work with host governments and societies to reduce risks and enhance positive impacts. We consolidated policies and strategies during 2006 in order to make a stronger contribution in this area.

¹ BP Statistical Review of World Energy 2006.

CSR guidelines and commitments

We concluded a review of our governing documents in 2006, which established a new corporate social responsibility (CSR) policy as one of six corporate policies. This specifies that our contribution to sustainable development will be based on our core activities in the countries in which we operate.

We are committed to:

- making choices based on how they affect our interests and the interests of host societies
- ensuring transparency, combating corruption and showing respect for human rights and labour standards
- generating positive spin-offs from our core activities to help meet the aspirations of the societies in which we operate.

Understanding and managing risk

Understanding and managing social risks are essential to reducing harmful impacts on communities affected by our operations, as well as risks to our own business. Our new CSR policy

and guidelines specify a social risk management process for all our operations through stakeholder dialogue, country risk assessments and project impact assessments.

Transparency and human rights

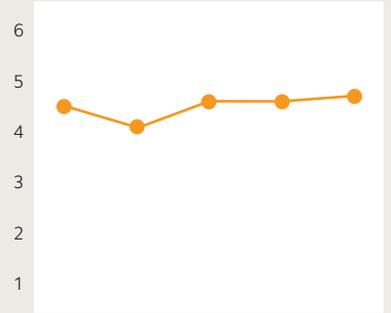
Being transparent and combating corruption are vital for good governance, on which effective markets and sustainable development depend. The 2006 revision of our governing documents established transparency as a basic principle.

Respect for human rights and labour standards is another cornerstone. Failure to show such respect represents a breach of our ethical standards which could also have serious legal consequences. Our human rights commitments were enshrined in our values and CSR document in 2006. We established a governance system to ensure that human rights are respected, and this will be further developed in 2007.



We cooperate with Pomor University in the Russian city of Arkhangelsk on a BSc programme on petroleum management. One of the lecturers, Prof Anatoly Zolotukhin, is technical vice president at our Moscow office.

SOCIAL RESPONSIBILITY



2002 4.5 2003 4.2 2004 4.6 2005 4.6 2006 4.7

"I am confident that Statoil displays social responsibility and acts in accordance with basic human rights wherever it has operations"

Source: GPS



Anne Stenhammer, state secretary to Erik Solheim, Norway's minister of international development

Q: Various initiatives have been adopted to achieve greater openness over cash flows in the oil industry. What effect have they had?

A: Helping to ensure that a large proportion of the income from the world's resources is spent on promoting social and economic development represents a priority task for Norway. Greater openness is essential in allowing people in resource-rich states to make demands about the way these revenues are applied.

This is why Norway supports the Extractive Industries Transparency Initiative (EITI), and pursues openness as a matter of principle for both resource and revenue management through the Oil for Development programme.

Facilitating a broader division of income is no easy job. Resource revenues often represent an important element in the power base of regimes which do not welcome change.

Nevertheless, I believe we will see progress if companies, investors, governments and civil society continue to work together through the EITI and similar initiatives.

I am pleased that Statoil and Norsk Hydro have taken a lead in this area, not least in publishing their payments to host countries. We in Norway have also helped to mark our leadership by hosting the EITI's new international secretariat.

Solidly anchored

Our human rights and transparency commitments are anchored in a number of international initiatives. These primarily include the UN Global Compact principles, covering human rights, labour standards, the environment and anti-corruption, and the Voluntary Principles on Security and Human Rights on the use of security services. We will include references to these initiatives in our contracts with suppliers and partners where relevant. Our policy and requirements pay particular attention to indigenous peoples and to working in conflict zones, where human rights challenges may be particularly substantial.

In the transparency area, we have endorsed the Extractive Industries Transparency Initiative (EITI). See page 52. In addition come endorsement of the World Economic Forum's Partnering Against Corruption Initiative (PACI), the Global Compact's principle on combating corruption,

and support for Transparency International through a corporate agreement.

Positive spin-offs

The oil and gas industry has a big potential for stimulating economic growth. However, the requirement for specialised skills and technology could mean that the direct benefits are confined to a few people, leaving others excluded. So our CSR strategy aims at generating positive spin-offs from hiring and developing local personnel. We will utilise local businesses and workers as suppliers and contractors, and promote building and exchanging expertise with local companies. We will also make social investments in affected local communities to ensure that those outside the industry also benefit.

Efforts to generate local spin-offs should always be based on a commercial concept and aim to build self-sustaining economic activities. We will avoid creating dependency and supporting unproductive projects.

Planned measures 2006	Results 2006	Planned measures 2007
Complete impact assessment for drilling operations in Algeria. Establish relevant follow-up and measurements to prepare for the next project phase	Quarterly reporting of key indicators	Review and update work process for early capture of country risks, including strengthening link to impact assessment
		Develop approaches to enhance local spin-offs which support business development, and test these in relevant countries
Implement pilot case in which various methodologies are tested across the organisation	First phase of pilot case implemented (Azerbaijan) Methodology discussed with external experts	Develop an approach to measure the social impact of operations
Continued expansion of social investment in line with the growth in international projects and investments	Implemented 19% increase in social investment	Improve procedures and follow up of corporate social responsibility/social investments, including budget tracking
		Reassess and develop effective stakeholder dialogue and reporting processes
Develop a toolbox for developing and evaluating country-specific strategies for corporate social responsibility	Implemented	Develop learning module for planning and implementation of corporate social responsibility, including reassessment of CSR guidance tool
Test a tool for supplier development based on criteria for social responsibility	Implemented	
Develop further operative method for managing reputation risk	An axis initiated in relation to the corporate communication function	Target maintained

Global Compact principles in Nigerian agreement



We took the initiative on establishing a licence agreement in Nigeria based on the Global Compact principles. The idea came from a Statoil team which included Karin Berentsen (right) and Odd Inge Godal.

We are constantly working to put ethical principles into action in our business. Exploration licence OPL 315 off Nigeria has now adopted a new tool for ethical business conduct.

Together with Petrobras and Ask Petroleum, we signed a new collaboration agreement on operating the OPL 315 licence during August. This specifies that all business activities will be based on the UN Global Compact principles.

These were established in 2000 to encourage a sustainable global economy through cooperation between governments, business and various organisations. Signatories to the compact are urged to observe 10 basic ethical principles for responsible business conduct.

Support for the compact is voluntary, and its principles are not legally binding. The OPL 315 partner deal is thereby unique because it makes the compact's principles legally binding, says Global Compact head Georg Kell.

