

global challenges
local solutions

Statoil and sustainable development 2005



Our performance at a glance

	2005	2004	2003
Financials¹			
Total revenues	393,398	306,218	249,375
Income before financial items, other items, income taxes and minority interest	95,096	65,107	48,916
Net income	30,730	24,916	16,554
Cash flows used in investing activities	37,664	31,959	23,198
Return on average capital employed after tax	27.6%	23.5%	18.7%
Operations			
Combined oil and gas production (thousand boe/d)	1,169	1,106	1,080
Proved oil and gas reserves (million boe)	4,295	4,289	4,264
Production cost (NOK/boe)	22.2	23.3	22.4
Reserve replacement ratio (three-year average)	1.01	1.01	0.95
Environment²			
Oil spills (cubic metres)	442	186	288
Carbon dioxide emissions (million tonnes)	10.3	9.8	10.0
Nitrogen oxide emissions (tonnes)	34,700	31,100	29,900
Discharges of harmful chemicals (tonnes)	40	167	367
Energy consumption (TWh)	50.4	48.1	47.1
Waste recovery factor	0.76	0.76	0.67
Health and safety			
Total recordable injury frequency ³	5.1	5.9	6.0
Serious incident frequency ³	2.3	3.2	3.2
Sickness absence ⁴	3.5	3.2	3.5
Fatalities ³	2	3	2
Organisation			
Employee satisfaction ⁵	4.6	4.6	4.6
Proportion of female managers ^{6*}	25%	26%	23%
Union membership (per cent of workforce)*	72	73	70
R&D expenditures ⁷	1,066	1,027	1,004

¹ Key figures given in NOK million

² Data cover Statoil-operated activities. Definitions on pages 42, 44, 45 and 49

³ Data cover Statoil employees and contractors. Definitions on pages 23 and 25

⁴ Total number of days of sickness 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 2005.

Measures and results

This page contains a schematic presentation of a total of 32 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 2005	Results 2005	Planned measures 2006
Business ethics Page 12	Revise ethical guidelines and follow them up through information and training	Revised and published in a separate pamphlet. All entities in Statoil ASA have undergone training in ethics and social responsibility	Carry out anti-corruption training for selected groups. Create an e-learning programme on ethics and anti-corruption
The group and the employees Page 16	Increase the number of managers drawn from local staff in international operations	The number of managers recruited locally is stable	Target unchanged
Occupational health and the working environment Page 22	Customise the normal working day so that as many as possible can reach their agreed retirement age	No significant change in the retirement age. Average retirement age in 2005 was 62.2	Organise the working conditions to increase the actual retirement age. A special policy for older employees will be prepared
Safety Page 24	Achieve noticeable improvement in total recordable injury and serious incident frequencies	Total recordable injury frequency significantly improved (from 5.9 to 5.1), and serious incident frequency significantly reduced (from 3.2 to 2.3)	Target unchanged
Safety Page 24	Make the safe behaviour programme group-wide and carry out follow-up in all operational entities at least four times a year	The safe behaviour programme has been made group-wide	Continue to work on follow-up activities in the safe behaviour programme in accordance with the goals for 2005
Climate Page 42	Reduce annual greenhouse gas emissions by 1.5 million tonnes of carbon dioxide equivalent by 2010*	Measures which contribute 47% of the 2010 target were implemented by 31 December	Continue pursuing measures to achieve the target in 2010
Discharges to the sea Page 44	Zero harmful discharges to sea from oil and gas activities on the Norwegian continental shelf by the end of 2005	Planned measures implemented for most fields. A few fields had to postpone their measures until 2006	Implement outstanding actions to achieve the goal of zero harmful discharges to sea

* 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 how we run our business

Sustainable development is first and foremost about how we run our business. We aim to protect the environment, people and society and, through local spin-offs to help to develop the communities of which we are a part.

The above paragraph can serve as a manifesto for Statoil's contribution to sustainable development through the multi-faceted and extensive work being done throughout the group.

In this report we wish to communicate the challenges we face, the results we achieve and the goals we set ourselves. Most of the chapters in this report contain brief overviews describing concrete measures and results in the different areas of activity.

As Statoil has set up operations in more and more countries, the concept of social responsibility has become more extensive in content. In 2005, Statoil drew up a corporate strategy for social responsibility. The strategy was given a concrete and operational content in individual plans for each country, demonstrating how the manner in which we run our business gives meaning to the concept of sustainability.



Contents

Goals and ambitions	
Chief executive Helge Lund	2
The story of Statoil	5
Results and events in 2005	6
Values and governing systems	9
Values and leadership	10
Governing systems	11
Business ethics	12
People in the group	15
Labour relations	16
Development of employees and the organisation	18
Our suppliers	20
Occupational health and the working environment	22
Safety	24
Topic: Serious gas leak	26
Financial performance and effects	29
Topic: Snøhvit	36
The environment	41
Climate	42
Discharges to the sea	44
Biological diversity	46
Products	47
Research and development	50
New energy	52
Social responsibility	55
Strategy	56
Country plans	58
Dialogue and cooperation	59
Social investments	61
Topic: Akassa	62
Appendices	
Governing structure	65
GRI index	66
Report from Ernst & Young AS	69





Global challenges, local solutions

by chief executive Helge Lund

Statoil's commitment to sustainable development is first and foremost about how we run our business. We seek to create good financial results while at the same time maintaining high environmental standards and acting in a socially responsible manner. A good result on the financial bottom line is not sustainable if it is achieved at the expense of the environment and social responsibility.

Sustainable development is therefore about running a healthy business on the basis of values that can be applied in a practical and binding manner.

Five years have passed since we published our first sustainability report. We raised some important topics and issues in that report, which we have since worked on resolutely and systematically. We have reason to believe that we are on the right track in this work, since for the last two years Dow Jones has ranked Statoil the best company in the oil and gas sector in the world on its Sustainability Index.

The question of how we can help to meet the growth in demand for oil and gas, while at the same time reducing emissions of carbon dioxide, was high on the agenda in 2001, and it is currently perhaps the most central sustainability issue in the energy sector. Energy demand is increasing at a greater pace than previously forecast. At the same time, there is growing concern about the effects of the emission of greenhouse gases.

In Statoil we are working on many fronts to try to reduce the impact on the climate. We put a great deal of effort into running all our activities in the most energy-efficient manner possible. Kvitebjørn, one of our newest fields, is a good example. There, carbon emissions have been reduced by as much as 1.7 kilograms per barrel. The average figure for emissions from Statoil's offshore production facilities was 7.1 kilograms per barrel in 2005, while the average for the entire industry was 18.5 kilograms of carbon dioxide per produced barrel in 2004.

“We wish to contribute to greater openness”

We work purposely on the capture and storage of carbon dioxide. We are pioneers in this area through our work in the Sleipner area since 1996, and in the Snøhvit project off Hammerfest and in In Salah in Algeria. Together with Shell, we have recently launched a project to examine the possibilities of utilising carbon dioxide for improved oil recovery from two fields operated by our companies off the coast of mid-Norway. The project involves producing electricity in a gas-fired power station with carbon capture and utilising the carbon dioxide to improve oil production before it is finally stored in the sub-surface. In addition, the gas-fired power station will be able to supply several other fields with electricity. This will replace the platforms' own electricity production which currently emits carbon dioxide. It is an exciting project, and pioneering, in that it will make a strong contribution to solving the long-term problem of carbon dioxide emissions. But it is demanding because we are dependent on the commitment of other industrial players and the authorities.

We see it as recognition of our position in this area that we have been invited to be an important participant in the central EU initiative, aimed at reducing emissions of greenhouse gases. The EU believes that it is through the capture and storage of carbon dioxide that it can achieve its ambitious goals for reduced emissions.

We support the Kyoto mechanisms, which we regard as being an important tool for the achievement of cost-efficient reductions in emissions in the short term.

Social responsibility now forms an integrated part of the business process in Statoil. Our experience and our results are based on our leading position in Norway. As a result of Statoil's successful internationalisation, our continued success in contributing to sustainable development and demonstrating social responsibility will be increasingly dependent on our ability to comply with our corporate values and maintain our standards in all the countries in which we operate.

The values and principles on which Statoil's activities are based are universal. However, compliance in practice and concrete measures will necessarily vary and must be adapted to meet the challenges and realities in the individual countries. This may prove demanding, but even in areas where our freedom of action is formally limited, Statoil's activities still build on respect for basic human rights.

Efforts aimed at shaping attitudes and promoting values are important in Statoil. In the autumn of 2004, we further developed the group's values and leadership approach in order to make our values base clearer. In 2005, we worked to instil these values throughout the organisation. We followed up this work by updating our ethical guidelines. All entities in the parent company, Statoil ASA, have completed training in ethics and social responsibility, and the updated guidelines have been made available in our publications. Our attitude to corruption is uncompromising, and we have carried out a comprehensive programme for managers with a view to making them more proficient in combating corruption.

“Our attitude to corruption is uncompromising”

“ Our individual country plans for social responsibility are an important tool ”

In 2005, we drew up a group strategy for social responsibility. The strategy is an important tool in ensuring compliance with our values and with external commitments such as the Global Compact's 10 principles that cover the areas of human rights, workplace standards, the environment and combating corruption. The Global Compact is a voluntary collaboration between the UN, organisations and companies aimed at achieving commitment to sustainability.

Statoil's strategy for social responsibility highlights three target areas: transparency, human rights and labour rights and local spin-offs. These priorities reflect the areas in which we see fundamental challenges in a number of petroleum-rich countries, and in which we as a group believe we have the means to help create positive development.

We wish to contribute to greater openness about our own business activities and to influence the industry and various authorities to follow the same path. Openness about financial transactions will reduce the risk by helping to create greater stability in our framework conditions and it will make the business more resistant to corruption. One important tool is the publishing of financial key figures from the countries in which we operate. We are at the forefront of the industry in this area. Statoil believes that corruption and closed processes in many countries are still the greatest obstacles to the effective realisation of the potential for national development that lies in the existence of petroleum resources.

Our efforts on human rights and labour rights cover a broad spectrum and aim to ensure compliance in areas in which Statoil has primary responsibility, and to ensure that the group is not inadvertently complicit in violations in these areas. The award of the World Petroleum Council's prize for best social investment project in 2005, as a result of our involvement in the Akassa project in Nigeria, serves to illustrate that we are succeeding.

Through its core activity Statoil creates jobs and contributes to the development of expertise, the development of technology, high standards and good values, in addition to generating tax revenues and the efficient production of energy. Through conscious choices and programmes, and through cooperation with local and international players, Statoil wishes to help create further positive local spin-offs.

Our individual country plans for social responsibility are an important tool in realising our ambitions, on our own behalf and on behalf of the societies in which we work. We drew up the first plans in 2005. They will be integrated into business planning in each country and will provide practical solutions to the challenges relating to social responsibility.

Sustainable development is primarily about how we run our business. Delivering financial results that are not compatible with our values base is not sustainable and will not be accepted. Good financial results and expertise make it possible to develop increasingly energy-efficient and environmentally friendly solutions.

Taking social responsibility and sustainable development seriously means that we can be trusted. This means that we must act with integrity, both as a group and as employees.

The story of Statoil

Statoil was established in 1972 by a decision of the Storting (Norwegian parliament). The Norwegian state owned 100% of Statoil, which was assigned the role of the government's business tool in the development of oil and gas activities in Norway.

In 1974, Mobil discovered the Statfjord field in the North Sea, and this had enormous significance for Statoil's development. The development of Statfjord, one of the world's largest offshore oil fields, presented huge challenges for the company. Statoil's ownership interest is 44%. The field started production in 1979, and Statoil took over as operator eight years later.

Statoil became a major player in the European gas market in the 1980s, through entering into comprehensive contracts and developing and operating gas transport systems and terminals.

In the same decade, Statoil became heavily involved in processing and marketing in the Scandinavian countries, and it acquired an extensive network of service stations. In Denmark and Sweden, this was achieved through the acquisition of Esso's petrol stations, refineries and petrochemical industry.

Technological development took place at a rapid rate on the Norwegian continental shelf (NCS), and in the 1990s Statoil became a leading company in floating production facilities and subsea developments. The company experienced strong growth, expanded in the product markets and invested in international exploration and production in an alliance with BP.

Statoil was partially privatised and listed on the stock exchanges in Oslo and New York in 2001. The company strengthened its position on the NCS, and international exploration activity and production are growing strongly as the decade progresses.



Minister Anne Enger Lahnstein on her way to a press conference together with Statoil's chair of the board Ole Lund and chief executive Harald Norvik. The date was 13 August 1999. Statoil proposed that the company be listed on the stock exchange, allowing private owners to buy shares.



The Statfjord field was of huge importance to the company's development. The decision by the Storting (parliament) in 1981 to grant Statoil operator responsibility for the development and operation of the Gullfaks field, and for the Statpipe transport system with a gas terminal at Kårstø, was also very significant.

Facts about Statoil

Statoil is an integrated oil and gas company based in Norway, and represented in 33 countries. Total revenues in 2005 were NOK 393 billion. The group had 25,644 employees at the end of the year.

Statoil is operator for 60% of Norwegian oil and gas production, and it is also experiencing strong growth in its international production.

Production outside Norway accounted for 16% of Statoil's total production in 2005. Total production amounted to 1,169,000 barrels of oil equivalent per day, which corresponds to between five and six times Norway's oil consumption.

Statoil is one of the world's largest sellers of oil, and it is a significant seller of natural gas in the European market.

Statoil is involved in considerable industrial activities and the sale of refined products, and it has 2,000 service stations in the Scandinavian countries, Ireland, Poland, the Baltic states and Russia.

Statoil is one of the world's most environmentally efficient producers and transporters of oil and gas.

The group's goal is to create value for its owners through profitable and safe operations and sustainable business development.

Results and events in 2005

Best annual profit so far

In 2005, Statoil made a profit after tax of NOK 30.7 billion. This is the group's best ever profit, and the strongest ever delivered by a Norwegian company. The dividend per share was NOK 8.20 compared with NOK 5.30 in 2004.

Positive spin-offs

Statoil's business creates substantial economic spin-offs. In 2005, direct and indirect taxes amounted to NOK 89 billion. By comparison, the total cost of education in the Norwegian national budget for 2006 is NOK 96 billion.
(page 30)



Fewer injuries

Statoil's safety indicators show a positive development in 2005. There was a significant reduction in the number of serious personal injuries and serious incidents, compared with 2004.
(page 25)

Two fatalities

Two contractor employees lost their lives in 2005. One of them was working on the Kristin platform, and the other on a tanker at the Mongstad oil terminal.