"This agreement is innovative because it demonstrates how universal norms can determine the standard for business action," he says. "In that way, it contributes to a more robust and inclusive market. I hope that this agreement can set an example for others."

The work of putting the compact's principles into everyday operation is now beginning. "The chief executive of operator Petrobras sits on the Global Compact board, and is proud to have made history by incorporating its principles in an agreement," says Karin Berentsen, who represented us in the negotiations over the partnership agreement.

"We've now got to follow up the principles in the day-to-day work and when placing contracts with companies who want to do business with the licence," she says.

Statoil is now working to transfer the compact's principles to new exploration licences in west Africa.



Stanley Rerri,
director, Nigeria Extractive Industries
Transparency Initiative (NEITI)

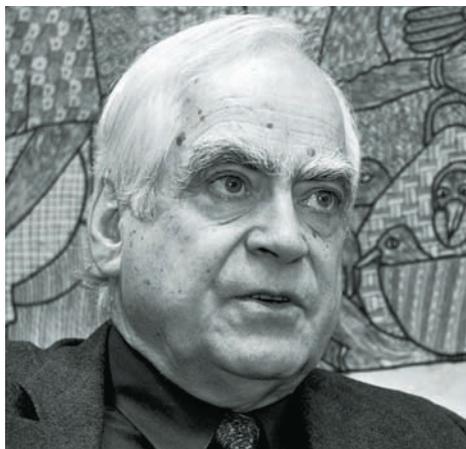
Q: Why has Nigeria decided to publish the revenues received by its government from the various oil companies operating in the country?

A: Petroleum revenues are central to the Nigerian economy because this sector generates very substantial economic rents and revenues. Our emphasis on publishing petroleum income is certainly justified, accounting as it does for more than 70% of revenues at all levels of government, 40% of gross domestic product and more than 85% of foreign exchange earnings.

The high risk, high cost and uncertain nature of exploration, coupled with a long period of gestation before profits are realised and the finite nature of resources, also make financial management of the sector difficult.

Disclosure and publication of payments by oil companies will enable Nigerians to hold their government accountable for the management of revenues, ensure a level playing field amongst producing companies, enhance corporate governance and improve energy security.

Indeed, the goal of the EITI is to help eliminate the opaqueness of energy sector transactions in order to ease the social divisiveness and instability which has led to the disruption of crude oil production, especially in the Niger delta.



Peter Eigen,
Transparency International

Q: Various initiatives have been launched to secure greater transparency over money flows in the oil industry. What effect have these efforts had?

A: The effects of different initiatives seeking improved revenue transparency are varied.

Even if we look only at the Extractive Industries Transparency Initiative (EITI), we see that national implementation takes many different forms.

Certain countries have clearly made greater progress than others. In some, such as Nigeria, Azerbaijan and Ghana, written reports can be used by citizens and companies to hold governments to account.

Such progress may not have been achieved elsewhere, but at least the need for revenue transparency has been highlighted.

We are also starting to see examples of how multilateral organisations such as the International Monetary Fund and the World Bank, and bilateral development agencies such as Norway's Norad have mainstreamed the principles of the EITI and introduced them into their policy advice.

Let me also take this opportunity to commend Statoil for its support of the EITI. The fact that the EITI secretariat will be established in Oslo is a testament to the joint commitment by Norway's government and oil companies to high international standards of revenue transparency. This is critically important for equitable and sustainable global development.

Approach and partners

The economic potential of the oil and gas industry can only be fully realised in a transparent business environment. So transparency and combating corruption remain among our top priorities. As a supporter of the EITI, we were the first major oil company to start disclosing all revenues and payments in the countries in which we operate.

Anti-corruption and e-learning

As part of our continuing focus on business ethics and anti-corruption, the ethics committee of the corporate executive committee resolved in 2006 that existing programmes for anti-corruption training and awareness should be expanded and made compulsory for all our employees. A new and comprehensive e-learning tool has been developed and was implemented in March 2007.

This course will train employees in relevant Statoil requirements and guidelines concerning Norwegian and US anti-corruption legislation, in part through case studies of corruption, insider trading and fair competition.

Extractive Industries Transparency Initiative

Important decisions were made in 2006 on the EITI's future organisation and location. Its international advisory group made a set of recommendations on strengthening the initiative along the following dimensions:

- validation of country and company compliance within the EITI framework
- encouragement to implement the EITI
- the future of the EITI.

We supported these recommendations, not least through chief executive Helge Lund's speech to the EITI meeting in Oslo on 17 October 2006. The EITI board decided in December 2006 to move its secretariat from London to Oslo.

Partnership Against Corruption Initiative (PACI)

We have taken a lead on aligning the work of major international anti-corruption initiatives more closely in order to achieve greater impact. This is why we are chairing a working group on collaboration together with such bodies as the UN Global Compact, the International Chamber of Commerce (ICC), Transparency International (TI) and the PACI.

Human rights

We have long had a strong commitment to human rights, and took new steps in 2006 to bolster this commitment through a comprehensive analysis of our policies and practices as well as their implications for business. We have started to operationalise our UN Global Compact commitments and our responsibilities to suppliers and partners by developing contracts which refer directly to the compact's principles.

Planned measures 2006	Results 2006	Planned measures 2007
		Assess need to update human rights standards in governing documents, including human rights screening for suppliers, contractors and investments
		Develop learning module on human rights for Statoil staff
		Undertake human rights assessments for relevant countries

Making human rights commitments explicit

Commitments which are not clearly defined can have serious practical consequences. So we have launched a broad review of the international human rights framework and its implications for our guidelines and practices. This will contribute to a better understanding of the business implications of the framework and, where necessary, to a revision of our guidelines and practices.

Weak guidance

International law offers little guidance on business responsibilities for human rights. With support from international human rights lawyers, a review of all the articles in the Universal Declaration of Human Rights and their potential significance for companies was carried out. This work drew support from the more specific text of the covenants on civil and political rights and economic, social and cultural rights as well as other supporting UN documents. The analysis was then compared with existing provisions in our governing documents and risk management procedures.

Reviewing country risks

As part of this project, an assessment was conducted for some countries in which we have operations.

Most human rights were found to be well protected both by our own corporate policies and procedures and by our operations. Nevertheless, a potential for improvement in the way we conduct our business was identified.

The project will accordingly continue in 2007 with the following activities:

- undertake further country studies



- consider further revisions to our governing documents
- develop a human rights training programme for our employees
- further consultation with relevant stakeholders and international initiatives on methods and findings
- further development of internal control and management systems and training for suppliers and sub-contractors.

We have consulted extensively in this project with the Business Leaders' Initiative on Human Rights, to which we belong, and with John Ruggie, the UN secretary general's special representative on business and human rights.

"It is often said that human rights, unlike other areas of corporate responsibility, remain somewhat mysterious for business, that corporations don't fully know what is expected of them. A number of related factors could account for this state of affairs. Apart from workplace issues, human rights until recently were seen as the exclusive domain of states, and no universally agreed framework of international human rights standards yet exists that applies to companies, whether on a voluntary or mandatory basis. Beyond compliance with national laws, therefore, business policies and practices in the area of human rights remain largely voluntary, inevitably leading to differential rates of uptake and levels of performance."

John Ruggie, the UN secretary general's special representative on business and human rights, September 2006



Baku, capital of Azerbaijan, has played an important role for centuries in the trade and culture of the south-eastern Caucasus. It now occupies a key position as the starting point for a new energy corridor to Europe.

Topic:

Statoil in Azerbaijan:

Building a sustainable investment

Azerbaijan ranks as one of our longest and largest foreign commitments. An economy in transition, such as Azerbaijan's, presents the oil and gas sector with particular social challenges in building a robust, long-term business. Together with national oil company Socar and other international companies, we have worked both industrially and socially to build a robust basis for our investments in this country.

Statoil in Azerbaijan

Encouraged by the prospect of oil and gas revenues, governments in the countries around the Caspian began in the early 1990s to negotiate licences and production sharing agreements (PSAs) with international oil companies to attract foreign capital and modern technology.

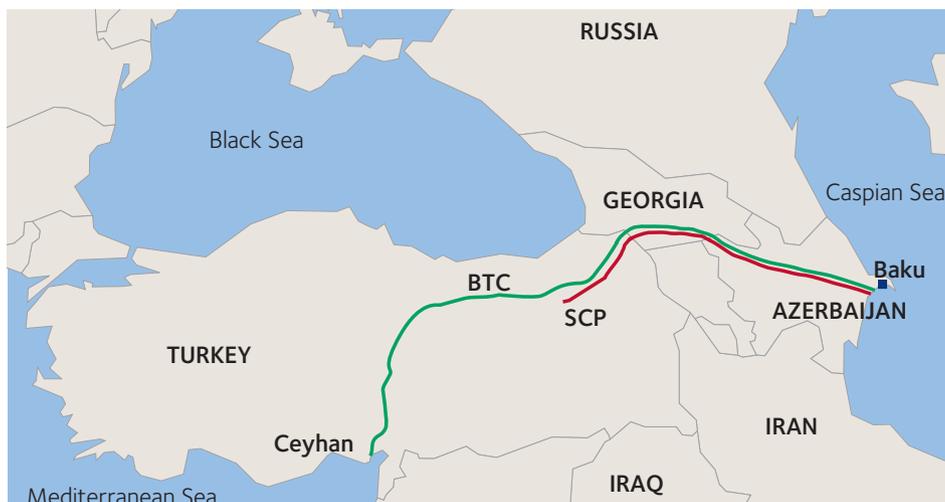
We concluded an alliance with BP in 1990 which

was intended to develop new business for the partners through exploration and commercial development in specified parts of the world.

Through this Statoil/BP alliance, we resolved in 1992 to move into Azerbaijan and rank today as the country's second largest foreign investor. In addition to three PSAs, we are a partner in the two most important pipelines exporting oil and natural gas from Azerbaijan.

Azerbaijan

Population:	8.4 million (2005)
Religion:	93.4% Muslim 2.5% Russian Orthodox 2.3% Armenian Orthodox
GDP:	USD 12.6 billion (2005)





Shah Deniz is one of the world's largest gas and condensate fields.



The oil and gas fields in the Caspian will mean a lot for Europe's energy supplies.

Our assets in Azerbaijan

Azeri-Chirag-Gunashli (ACG)

These three oil fields contain more than 5.4 billion barrels of oil, which makes them 1.5 times the size of Norway's Statfjord field. The first production phase began in 2005 and the second in 2006, while phase three is due to come on stream in 2008. There are 10 partners with BP as operator, and our share is 8.65%. Total daily output is expected to exceed one million barrels by 2009. Our share of daily production in 2006 was 35,000 barrels.

Shah Deniz

Shah Deniz is a gas and condensate field. We are one of seven partners, with a 25.5% interest. BP is operator. Production began in December 2006 and will total nine billion cubic metres annually when plateau is reached in 2009.

Alov-Araz-Sharg exploration licence

Statoil has 15% of a licence covering exploration and development of the Alov, Araz and Sharg prospects. Technical evaluations of this promising acreage were made in 2002, but drilling of a first exploration well is currently on hold pending talks between Iran and Azerbaijan about sector boundaries in the area.

Baku-Tbilisi-Ceyhan (BTC) pipeline

We and nine other oil companies are partners in

the BTC oil pipeline which connects Baku via Tbilisi, capital of Georgia, with Ceyhan on Turkey's Mediterranean coast. Our share is 8.71%. With a daily transport capacity of about one million barrels, this 1,768-kilometre system climbs to a staggering 2,850 metres above sea level in the Caucasus. Azerbaijan's oil no longer needs to be shipped through the narrow and vulnerable Bosphorus, and thereby reaches world markets more quickly and safely.

South Caucasus Pipeline (SCP)

Gas and condensate from Shah Deniz are piped to Turkey through the SCP, which runs parallel to BTC for 970 kilometres via Tbilisi to the Turkish town of Erzurum. We have a 25.5% holding in the SCP, which became operational in 2006.

We are commercial operator for business development and administration of the SCP Company (SCPC), which is responsible for piping the gas to market.

Operations in Azerbaijan already make a valuable contribution to our international production, and will become increasingly important as the fields reach plateau. Roughly 8-10% of our total revenues (based on current production) will then derive from the value chain which starts in Azerbaijan.



During the peak construction phase, 23,000 people worked on the BTC oil pipeline.

An oil nation's renaissance

The petroleum industry has a rich heritage in Azerbaijan, with development accelerating from the end of the 19th century. At one time, the country accounted for half the world's crude oil production. The unstable 1920s and 1930s brought decline, and many industrialists left Azerbaijan when the Soviet Union seized control in 1920. Oil production declined rapidly thereafter. The Second World War sparked a second but brief oil boom.