Cleaner production

Discharges of potentially environmentally-hazardous chemicals from Statoil-operated activities on the Norwegian continental shelf were reduced by 76% from 2004 to 2005 as a result of focused and systematic efforts. Improvement efforts will continue in 2006.

(page 44)



Best again in terms of sustainability

For the second year in a row, the Dow Jones' Sustainability World Index ranked Statoil as the world's best company in the oil and gas sector in terms of sustainability.

Prize to community project

Since 1997, Statoil has supported a development project in Akassa in Nigeria, based on substantial local involvement and participation in both planning and operations. For its contribution, Statoil received a distinction from the World Petroleum Council for best community project in 2005.

(page 62)

Values and ethics

Both our fundamental values and ethical guidelines have now been published in separate publications. A number of other communication measures have been carried out in order to make our corporate values and ethical guidelines known.

(pages 10 and 12)

Fined following gas leakage

In November 2005, Statoil was fined NOK 80 million in connection with a serious gas blowout on the Snorre A platform in the North Sea, which occurred in 2004. The Petroleum Safety Authority Norway's investigation uncovered 28 breaches of the regulations. A number of measures have been implemented following the incident.

(page 26)



Strategy and plans for social responsibility

Statoil has adopted a strategy for social responsibility that is built around the target areas transparency, human rights and labour rights and local spin-offs. The strategy is being followed up through plans for each of the countries in which we operate.

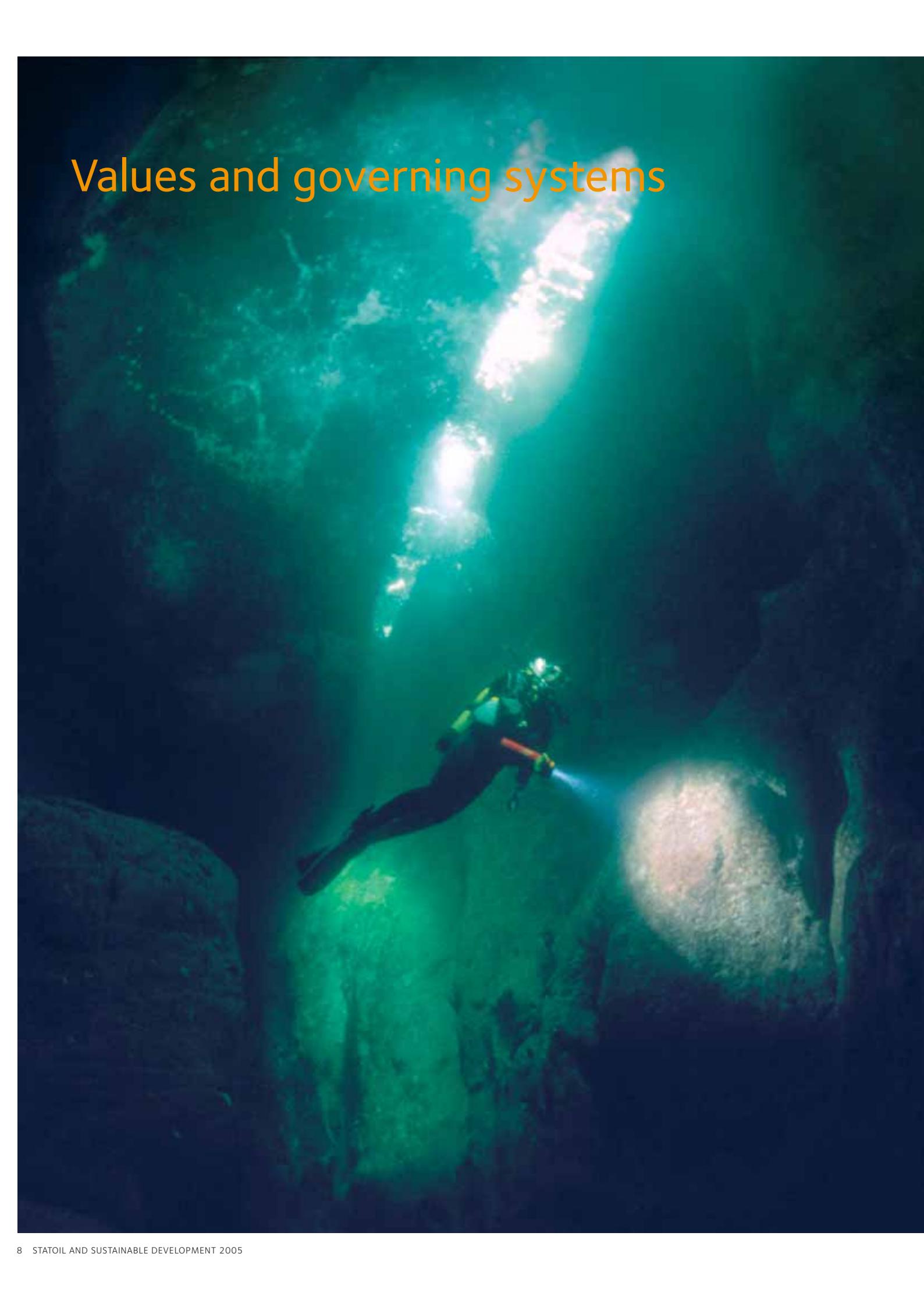
(page 56)

Finding carbon solution is demanding

Statoil is considering whether to use the injection plant in the Sleipner area to store carbon dioxide from gas-fired power stations and other sources. However, achieving profitability and finding good technical solutions will be a demanding job.

(page 43)

Values and governing systems



Sustainable development is about running a healthy business on the basis of values that can be applied in a practical and binding manner. This quote from chief executive Helge Lund in the foreword to this report also serves as a suitable introduction to the contents of this chapter.

Statoil's values and leadership approach were updated in December 2004, and we have communicated their content by a number of means in 2005. The values document *We in Statoil* has been translated into 18 languages.

We have also revised our ethical guidelines, and all entities in Statoil's parent company have completed training in ethics and social responsibility. Four hundred managers have participated in seminars on combating corruption.

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Values and leadership

Our values and leadership approach are described in the document *We in Statoil*. The document was revised and further developed in December 2004 and it provides clear guidelines for the business culture we wish to develop together.

Business culture and characteristics

We wish to develop a business culture characterised by:

- Being imaginative, through fostering the ability to learn and adapt to changes more quickly than our competitors
- A hands-on approach to tasks and people, having the ability to get things done and see them through
- Being professional, by choosing the right solutions on the basis of commercial awareness and being customer-oriented
- Truthful, by communicating openly and accurately. This means that we address ethical and other important dilemmas immediately
- Caring, by conducting our business in an ethically justifiable, sustainable and socially-responsible manner.

Introduction of the values base

The new *We in Statoil* document was introduced in the organisation in 2005 through an extensive communication process. The preparation and execution of implementation plans for the group and the individual business areas had high priority. Important activities included:

- Translation of *We in Statoil* into 18 languages
- Development of a number of communication tools and aids, such as films, e-learning programmes, dialogue tools and presentation packages
- Internal and external communication using Statoil's intranet and other electronic media and printed publications
- Discussions about *We in Statoil* in work teams and groups throughout the organisation, as well as with our suppliers and partners
- Clarification of the values base through management presentations
- Statoil's ethical guidelines have been updated and published in the document *Ethics in Statoil*. Training in ethics has been carried out in large parts of the organisation
- *We in Statoil* has been used in promotional activities aimed at the job market in Norway and other countries.



www.statoil.com/we_in_statoil

Establishing the values

Our values and leadership approach have been integrated into our new personnel and career development system. They will be used as the basis for recruitment, selection, performance appraisal and the development of management expertise. Our managers are evaluated and rewarded as much on the basis of the manner in which they achieve results as the results themselves. Our values are not just for internal use, but will also form a basis for creating trust and developing good relations with customers, suppliers and partners and in the job market. This means actively applying our values in collaborative meetings with suppliers and partners, and using them to develop a strong reputation as an attractive employer.