Many of Azerbaijan's export markets disappeared after the country declared its independence from the Soviet Union in 1991, and it was hit by an economic crisis. In these conditions, the country's substantial hydrocarbon resources represented a very important potential for its development.

Azerbaijan's break with the former Soviet Union marked the start of its third oil boom. Western companies became involved, with strong support and financial backing from their governments. The aim was threefold:

- develop reserves and production to help bring new oil and gas volumes to market
- contribute to Azerbaijan's economic development in order to strengthen the country's political independence, and to contribute to democratic development as well as to greater prosperity for its people
- establish a new energy corridor from the Caspian to supplement the Russian supply lines to Europe.

Community investment programmes

Most of the major development projects are organised in consortia with participants from many oil companies. One example is a community investment programme (CIP) financed by the partners in BTC and SCP which aims to create sustainable social and economic development in local communities along the pipeline route in Azerbaijan, Georgia and Turkey. In cooperation with local and international non-governmental organisations (NGOs), this CIP has implemented programmes to create jobs, secure wider access to an improved social

infrastructure such as schools and hospitals, and strengthen farming. The partners spent USD 24 million on such work during the project phase.

New programmes for the operational phase

As the large-scale ACG, BTC, Shah Deniz and SCP projects moved from construction to operation, the Regional Development Initiative (RDI) and the Future Communities Programme (FCP) entered the picture. The FCP will take over where the different CIPs left off and continue to focus on community empowerment and mobilisation, while the RDI will introduce more innovative mechanisms for socio-economic development.

RDI: a programme with a long-term commitment

The RDI programme for socio-economic development will address basic development challenges, such as:

- enterprise development
- effective governance
- access to energy.

It aims to maximise the development impact of our core business and ensure that the proceeds from these activities are fairly distributed in the region. A long-term perspective is being taken to find good solutions to these issues, reflecting an interest by the partners in developing a stable operating environment.

To maximise the benefit of its measures, the RDI partners have established close collaboration with development agencies as well as the governments and societies involved. Major collaborators include:

- International Finance Corporation (IFC)
- European Bank for Reconstruction and Development (EBRD)
- Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
- UN Development Programme (UNDP)

Education and capacity building

In addition to the RDI's three main activities, a continuous focus will be maintained on:

- education
- capacity building
- vocational training.

In terms of staffing, the RDI will have assurance and technical personnel in Baku as well as coordinators in Georgia and Turkey. The very nature of the RDI implies integrating many professional disciplines, and the joint venture partners will contribute expertise in such areas as government relations, legal, tax, finance, corporate responsibility and health and safety.

Pilot projects

The RDI launched its first pilot projects in 2004, covering waste management as well as banking and financing in the Georgian towns of Borjomi and Bakuriani. The programme is currently supporting a host of activities, including the facilitation of supply chain finance in Azerbaijan to boost local content in supplies, and an initiative to reduce the regulatory burden on business so that operating costs for small and medium-sized enterprises can be cut.

We have been an active participant in shaping the RDI. Together with our partners, we devoted USD 12 million to projects in the programme during 2006. This is set to rise to USD 15 million from 2008.

In addition to the projects pursued in Azerbaijan with our partners, we have shown active social responsibility on our own account. Important elements in this strategy have included:

- Transfer of experience with the Norwegian model for administering the petroleum industry to Azerbaijan's politicians and state oil company Socar. Norway's experience has been viewed by the government of Azerbaijan as an inspiration in organising its own activity.
- Expertise transfer in cooperation with Socar. Management training and the creation of a technical laboratory in Baku were initiated at an early stage. We built up the lab by transferring equipment from our own facilities in Stavanger and by ensuring the appropriate education and training of Socar personnel.
- Our specialists collaborated with Socar to develop a master plan for gas extraction and transport in Azerbaijan. The Norwegian Ministry of Petroleum and Energy was also involved and contributed to the funding. This work helped to ensure the development of Shah Deniz and the creation of a gas value chain.
- During the initial phase, the authorities in Baku had extensive contacts with relevant

Norwegian government bodies such as the Bank of Norway and the Ministry of Finance. An oil fund was established in December 1999 on the Norwegian model to avoid overheating the economy and to safeguard the prosperity of future generations. This fund totalled USD 1.45 billion at 30 September 2006.

- Azerbaijan became the first country in the world to adopt the principles of the Extractive Industries Transparency Initiative (EITI). We have been actively involved in work on the EITI in this country. Thirty-two local NGOs, oil and mining companies active in Azerbaijan and the government have signed a letter of intent on implementing the principles. According to the World Bank on 31 December 2006, this puts Azerbaijan in the lead for implementation among EITI member countries.
- We also give purposeful backing to various social and environmental projects in Azerbaijan. We support, for instance, the Norwegian Refugee Council's urban resettlement project to secure homes and other assistance for internally-displaced people, refugees and returnees relating to the dispute over the Nagorno-Karabakh region, where the fighting came to an end in 1994.

Big assets for Statoil and Azerbaijan

Production sharing agreements (PSAs)

Development and production of oil and gas resources make the biggest contributions to the economy of Azerbaijan. With today's production and prospects, PSAs ensure the country substantial revenues. At the same time, they safeguard the financial interests of the companies. More than three-quarters of value creation from the petroleum business falls to Azerbaijan.

The projects in which we participate are important for us, for our partners and for Azerbaijan as the host nation. The PSAs are structured in such a way that the partners share the oil produced in accordance with defined allocation mechanisms. These agreements are public and can be found, for instance, on the internet. The allocation of oil ensures that a

relatively large proportion of the production will go to meeting investment costs in phases where most of this spending still has to be repaid. Another element covers operating costs, while a third represents profit for the companies (profit oil).

This allocation of revenues resembles the one found on the NCS, and its starting point is a division of the value creation after investment costs have been met. The host country gets 80%, while the foreign partners receive the remaining 20%. Assuming an oil price of USD 40 per barrel throughout the producing life of the Shah Deniz and ACG projects, for example, calculations show that the Azerbaijan government's share of net revenues would total USD 170 billion. This is a very large income flow for a country which had a gross domestic product in 2005 of USD 12.6 billion. Azerbaijan had the world's highest growth rate in 2006, with its GDP expanding by no less than 34.5%.



The major oil and gas projects in Azerbaijan in which we participate came on stream in 2006. Central Azeri, one of seven platforms installed on the Azeri-Chirag-Gunashli field in the Caspian, kicked off the first production phase.