Binding values

Our values and leadership approach describe behaviour and qualities that act as guidelines for how we meet challenges, attend to our customers and our social responsibility and create new business opportunities. Our values are binding.

Planned measures 2005	Results 2005	Planned measures 2006
Communicate revised values base throughout the organisation. Incorporate these values in our tools and processes for human resources and organisation	Carried out	New e-learning programme and DVD for all employees and important suppliers and partners. Purposeful communication in internal publications. Monitor understanding and compliance through systematic follow-up

Governing systems

Good corporate governance is a prerequisite for the ability to manage risk and create value for the owners through profitable operation and sustainable business development.

The guidelines and standards that form the basis for the group's operations define a framework for how we create economic and social development and take account of environmental considerations. We demonstrate social responsibility in the manner we run our business and exercise leadership and good judgement.

We apply a management model in which responsibility is divided between the chief executive and the board of directors. This structure ensures the independence of the board in its work of monitoring how the group is managed and the processes relating to strategic planning and risk management. Together with the group's other management and control systems, this institutional structure is important for ensuring financial, social and environmental value creation.

Good corporate governance is intended to ensure efficient use of the group's resources and result in the greatest possible value creation in the best interests of employees, shareholders and the communities in which the group is integrated. It will also help to strengthen the group's reputation and society's acceptance of our activities.

Statoil's principles and guidelines for corporate governance are discussed in detail in the annual report and accounts, page 54.

Statoil's management and control model is based on thorough group-wide processes, and on the chief executive, through meetings, ensuring uniform decisions that are followed up in the individual business areas. Arenas and networks have been established which assist the business entities in connection with quality assurance and establishing best practice.

Participation and confidence

Employee participation is ensured through the group's works councils or other employee representation. In addition, being represented on the board of directors gives the employees an opportunity to exercise influence.

The employees' views on management and organisational matters are expressed in Statoil's working environment and organisation surveys, which have been carried out annually since 1986. The survey is an important measurement tool for identifying developments in the group with respect to compliance with our values, management skills, satisfaction with the working environment and other aspects of the enterprise. The results of the survey are anonymous and cannot be traced back to individual employees. There has been an 85% response rate in recent years.

The results of the survey carried out in the autumn of 2005 show that Statoil is consistently considered to be trustworthy and to have a good working environment. The employees are able to utilise their expertise, and they feel that there are good career opportunities and that HSE issues are given high priority in the workplace. Since 2004 we have made progress in several areas:

- There is a marked increase in confidence in the corporate executive committee, which has never been at a higher level.
- The belief that we will succeed in our international ambitions has never been stronger.
- Pride in working for Statoil is at a record level.



Jorge Camargo
Statoil's country manager in Brazil

What are the most important measures required to ensure that companies' social responsibility amounts to more than just "window dressing"?

We are just starting to build a Statoil business in Brazil. We are convinced that Statoil has all it takes to be successful in this country. This includes a strong reputation as a group that takes sustainable development seriously. Our ambition is to build a core area in Brazil and, at the same time, preserve and benefit from Statoil's distinctive and admired social responsibility heritage built in Norway.

Social responsibility initiatives are indeed often perceived as just "window dressing", and frequently that is all they are. In my view, to avoid this perception it is fundamental to treat corporate social responsibility (CSR) not as a philanthropic exercise, but as a "normal" business process, with clear business objectives, such as understanding and mitigating political risks and as an important component of the licence to operate. Once clear business objectives are established, we can plan, execute and check as effective companies do in all other business processes.

- There is a reduction in work-related strain, and fewer employees have health problems attributable to their work situation.
- Career opportunities in Statoil are seen as having improved.

The only areas in which we see a slight decline relate to whether the work is adapted to the individual employee's capabilities and whether employees experience the working environment as supportive, with good relations between colleagues.

Risk management

Project development and operation of Statoil's activities must be carried out in a safe manner. We work continuously on managing risk. In the area of project development, a group-wide initiative was implemented in 2005 which aims to raise the quality of work on project execution to a level that can compete with the best. One element of this work consists of identifying risk elements at an early stage in work processes to enable the implementation of measures.

Country risk

A separate analysis model has been in use since 2003 in all large projects in countries with moderate to high country risk. The model makes it possible to carry out transnational comparisons of projects and investment opportunities. In 2004, Statoil started work on measuring risk to reputation and integrating reputation risk management into decision-making processes. This work is demanding and will be completed in 2006.

Certification

In the autumn of 2002, the Statoil group's management and control system for overriding management and control was certified in accordance with the ISO 9001 standard. Recertification was completed in the autumn of 2005 for three more years.

A certification audit was also carried out in relation to ISO 14001, which covers environmental issues. A few matters remain to be corrected before the group's management and control system can be certified in accordance with ISO 14001.

All central operational entities have been certified in accordance with ISO 9001 and ISO 14001 as of August 2005. A number of other entities have also been certified.

Business ethics

In 2004, Statoil revised its corporate values and leadership principles published in the booklet *We in Statoil*. In 2005, the ethical guidelines were revised in order to meet new challenges and incorporate national and international amendments of laws and regulations. Statoil's ethical rules have been published in a separate booklet, *Ethics in Statoil*, which also contains questions and answers relating to issues that employees may experience. Chief executive Helge Lund writes in the ethics booklet that Statoil is to be known for its high ethical standards. Breaches of laws and ethical guidelines are a threat to the group's competitiveness and reputation. It is therefore just as important to set requirements for ethical behaviour as it is to set business goals.

Combating corruption

Four hundred managers have participated in seminars on combating corruption. The seminar covered

Norwegian and American anti-corruption legislation in addition to Statoil's own requirements. The emphasis was on reviewing and discussing concrete issues. In 2006, training will be given to groups of employees who may be particularly exposed to corrupt behaviour in their jobs. This concerns employees who work on procurements and contracts, and who work in geographical areas with a high risk of corruption. Approximately 1,000 managers and employees will complete this training in 2006.

A web-based training programme on ethics will be produced during the first six months of 2006, focusing on combating corruption in particular. The programme will be an important part of the regular training that Statoil provides for all its employees.

Anti-corruption programme

From 2006, the activities will be concentrated in one programme. Every business area will establish action plans on the basis of the programme. Their own personnel will be responsible for supervising and giving advice regarding carrying out and following up activities. They will be part of a professional network led by Statoil's senior vice president for corporate audit.

Ethics committees have been established which are comprised of the corporate executive committee and the management teams in the business areas, respectively, in addition to relevant staff managers. Through regular meetings, the committees will ensure that ethics are subject to a high level of focus and that uniform understanding and practice are established with respect to complying with guidelines and requirements.

Companies' integrity

When assessing the risk of corruption, it is important to understand and be familiar with local conditions and business cultures and to have sufficient knowledge of the players with whom it is necessary to have dealings. Before entering into agreements with a partner, agent or contractor who is not known to Statoil or in the industry as being honest and competent, an integrity due diligence assessment of the company must be carried out. In 2005, Statoil implemented more than 40 integrity due diligence assessments.

Ethics helpline

At the turn of the year 2004–05, a permanent ethics helpline was established following a trial period. Employees in all countries in which Statoil does business can report ethical problems that they come across in their place of work. During 2005, the ethics helpline received 110 queries, of which 62 were general inquiries and questions. Forty-eight queries were investigated further.

Statoil's pension fund

Statoil clarified its ethical guidelines in 2005 for the management of the company's pension fund and insurance company. For several years the company has had a policy of not making investments that are in conflict with what is ethically and environmentally responsible. Starting in 2005, it has been decided to use the same guidelines as used by the Norwegian Government Pension Fund – Global.



Advice on ethics from the chief executive

Here are three tips from Statoil's chief executive Helge Lund, reproduced in the new ethics booklet:

- Make sure your actions are comfortably within the law and our own ethical guidelines. Operating in a grey zone increases the risk of things going wrong.
- Be open with regard to ethical issues. If you are in doubt, talk with your colleagues or raise the issue with your leader.
- Spend sufficient time on difficult decisions. The wrong decisions are often taken when things have not been thought through properly, and you allow yourself to be pressured into taking a rash decision.

Planned measures 2005	Results 2005	Planned measures 2006
Revise ethical guidelines and follow them up through information and training	Revised and published in a separate pamphlet. All entities in Statoil ASA have undergone training in ethics and social responsibility	Carry out anti-corruption training for selected groups. Create an e-learning programme on ethics and anti-corruption
Establish ethics committees in the business areas	Carried out	

People in the group



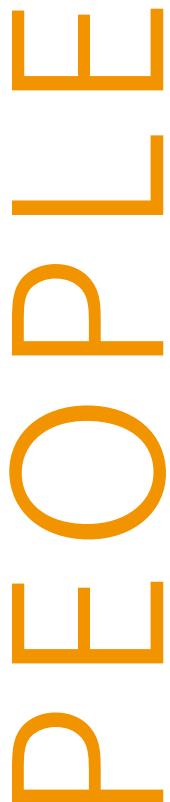
Statoil's employees are the group's basic capital. The sections under the heading "People in the group" describe how Statoil takes care of and develops this basic capital.

It is about principles and mutual trust, about the workplace standards that Statoil commits itself to and about dialogue and cooperation between the group and its employees.

It is about recruitment, manager and employee development, developing expertise and the training offered by the group for example, by the Statoil School of Business and Technology, which had more than 50,000 course participants in 2005.

It is about how Statoil cooperates with suppliers. They make a significant contribution to our results - financially, technologically and in terms of health, safety and the environment (HSE).

Good HSE results are very important to the group's profitability and reputation, and they affect the working environment. The first sentence in the section on occupational health and the working environment leaves no room for doubt: "A good working environment is important for the individual employee and crucial if our group is to reach its goals".





Tor Fjærer
Senior vice president for
the environment, Statoil

Will the relationship between the oil industry and the NGOs become closer as the decade progresses?

Statoil has an open dialogue policy with regard to all interest groups with links to the group's activities. We would like this to be a concrete dialogue that addresses relevant environmental topics related to business issues. In 2005, Statoil therefore pursued a more purposeful collaboration agreement with the Norwegian environmental organisation Bellona, with the far north and climate as common topics. We have also signed an agreement with the Norwegian Society for the Conservation of Nature to increase knowledge about environmental challenges, particularly within marine biology.

I believe that a closer and more concrete collaboration will, over time, contribute to a better understanding of each other's roles and positions, thereby bringing us closer to each other with a common goal to find better environmental solutions.

Those of us who produce fossil fuels represent a significant part of the climate challenge. Acknowledgement of this and the determination to find solutions are prerequisites for closer collaboration. Statoil's international operations are growing, and an open and constructive dialogue related to the environmental challenges facing us is an area where a closer collaboration with local and international NGOs would be positive for both parties in general, and the environment in particular.

Labour relations

Internationalisation entails new challenges for the group, employees and collaborative relations.

Open borders, the EU's internal job market, increased international competition for contracts and imbalances in local and national job markets mean that workers take work in other countries for both shorter and longer periods more frequently than before. A scarcity of qualified labour in certain local job markets will also affect the organisation and location of tasks.

Statoil is affected by this development:

- We are required to put our contracts out to international tender. Debate often arises in this connection about the extent to which differences in salary levels between countries decide who is awarded the contracts.
- Our contractors and their sub-contractors utilise labour from different countries to a greater extent than previously. This involves challenges relating to employees' local wages and working conditions compared, for example, with what is laid down in Norwegian collective agreements.
- We must consider whether we are correctly organised with respect to what tasks we carry out ourselves. A lack of qualified labour will have an impact on the organisation and localisation of tasks.

Statoil meets these challenges along two main lines:

- In-house, we maintain an open dialogue with our employees about the challenges and how they can best be met to the advantage of both the group and the employees.
- We make it clear to our contractors that they must comply with statutory legislative agreements and maintain well-ordered working conditions for their employees.



Statoil has employees from 49 countries. Altnay Zhazykpayeva from Kazakhstan is responsible for liaising with the authorities there.

Our principles

Statoil is committed to a set of labour standards and to dialogue and cooperation between the group and its employees. We believe this contributes to creating a positive working environment that stimulates development. A good age spread, a reasonable balance between men and women and different cultural backgrounds will also have a positive effect on the working environment and the organisation's ability to change and develop. In step with increasing internationalisation, the level of trust in the group will also depend on our complying with and following up international standards for working conditions.

We support fundamental labour standards based on international conventions:

- Freedom from forced labour
- Abolition of child labour
- Freedom from discrimination in the workplace
- The right to form unions and engage in collective negotiations

These central principles are laid down in the ILO's conventions. They are also reiterated in the UN's partnership programme with the international business community, the Global Compact, which Statoil has endorsed. The principles also form a basis for the group's HR policy, which aims to ensure fair working conditions for our employees in both the parent company and our subsidiaries.

Low employee turnover, especially in the parent company with a rate of less than 1%, is also an indication that working conditions are considered to be good. In the downstream business, where turnover has traditionally been high, we are endeavouring to reverse this trend. This has produced positive results.

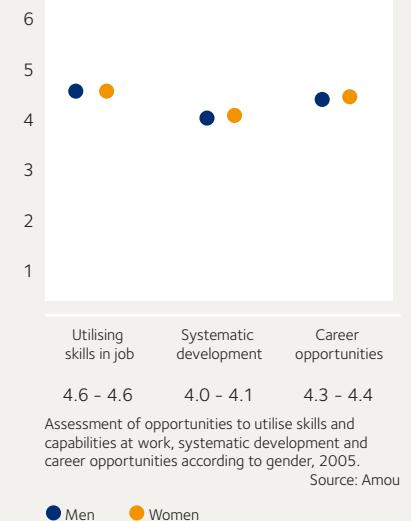
Statoil has a share saving plan for its employees. The plan has nearly 70% participation in the parent company, and there are participants in an additional 11 countries. The high level of participation in the share saving plan indicates belief in the group's prospects.