Financial performance and spin-offs

Our business creates substantial economic spin-offs. We purchased goods and services, excluding petroleum products, worth a total of NOK 67.7 billion in 2006, and paid NOK 104.5 billion in direct and indirect taxes. In addition came spin-offs from direct and indirect employment and dividend paid to the owners.

Our consolidated income before financial items, other items, taxes and minority interest totalled NOK 116.9 billion compared with NOK 95 billion in 2005. This is the best result ever in Statoil's history.

Direct and indirect taxes

A large proportion of our total value creation is paid to governments in the form of direct and indirect taxes. On a group basis, we paid NOK 74.4 billion in income tax and NOK 30.1 billion in indirect taxes. While direct and indirect taxes paid in Norway totalled NOK 74.2 billion, they came to NOK 30.3 billion outside the country.

Oil companies in Norway pay income tax in two instalments. The first falls due on 1 October in the year the income is earned, and the second on

¹ A decline of about NOK 4 billion in indirect taxes from 2005 reflects the abolition of duty on trading natural gas in Germany on 1 August 2006.



The Gullfaks field in the North Sea yielded revenues of NOK 500 billion from the start of production in 1986 until 2006. Our goal is to operate and develop this field for at least another two decades.

Selected key figures from the business in 2005 and 2006

	2005	2006
Income taxes paid	NOK 54.6 bn	NOK 74.4 bn
Indirect taxes paid	NOK 34.2 bn	NOK 30.1 bn
Signature bonuses paid	USD 3.4 mill	USD 147.1 mill
Proposed dividend	NOK 17.8 bn	NOK 19.7 bn
Pay and social benefits	NOK 14.6 bn	NOK 16.4 bn
Goods and services purchased (invoiced value)	NOK 62.8 bn	NOK 67.7 bn
Interest paid on loans	NOK 2 bn	NOK 2.9 bn
Investment in own business operations	NOK 46.2 bn	NOK 46.2 bn
Investment in research and development	NOK 1.1 bn	NOK 1.2 bn
Number of suppliers	24,899	26,085
Value of profit oil	NOK 2.7 bn	NOK 5.8 bn
Social investment	USD 8 mill	USD 9.5 mill

1 April of the following year. This means that tax payable in a given year is not directly comparable with tax paid in the same year. Income tax expense comprises payable and deferred tax, and is calculated on the basis of accounting income before tax. Our income before tax in 2006 was NOK 104.32 billion in Norway and NOK 17.37 billion in other countries. Tax expense came to NOK 74.1 billion in Norway and NOK 6.25 billion elsewhere.

As our investments in other countries give rise to production and revenues, taxes paid to the authorities in these countries will increase. Direct and indirect taxes will not normally be incurred during the investment phase and, since a long period elapses between making a discovery and starting production, we will have investments in a number of the countries shown in the activity overview without paying either direct or indirect taxes to these nations.

Production sharing agreements

Under production sharing agreements, the partners first receive petroleum of a value equivalent to accumulated costs and investments in accordance with the terms specified in the individual agreements (cost oil). They then receive a share of the remaining production (profit oil), while the host country retains the rest. The respective shares of partners and host country are specified in the agreement. The

value of petroleum retained by host countries is estimated at NOK 5.8 billion in 2006, and relates to Algeria, Azerbaijan and Angola. See page 59 for more details about the production sharing agreement with Azerbaijan.

Signature bonus

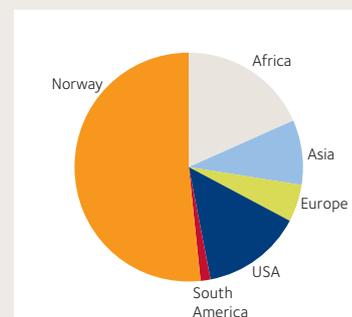
The government in some host countries requires a payment to be made before exploration begins for the rights to develop an area. Known as a signature bonus, the size of this payment is based on the exploration licence's presumed production potential, and on the interest shown in the rights by the market.

We were awarded two operatorships with 80% holdings in deepwater blocks 9 and 10 off Egypt. Our partner in this acreage is Sonatrach International Petroleum Exploration & Production, a wholly-owned subsidiary of Sonatrach. The award is subject to completion of a detailed production sharing agreement and approval by the Egyptian parliament. We have also been awarded the Kuma deepwater block off Indonesia together with ConocoPhillips. The latter is operator with 60%, while our share is 40%. We expect to pay signature bonuses for these three blocks, but no payment was made in 2006 because negotiations had not been completed.

Shareholders and dividend

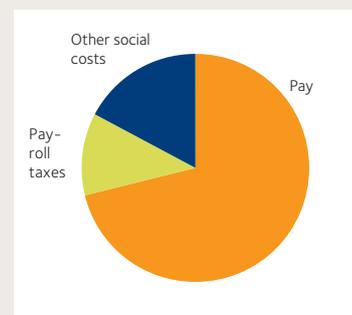
The Norwegian government is our principal

ACCUMULATED INVESTMENT BY GEOGRAPHIC AREA



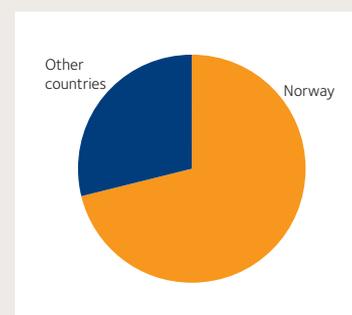
2006
Total: NOK 46.2 billion

PAY AND SOCIAL BENEFITS



2006
Total: NOK 16.4 billion

TAXES PAID



2006
Total: NOK 104.5 billion

Signature bonuses paid in 2006 by country

Country	Licence	Interests	Bonus paid
Nigeria*	Block 315	Statoil 45% Petrobras 45% (operator) Ask Petroleum 10%	USD 81 mill
Brazil*	IC-M-539	Statoil 50% Repsol 50% (operator)	USD 5.2 mill
Brazil*	ES-M-594	Statoil 40% Repsol 60% (operator)	USD 0.3 mill
Angola	15/06	Statoil 5% Eni 35% (operator)	USD 53 mill USD 1.2 mill**
Azerbaijan	Azeri-Chirag-Gunashli***	Statoil 8.5633%	USD 6.4 mill

* Licences were awarded in 2005, but negotiations concluded in 2006. The signature bonus was accordingly paid in 2006.

** Contribution to social projects.

*** In accordance with the production sharing agreement signed in 1994, the bonus has been paid in three instalments with the last in 2006.

shareholder, with 70.9% of the shares. According to the register of the Norwegian Central Securities Depository, we had over 67,500 shareholders at 31 December 2006. Since a number of these are custodian accounts, the real number of shareholders is higher. Roughly 9,750 of our own employees participated at 31 December in the share saving plan we established in 2004, an increase of 1,750 people from a year earlier. See the section on the Statoil share on page 62 of our 2006 annual report for further details.

Our board of directors has proposed an ordinary dividend of NOK 4.00 per share for 2006, plus a special dividend of NOK 5.12 per share. During 2006, we also bought back shares from the market corresponding to NOK 1.55 per share for striking off/reducing the share capital. This means that the total payout to our shareholders will be NOK 10.67 per share.

Employees

We had more than 26,000 employees at 31 December 2006, including 25,435 permanently employed. Our workforce increased most in Norway and the Baltic states, and declined in Ireland because of the disposal of the business there in 2006. Forty-five per cent of our

employees work outside Norway. Our payroll expenses for 2006, in the form of wages, pensions and other social benefits, totalled NOK 14.5 billion. We also paid NOK 1.9 billion in employer's national insurance contributions.

Procurement

We make substantial purchases for the development and operation of our business. The invoiced value of goods and services procured in 2006 was NOK 67.7 billion. That excludes petroleum products but includes purchases for the licences we operate, which means that part of the cost is covered by our partners. NOK 52.9 billion was invoiced to 8,234 companies located in Norway, while NOK 14.8 billion was invoiced to 17,851 suppliers with postal addresses in 80 different countries. Goods and services are not necessarily used in the country in which the supplier has its invoice address. Projects will often combine national and foreign suppliers.

Investment

We invested more than NOK 46.2 billion in our own business in 2006. Compared with the year before, such spending increased substantially in Norway, Angola and Nigeria but fell significantly in the USA. This reflects the record level of investment in USA during 2005, when we acquired the entire EnCana deepwater portfolio

in the Gulf of Mexico for USD 2 billion – our biggest-ever purchase. To secure our long-term development, and especially our production ambitions, we will maintain a high level of investment in the years to come.

Our international operations made social investments worth USD 9.5 million in 2006. Such support is channelled through a number of aid organisations in countries in which we have operations.

Research and development

In addition to technological advances associated with field development projects, a significant proportion of our research takes place at our

centre for research and technology development in Trondheim. Our in-house R&D work is pursued in close cooperation with universities, research institutes, other operators and the supplies industry. Spending on R&D totalled NOK 1.2 billion in 2006.

Ensuring long-term value creation

One of our financial objectives is to ensure long-term value creation. This calls in the short term for a balance between such important areas as HSE, efficient operation, the working environment and expertise development. The greatest challenge in the longer term is to ensure a good balance between profitability and production growth. Measured as the return on capital



Luanda is the capital of Angola, where our investment increased substantially during 2006. This west African country accounts for 50% of our production outside the NCS.

employed, our profitability was 27.1% in 2006. The high return on capital employed in 2005 and 2006 was partly attributable to strong oil prices (the average realised oil price was USD 53.6 per barrel in 2005 and USD 64.4 in 2006). Average daily production declined by 34,000 boe/d from 2005 to 2006.

Our long-term production ambition requires access to new resources, major investment and a high level of activity in coming years. At the same time, geopolitical conditions and tough competition over projects have made it more demanding for the international oil companies to grow at the same pace as before. We plan to increase our commitment to exploration, and spent NOK 7.5 billion on this activity in 2006. NOK 8 billion is due to be invested in such work during 2007.

Ethical guidelines for investment management

Our pension and insurance funds total roughly NOK 35 billion, and are mainly managed by Statoil Kapitalforvaltning ASA. They are invested in shares, bonds and certificates as well as in real property. The management strategy for these funds includes ethical guidelines based on those applied for investment management by the Norwegian Government Pension Fund – Global.

These accord with our values and ethical principles.

Statoil Kapitalforvaltning does not wish to invest in companies which:

- are involved in gross or systematic breaches of human rights
- either directly or through units under their control, manufacture weapons which breach basic humanitarian principles in their normal use
- contribute to gross breaches of the rights of individuals in wars or conflicts
- cause serious environmental harm through their operations
- are involved in corruption
- are involved in other gross breaches of basic ethical norms.

We have established an ethics committee to advise the pension fund, the insurance company and other entities in the group on companies in which they must not invest. A total of 18 companies had been excluded at 31 December 2006.

Operational results and share information	2004	2005	2006
Return on average capital employed after tax	23.5%	27.6%	27.1%
Production (1,000 boe/d)	1,106	1,169	1,135
Production costs (NOK/boe)	23.3	22.3	26.6
Share price, Oslo Børs, 31 December (NOK)	95.00	155.00	165.25
SEC reserves at 31 December (million boe)	4,289	4,295	4,185

Overview of activities per country

	Investment NOK million	Income (1) NOK million	Income taxes paid (2) NOK million	Indirect taxes paid (3) NOK million	Pay and social benefits (4) NOK million	Employees at 31 Dec 06 (5)	Purchase of goods and services (6) NOK million
Algeria	1,473	2,247	477		1	11	195
Angola	4,273	9,631	3,228		1	5	4
Azerbaijan	3,859	6,327	679		10	48	35
Belgium	1	22			44	62	485
Brazil	50	11			11	16	164
Denmark*	758	23,292	194	4,751	921	3,720	1,629
Estonia	6	924		402	46	680	242
France		305	0		14	10	283
Georgia							1
Iran	413	30			3	19	3
Ireland	463	6,552	144	3,980	216	4	392
Kazakhstan					1	3	
China		796	114		7	23	9
Libya	7				1	12	10
Latvia	70	1,977	15	718	67	831	337
Lithuania	54	1,906	3	451	54	733	305
Nigeria	2,654			1	27	48	52
Norway	23,892	375,531	67,292	6,913	13,487	14,279	52,856
Poland	288	6,391	23	160	205	3,087	235
Russia			3		9	137	125
Singapore	1	8,786			23	18	16
UK	455	3,182	1,091	33	260	177	3,949
Sweden	384	17,727	106	8,506	754	1,885	1,532
Turkey							24
Germany	2	819	113	4,182	75	91	2,359
USA	6,539	43,150	43		170	96	313
Venezuela	532	3,735	726	1	25	59	318
Rest of Europe**			158				1,071
Rest of world ***							728
Elimination****		(88,585)					
TOTAL	46,174	424,756	74,408	30,098	16,432	26,054	67,671

* Includes the Faroes and Greenland

** Income taxes paid applies to the Netherlands

*** Total purchases from countries not shown in the table

**** Elimination of intra-group sales

(1) Total revenues (excluding share of net income of affiliates) by company location.