External dialogue

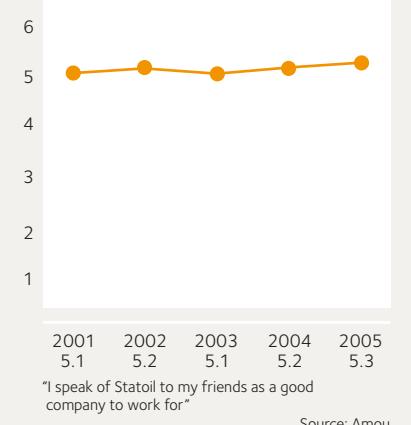
Statoil is in dialogue with external interest groups about issues concerning working conditions. One important partner is the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), which is a global federation of trade unions with 20 million members in 122 different countries. Since 1998, we have had an agreement on the exchange of information with the ICEM.

Planned measures 2005	Results 2005	Planned measures 2006
Reach the goal of women in 20% of managerial positions in the business areas	The female proportion of managers in two of five business areas is below 20%	Target unchanged
Introduce group-wide guidelines for recruitment during the first six months of 2005	Carried out. Will be implemented once a joint personnel policy for the group is in place	Draw up joint personnel policy for the group
Increase the number of managers drawn from local staff in international operations	The number of managers recruited locally is stable	Target unchanged
Further develop and improve the efficiency of the Statoil School of Business and Technology in relation to commercial targets	An improvement programme for the further development of the school concept, methods and technology has been instigated	Establish the Project Academy for the development of Statoil's project expertise
Devise and implement a common group system for determining targets, performance and development of managers and employees	Carried out	To be further developed in 2006 by establishing, among other things, a common expertise module in the group and carrying out a full survey of all employees with regard to the group's values

CAREER OPPORTUNITIES



PRIDE IN WORKING FOR STATOIL



The Statoil School of Business and Technology

The Statoil School of Business and Technology is the group's instrument for developing and implementing organised training programmes. It consists of one school for each business area, nine network schools and the central training centre in the corporate centre. The schools cooperate closely with each other.

Employees have access to courses through a joint learning portal. In 2005, there were more than 41,000 participants in courses, with a combined total of almost 94,000 student course days. In addition, more than 11,000 new participants were registered for e-learning programmes. In 2006, the learning portal will be directly integrated into Statoil's process for personnel and expertise development, People@Statoil.

The group's joint manager development programme is part of the Statoil School of Business and Technology. In 2005, 306 managers took part in different development programmes, and 40 management teams have used the scheme for team development purposes. An anti-corruption seminar for 400 managers which Statoil developed itself was also held in 2004 and 2005. The seminars will continue in 2006.

Statoil's ambitions for international growth and the group's business activities in 33 countries require increased internationalisation of the Statoil School of Business and Technology. The ambition is to establish training solutions which can serve all employees irrespective of geography. In order to achieve this, a comprehensive improvement programme has been initiated to further develop the school concept, including the use of new methods, learning environments and technology.

Development of employees and the organisation

Statoil's international ambitions and developments on the Norwegian continental shelf and in the far north mean that the group will need to recruit externally in the years ahead. There is an increasing need for personnel within the discipline areas of exploration, production, drilling and well operations, and business development. In addition, there is a need for operations personnel in connection with activities in Norway.

Our international activities are becoming more important and more demanding in terms of resources. This involves concrete challenges relating to organisation and recruitment. There is increased competition for talented individuals. We place strong emphasis on being a group that offers challenging jobs and good opportunities for development. Through systematically sharing and utilising expertise in our daily work and through our internal job market and management of key personnel, we wish to ensure good utilisation of the group's combined expertise. Besides building a strong culture based on common basic values, we also use several methods to ensure that experience and best practice are shared.

Individual employee development

Our current organisation will require renewal of expertise and labour. The requirements relating to our ability to utilise expertise across the group will also increase.

The annual performance evaluation and planning discussion between employees and their managers is used to plan the development of the employee's skills. Our overall process for personnel and expertise development, People@Statoil, which will be operative in 2006, will improve our routines for evaluating and following up performance. This will be done by assessing both the concrete results achieved and the behaviour relating to the achievement of the results.



Staff engineer Rigmor Myklebust works in the Snorre reservoir management entity. She is shown here in conversation with colleagues at a seminar for all Statoil employees with geological expertise.

Incorporation of learning programmes

The development of expertise will primarily take place through on-the-job training and experience transfer. Structured courses and other joint training programmes are part of business support. The Statoil School of Business and Technology ensures that training programmes are incorporated in a system, enabling us to utilise the total expertise in the group.

The project academy

As part of the Statoil School of Business and Technology, a project academy has been established which is intended to contribute to strengthening Statoil's position as one of the top companies in project development. The academy is based on Statoil's extensive experience of developing expertise in project management. Programmes are available in basic project subjects and project management as well as more specialised programmes. A new programme dealing with management of the biggest and most complex development projects is under development.

Sharing expertise

Our managers and discipline experts both lead and develop programmes in the Statoil School of Business and Technology, and they are thereby able to share their expertise with others. Our discipline networks, especially within the technical disciplines, will contribute to the spread of knowledge. Close collaboration between our research activities and operating entities is important in order to ensure that we prioritise relevant research and development activities and are able to quickly utilise new solutions.

Double the number of trainees

By following a structured course of development, Statoil's trainee programme will cover parts of the group's long-term expertise requirements in selected discipline areas. We recruited 24 new participants in 2005, 10 of whom were from countries other than Norway. During the course of two years, the participants gain comprehensive job experience and complete a number of training modules.

The goal for 2006 is to increase the number of trainees in the programme to 50 and to recruit new talents with an international background who have either lived or studied outside their home countries. Statoil's trainee programme was also voted the most popular in 2005 by Norwegian students in the Universum Graduate Survey. In the same survey, Statoil has been voted the most attractive employer nine years running by Norwegian technology students and four years running by students of economics.

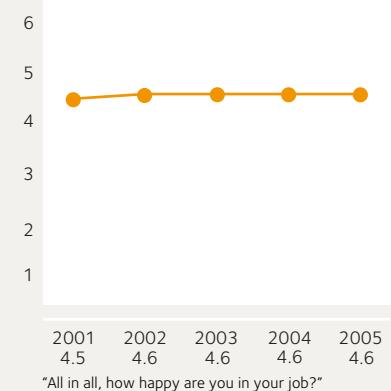
Norway's biggest company for apprentices

The parent company Statoil ASA takes on many apprentices, and has a stable and high level of training of skilled workers. In 2005, we took on 129 apprentices. At the end of 2005 we had 269 apprentices training in 11 different trades. A scheme for candidates with practical experience also gives employees in Statoil an opportunity to take trade certificates by documenting sufficient, relevant practice and theory.

Collaboration with the academic world

The summer project, which has been organised since 1998, is a collaborative project between Statoil and various Norwegian universities. The project allows students to experience working in an industrial company, and emphasises different work processes and work in interdisciplinary teams. Statoil in turn gains insight into new ways of thinking and new expertise being developed in the academic world. In 2005, 80 students participated in the summer project on a total of 19 different project tasks. Statoil's collaboration with academic institutions on knowledge and experience transfer and research has an annual budget of NOK 50 million.

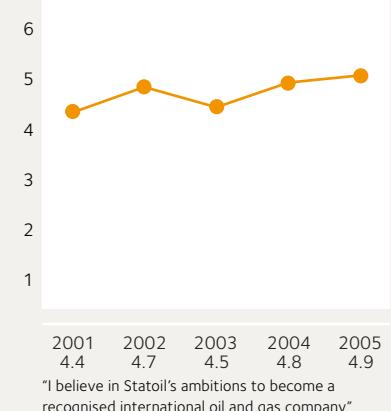
JOB SATISFACTION



KNOWLEDGE AND SKILLS



STATOIL'S AMBITIONS





John Elkington, founder and chief entrepreneur, SustainAbility

Is the relationship between the oil industry and NGOs likely to become closer in the coming decade?