(2) Income taxes paid for fiscal 2006, but also taxes for earlier fiscal years paid in 2006. We do not pay income tax in a number of countries because we have no production or other income-generating activities there. Lead times in the oil and gas industry (the period from discovery until production begins) can be long. This means that we invest substantial sums for a number of years before generating any taxable income. We paid income tax in Azerbaijan for the first time during 2006.

(3) Indirect taxes relate to government revenue derived from our operations, and include carbon tax, area fees, royalty, petrol duty and the like (excluding value-added tax).

(4) Includes pension and payroll taxes. Ireland also includes payroll expenses until the business was sold in 2006.

(5) Based on company location (the country in which the company with employees is registered). Also includes temporary personnel paid monthly. In addition to the figures in the table, we also have temporary personnel in Jordan employed in our Middle East operations.

(6) Based on invoice address. Part of the cost is charged to partners in activities we operate, including those we conduct as a technical service provider. Excludes the purchase of petroleum products.

GRI index

	Page in report*	
Strategy and analysis		
1.1	5-7	Statement from the CEO
1.2	Many, (1)	Description of key impacts, risks, and opportunities
Organizational profile		
2.1	Cover, 54	Name of organisation
2.2	9, (2)	Primary brands, products and/or services
2.3	(2)	Operational structure of the organisation
2.4	Cover, 54	Location of organisation's headquarters
2.5	9	Number of countries where the organisation operates
2.6	62, 55-56, 62-63 (3)	Nature of ownership and legal form
2.7	(2)	Markets served
2.8	9, 65, (2)	Scale of reporting organisation
2.9	-	Significant changes during the reporting period
2.10	8	Awards received in the reporting period
Report parameter		
3.1	Cover	Reporting period
3.2	-	Date of most recent previous report
3.3	-	Reporting cycle
3.4	71	Contact point for questions regarding the report or its contents
3.5	-	Process for defining report content
3.6	3	Boundary of the report
3.7	-	Specific limitations on the scope or boundary of the report
3.8	-	Basis for reporting that can significantly affect comparability from period to period
3.9	-	Data measurement techniques and the bases for calculations
3.10	-	Explanation of the effect of any restatements of information provided in earlier reports
3.11	-	Significant changes from previous reporting periods
3.12	66-67	Table identifying the location of the Standard Disclosures in the report
3.13	69	Policy and current practice with regard to seeking external assurance for the report
Governance		
4.1	13, 52-61	Governance structure of the organisation
4.2	52-61	Indicate whether the chair of the board is also an executive officer
4.3	52-61	Number of members of the board that are independent
4.4	52-61	Mechanisms for shareholders and employees to provide recommendations or direction to the board
4.5	52-61	Linkage between compensation for members of the board and the organisation's performance
4.6	(4)	Processes in place for the board to ensure conflicts of interest are avoided
4.7	(5)	Process for determining the qualifications and expertise of the members of the board for guiding the organisation's strategy
4.8	11	Internally developed statements of mission or values, codes of conduct, and principles
4.9	(4)	Procedures of the board for overseeing the organisation's identification and management of performance
4.10	(4)	Processes for evaluating the board's own performance
4.11	64-94	Explanation of whether and how the precautionary approach or principle is addressed by the organisation
4.12	Many, 52-61, page 1	Externally developed principles, or other initiatives to which the organisation subscribes or endorses
4.13	(6)	Memberships in associations and advocacy organisation
4.14	-	List of stakeholder groups engaged by the organisation
4.15	(6)	Basis for identification and selection of stakeholders with whom to engage
4.16	-	Approaches to stakeholder engagement, including frequency of engagement by type and group
4.17	-	Key topics and concerns that have been raised through stakeholder engagement, and responses to these, including through reporting

*Green denotes page in sustainability report, Blue denotes page in annual report

- Topic not covered in report

(1) See Item 3 in Annual report on form 20-F

(2) See Item 4 in Annual report on form 20-F

(3) See Item 7 in Annual report on form 20-F

(4) See Rules of procedure for the board of directors of Statoil ASA, www.statoil.com/cg

(5) See Rules of procedure for the election committee in Statoil ASA, www.statoil.com/cg

(6) See Ethics in Statoil §3, www.statoil.com

GRI index

GRI performance indicators	Page in report*		
Economic			
	61, 65	EC1	Economic performance
	29, 34-37	EC2	
	119-122	EC3	
	-	EC4	
	-	EC5	Market presence
	21-22, 62, 65	EC6	
	-	EC7	
	-	EC8	Indirect economic impact
	38, 49-50	EC9	
Environmental			
	-	EN1-2	Materials
	Cover, 145-148	EN3	Energy
	-	EN4	
	30	EN5	
	30-37, 44-45	EN6	
	-	EN7	
	42	EN8	Water
	-	EN9-10	
	43	EN11	Biodiversity
	42-43	EN12	
	41, 43	EN13	
	41-43	EN14	
	-	EN15	
	Cover, 30, Cover, 36, 145-148	EN16	Emissions, effluents, and waste
	-	EN17	
	30-37, 44-45	EN18	
	32-33, 145-148	EN19	
	32, 145-148	EN20	
	38-39, 145-148	EN21	
	39-40, 145-148	EN22	
	38-40, 137	EN23	
	-	EN24	
	38-41	EN25	
	30-45	EN26	Products and services
	-	EN27	
	-	EN28	Compliance
	-	EN29	Transport
	-	EN30	Overall

*Green denotes page in sustainability report, Blue denotes page in annual report

- Topic not covered in report

GRI index

GRI performance indicators	Page in report*		
Labour practices & decent work			
	9, 65	LA1	Employment
	21	LA2	
	-	LA3	
	20, 22	LA4	Labour/management relations
	-	LA5	
	20, 23	LA6	Occupational health and safety
	23	LA7	
	23, 25	LA8	
	20, 22	LA9	
	-	LA10	Training and education
	18, 21, 24	LA11	
	13	LA12	
	21, 31-32	LA13	Diversity and equal opportunity
	31-32	LA14	
Human rights			
	-	HR1-3	Investment and procurement practices
	-	HR4	Non-discrimination
	-	HR5	Freedom of association and collective bargaining
	20	HR6	Child labour
	20	HR7	Forced and compulsory labour
	-	HR8	Security practices
	-	HR9	Indigenous rights
Society			
	38, 49-50	SO1	Community
	-	SO2	Corruption
	12, 52	SO3	
	-	SO4	
	-	SO5-6	Public policy
	13	SO7	Anti-competitive behaviour
	-	SO8	Compliance
Product responsibility			
	23, 25-27, 45	PR1	Customer health and safety
	23, 25-27	PR2	
	-	PR3-5	Products and service labelling
	-	PR6-7	Marketing communications
	-	PR8	Customer privacy
	-	PR9	Compliance

*Green denotes page in sustainability report, Blue denotes page in annual report

- Topic not covered in report

Global Compact

Global Compact – 10 principles for sustainable development

Statoil belongs to the Global Compact, the UN's initiative for social responsibility in the business community. We observe the Global Compact's 10 principles by contributing to sustainable development. An overview of which sections of this report are relevant for each of the principles is provided below.