The honeymoon is over for business-NGO partnerships. 2015 neatly – uncomfortably – coincides with the time-scale for completion of the UN millennium development goals. Uncomfortably because in 2015 the world will be forced to admit at least partial failure on most MDG commitments. As the decade proceeds, an acceleration in partnership formation can be expected, paralleled by a dramatic deepening in the capacity of major NGOs to evaluate and select corporate partners.

Like marriage, business-NGO partnerships are here to stay, but their nature will mutate. The energy industry now faces its greatest challenges since the 1970s as the world grapples with the realities of climate change. Meanwhile, increasingly urgent energy demands from the emerging economies will drive the development of fossil fuel resources in remote, ecologically sensitive and politically unstable regions. Industry-NGO partnerships will be a necessary, but not sufficient, condition for success – particularly joint lobbying for changes in regulatory, fiscal and tax regimes to spur the sustainable energy transition.

Our suppliers

On a global basis Statoil has 24,899 suppliers, and it purchased goods and services for NOK 62.8 billion in 2005. This figure refers to goods and services used by Statoil in its capacity as operator for oil and gas exploration and recovery, development projects and the operation and maintenance of offshore and onshore facilities. It does not include purchases of crude oil, refined products, gas, methanol, real property or other goods for resale.

The suppliers are substantial and important contributors to Statoil's value chain. They account for roughly 95% of total resource consumption in drilling and well activities, 90% in the projects, 65% in manufacturing and marketing, 60% in the day-to-day operation of the facilities and 50% in research and development.

In 2005 Statoil continued building firm and close relationships with its suppliers. It also updated its governing documents, adding requirements and guidelines for procurement and supplies. These requirements and guidelines specify the relationship with the suppliers and describe how the supply process should be conducted.

All suppliers to Statoil must be qualified for the procurement in which they are involved. To ensure real competition there must be a sufficient number of bidders. Qualification must be documented and include:

- Supplier's previous experience
- Ability to meet technical and operational requirements
- Requirements for HSE management
- Requirements for quality assurance
- Commercial and financial circumstances

Statoil's suppliers must always act in accordance with local legislation while also satisfying Statoil's



At most, there have been 40 nationalities working for supplier companies on contracts for the Snøhvit project on Melkøya outside Hammerfest.

requirements regarding, among other things, labour rights and ethics. Statoil supports measures carried out by the suppliers to meet Statoil's standards. If possible, suppliers should be selected on the basis of clearly defined acceptance criteria in these areas.

The oil companies on the Norwegian continental shelf have jointly established a scheme for qualification of the suppliers of goods and services.

Statoil has set up a working group to evaluate how it can implement requirements in its international activities to ensure that its suppliers comply with local legislation as well as Statoil's ethical and qualification requirements. Work is also being carried out in cooperation with the industry's associations and organisations to formulate requirements for suppliers in other types of contract.

The no-double-role principle must be adhered to in procurement processes. In relation to our suppliers this also applies to conflicting roles and disqualification. If the supplier is not known to Statoil, either by good reputation or directly, the supplier's integrity must be clarified. The objective of this is to obtain important information about the supplier and to evaluate the potential ethical risk involved in entering into a business relationship.

Health, safety and the environment

Central suppliers and suppliers of particularly important goods and services must be HSE-qualified for the work. The qualification may be general and independent of specific deliveries, or it may be related to a specific job. The suppliers must plan their activities in a manner that ensures that they comply with Statoil's requirements and standards for health, safety and the environment. The suppliers must therefore have documented systems that safeguard Statoil's control and follow-up requirements.

Statoil has developed a programme for better safety based on understanding one's own behaviour and potential risks – the safe behaviour programme. This programme also includes our suppliers' employees. At the end of 2005, approximately 10,000 persons from our supplier companies had participated in this programme.

New countries

In some of the countries where Statoil operates, the authorities have set minimum requirements regarding local content in procurements. Statoil works out procurement plans that take account of such requirements before it has a need for goods and services in the country involved. The procurement plans link the local authorities' requirements to Statoil's overriding requirements. Statoil is also working to promote local deliveries at the places where it conducts its activities.

Contact with suppliers

At corporate level, Statoil has established a forum – the Statoil Management Forum – for collaboration with its suppliers. In this forum, representatives from Statoil's corporate executive committee have regular meetings with the company's biggest suppliers.

The purpose of the Statoil Management Forum is to support day-to-day collaboration between Statoil and its suppliers. The forum will serve to highlight what is working well, but will also allow for openness and for frank discussions on improvements in areas where the collaboration is not working well.

Each autumn, Statoil organises an offshore supplies industry day. This is attended by a wide range of Statoil suppliers from the whole value chain, and attracts great interest. Representatives from the authorities also participate along with the suppliers. The event is important to Statoil, and it provides a good opportunity to inform people about what is happening in the group.



Tobias Webb
Editor, Ethical Corporation

Is the relationship between the oil industry and the NGOs likely to become closer in the coming decade?

Yes, it will. Corporate sustainability is also about learning in a collaborative way. Organisations that do not evolve inevitably die, usually in less than 40 years in the case of large companies. Therefore companies must continually evolve their thinking and innovate.

To do this they must be engaged in continuous learning. In order to learn in the networked, globalised world, they must collaborate with outside actors, such as NGOs, and the knowledge must be shared.

Collaboration is just beginning between corporations and NGOs. Early collaborations are beginning to show that companies and NGOs can learn much by working together. This knowledge must be shared with others for the good of all. The next stage of development will be for governments to act as catalysts for more such partnerships, and to further explore their role both as referee and encourager of consumer awareness of sustainable development challenges and solutions.

Working environment survey

The employees' assessments of leadership and organisational issues are documented in the annual working environment and organisation survey (Amou). This measurement tool maps developments in the group with regard to compliance with our values, leadership skills, satisfaction with the working environment, and other sides of the business. The results of the survey are anonymous and the response rate has been around 85% in recent years.

The results of the Amou survey in the autumn of 2005 indicate that Statoil enjoys good positions of trust among the employees and a good working environment. The employees feel that HSE issues at the workplace are high on the list of priorities. Progress has been made since 2004 in several areas. For example, a reduction in the workload has been recorded, as well as a reduction in the percentage of employees suffering from health problems that may be attributed to their work situation.

Areas in which we note a slight decline from 2004 to 2005 are the organisation of tasks based on the individual's capabilities, and the sense of support and encouragement experienced in the working environment.

Occupational health and the working environment

A good working environment is important for the individual employee and crucial if our group is to reach its goals.

In 2005, Statoil increased its commitment to occupational health and working environment challenges related to our internationalisation process. Focus has intensified on understanding risk, health-promoting measures and inclusive workplaces. A number of precautionary measures have been implemented to ensure that occupational health and the working environment are addressed. These include preventive measures against sickness, the introduction of strict health requirements in connection with work in extreme climates, and increased hygiene controls.

International health work

In 2005 Statoil increased its commitment to the prevention of malaria among employees and their families who are based in malaria-prone areas. Among other things, efforts are being made to increase awareness about malaria through the training of expatriates and business travellers, and to prevent the spread of the disease.