Human rights

Principle 1: Business should support and respect the protection of internationally proclaimed human rights
Pages: 7, 49-53

Principle 2: Make sure that they are not complicit in human rights abuses
Pages: 7, 49-53

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
Page: 20

Principle 4: The elimination of all forms of forced and compulsory labour
Page: 20*

Principle 5: The effective abolition of child labour
Page: 20*

Principle 6: The elimination of discrimination in respect of employment and occupation
Page: 20

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges
Pages: 5-6, 29-45

Principle 8: Undertake initiatives to promote greater environmental responsibility
Pages: 29-45

Principle 9: Encourage the development and diffusion of environmentally friendly technologies
Pages: 5-6, 29-45

Anti-corruption

Principle 10: Business should work against all forms of corruption, including extortion and bribery
Pages: 12, 49-52

* Statoil supports the Global Compact and has included references to the principles in governing documentation.

Common reporting standards

The global reporting initiative (GRI) seeks to establish a common standard for sustainability reporting. This index is a guide to finding the GRI elements in our report.

We support the development of common standards which make benchmarking possible and increase transparency. We have accordingly applied the GRI standard as a guide in producing this report.

However, we have not reported in accordance with all GRI elements. This is partly because we do not have the reporting systems in place. Other GRI elements are not relevant for describing the impact of our business, and some are already covered in our annual report and accounts.

Further information on the GRI can be found at www.globalreporting.org

Report from Ernst & Young AS

Assurance report

To the stakeholders of Statoil ASA

Scope of engagement

We have been engaged by the corporate executive committee of Statoil to prepare an independent assurance report of Statoil and sustainable development 2006 (the Report).

Statoil's management is responsible for selecting the information, collecting the data for presentation and preparing the Report.

Reporting criteria

As a basis for this assurance engagement, we have used relevant criteria in the sustainability reporting guidelines of the Global Reporting Initiative (GRI). Matters of interest to Statoil's stakeholders have also been taken into account. We consider these reporting criteria to be relevant and appropriate to review the Report.

Work performed

Our work is performed in accordance with SA 3000 (ISAE 3000), "Assurance engagements other than audits or reviews of historical financial information". The standard requires that we plan and execute procedures in order to obtain limited assurance that the Report as a whole is free of material misstatements. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed. In our assurance work related to the health, safety and environment (HSE) accounting, presented in the Annual Report for 2006 (on pages 142-148), the procedures are planned and executed in order to obtain reasonable assurance by sufficient supporting evidence. As the external auditors of Statoil ASA, we have also audited the company's annual financial statements.

Our review has involved the following activities:

- interviews with a selection of Statoil's management and visits to three entities, as a representative sample of Statoil's variety of activities, to gain an understanding of their approach to managing social, ethical and HSE issues that are covered in the Report
- obtaining and considering evidence to support the assertions and claims made in the Report
- evaluation of HSE data as stated in our HSE Assurance Report, dated 13 March 2007
- evaluation of the overall presentation of the Report, including the consistency of the information, based on the above-mentioned criteria.

Our review has not included assessing the implementation of policies, other than the HSE reporting policies. The interviews included within the Report and verification of person names in picture captions, have not been part of our review. We have, however, checked that the interviewees have given their approval to the interview text.

We believe that our procedures provide us with an appropriate basis to conclude with a limited level of assurance on the Report.

Conclusions

Nothing has come to our attention that causes us to believe that the information in the Report does not comply with the above mentioned reporting criteria.

Stavanger, 20 March 2007

ERNST & YOUNG AS



Jostein Johannessen
State authorised public accountant



Erik Mamelund
State authorised public accountant

We welcome your
feedback.
Please send an e-mail to
statoil@statoil.com

Design:

Statoil

Front page:

Fassett

Pre-press and printing:

Kai Hansen and Ålgård Offset

Photos:

Harald Pettersen	inside front cover, pages 1, 2, 3, 10, 12, 15, 16, 24, 29, 30, 31, 36, 39, 49, 63
Øyvind Hagen	pages 13, 14, 22, 42, 52, 56, 60
Kjetil Alsvik	pages 26, 33, 44, 47, 51, 54
Bitmap/Dag Myrestrand	pages 19, 25
Trym Ivar Bergsmo	pages 31, 48
Marit Hommedal	pages 1, 10
Morten Krogvold	page 4
Scanpix	page 8
Getty Images	front cover
Bitmap/ Markus Johansson	page 27
Trond Isaksen	page 28
Scanpix	page 31
photo base/Øyvind Leren	page 42
BTC	page 46
Tore Berntsen	page 50
photo base/Øyvind Leren	page 42

This report is printed on totally chlorine-free environment-friendly paper.

Statoil's reports 2006



Annual report and accounts 2006 

The annual report and accounts contains the directors' report, the financial analysis, the annual accounts (USGAAP) and the HSE accounting. In addition come articles which give a good picture of our operations and governance systems as well as our plans and strategies.



Statoil and sustainable development 2006 

This sustainability report provides information about our commitments, results and ambitions as a member of society. Key topics are values, ethics, human resources policies, financial performance and effects, the environment and social responsibility.



Annual Report on Form 20-F 2006 

The 20-F report provides a detailed and extensive review of our operations. Its title refers to the document from the US Securities and Exchange Commission which specifies what the report must contain.



Financial statements 2006 Norwegian accounting principles 

The financial statements 2006 Norwegian accounting principles contain the Statoil group accounts and the company accounts for Statoil ASA, in accordance with the Norwegian accounting principles (NGAAP).

STATOIL ASA
NO-4035 STAVANGER
NORWAY
TELEPHONE: +47 51 99 00 00
www.statoil.com