The group also introduced a duty doctor scheme in 2005 to support Statoil's business outside Norway in the event of a need to evacuate in acute crisis or emergency situations in which medical assistance by phone from Norway is required.

Acute medical response on the NCS

Statoil has provided acute medical response through the SAR helicopter service on Statfjord B since 1981. The service is now well established with advanced aeronautical and medical equipment and well-trained



Rescue officer John Erik Nordstrøm is ready to be lowered from a rescue helicopter stationed on the Heidrun platform.

crews. In 2001, the service was expanded with an SAR helicopter on Heidrun to serve the Halten Bank. Some 60–100 acute call-outs are made every year from each of the fields, to fixed installations, rigs and fishing vessels.

Inclusive workplace

Statoil is an inclusive workplace group. It devotes considerable attention to local care work and close follow-up of those on sick leave through network meetings. The aim of these meetings is to enable employees with health problems to continue working through good follow-up and appropriate organisation of tasks. Sickness absence in Statoil remained low at 3.5% in 2005.

Risk-based health monitoring

Industrial operations necessitate work processes that may involve health risks. Statoil has therefore developed a programme for systematic and purposeful monitoring of the working environment and the employees' health. The operational units implement a specialist mapping of health and working environment conditions every four years in order to identify any necessary improvement measures.

Follow-up in design

Statoil is one of the leaders, both in Norway and internationally, when it comes to safeguarding occupational health and the working environment through the design of facilities and equipment. Good methods for implementing analyses and studies have been established to ensure good design so that the solutions in operation contribute to efficient and health-promoting workplaces. This expertise has been developed over more than 20 years through following up major development projects and through participating in both Norwegian and international ventures. As an example, the noise level on our NCS installations has been reduced.

Chemical health risk

In recent years, chemical exposure in the petroleum industry has been reduced considerably. Contributing factors include better knowledge about potential health hazards, more systematic follow-up of the working environment, better risk assessment, and increased use of protective equipment.

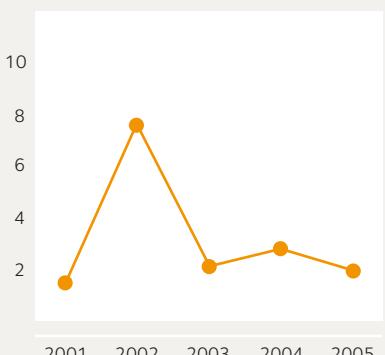
In 2003, Statoil established an extensive chemical management system for activities on the NCS. The purpose was to assess hazards and risks prior to procuring new chemical products, and to ensure a good overview and control of the chemicals used. The chemical management system has now also been implemented at the Mongstad and Kårstø land-based plants.

Risk assessment

Statoil has worked systematically in recent years to establish good risk assessment tools for the working environment. Several risk assessment tools such as KjemiRisk (for chemicals) and ErgoRisk (for ergonomics) have been developed and implemented, and a tool for assessing psychosocial risk is now under development. These tools are extremely useful for assessing potential effects from the working environment on the employees' health.

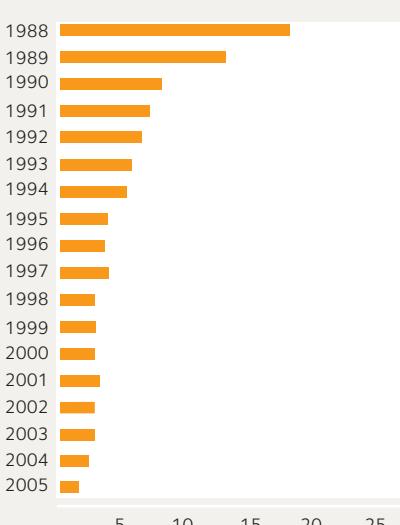
Planned measures 2005	Results 2005	Planned measures 2006
Maintain our low level of sickness absence	Continued low sickness absence (3.5% in 2005)	Target unchanged
Customise the normal working day so that as many as possible can reach their agreed retirement age	No significant change in the retirement age. Average retirement age in 2005 was 62.2	Organise the working conditions to increase the actual retirement age. A special policy for older employees will be prepared
Adopt inclusive workplace (IA) methodology throughout the group	Relevant elements of IA methodology have been applied in parts of our international activities	Target unchanged

FATAL ACCIDENT FREQUENCY



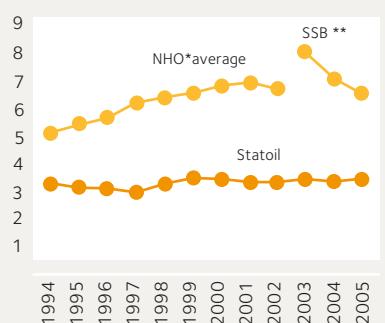
Definition: The number of fatalities per 100 million hours worked (Statoil employees and contractors).

LOST-TIME INJURY FREQUENCY



Definition: The number of lost-time injuries and fatal accidents per million working hours (Statoil employees and contractors).

SICKNESS ABSENCE



Definition: The total number of days of sickness absence as a percentage of possible working days (Statoil employees).

*Confederation of Norwegian Business and Industry 1993–2002
**Statistics Norway 2003–2004 (at 3Q 2005)



Safety

Safety work in Statoil is carried out along four axes:

- Use of design principles based on internationally recognised standards, local legislation and our own operational experience
- Improvement of governing documentation
- Efforts aimed at shaping behaviour and attitudes in order to improve HSE expertise among employees and contractors
- Leadership

Even though developments in the injury statistics for 2005 were positive, we still witness too many total recordable injuries and serious incidents. The consequences vary from the insignificant to the fatal.

Two contractor employees lost their lives in 2005 while working for Statoil. One person died in an accident in connection with the completion of the Kristin platform at Aker Stord. The other fatality occurred during the loading of supplies onto a tanker that was moored at the oil terminal at Mongstad. Both incidents have been investigated and measures have been implemented.

On 28 November 2004, a serious gas leakage from a well occurred on the Snorre A platform. The internal investigation report and the investigation carried out by the Petroleum Safety Authority Norway uncovered several reprehensible matters. The incident and its ramifications are discussed in a separate article.

Efforts to maintain a high technical standard at our facilities and plants have high priority. A total of 20 systems and technical safety barriers have been identified, and they are checked regularly. The technical safety condition of each plant is a key indicator in the group's follow-up system.

New technology means greater safety

A robust organisation means having the correct staffing level, the right expertise and a business that is operated on the basis of good, clear procedures. Technological development provides new possibilities for safer development and operation. The Snøhvit field in the Barents Sea is currently being developed as a consistent seabed structure more than 140 kilometres from land. All functions out on the field will be remotely operated from land, and the risk to personnel will be greatly reduced.

New collaborative solutions are breaking down traditional organisational boundaries. The use of new electronic collaborative solutions makes access to information and the utilisation of expertise more straightforward, irrespective of distance and time. We believe this will be a significant contribution to improving safety in the future.

28,000 participants

The safe behaviour programme is central to our work on changing attitudes. Roughly 22,000 Statoil employees and contractors have taken part in the programme, and we estimate that about 28,000 people will have taken part by the end of 2006. The objective of the programme is to influence behaviour and attitudes in order to make the work safer. The results of a survey carried out by Rogaland Research show that around 80% of those who took part believe that the programme has contributed to improving the safety culture in the group.

The safe behaviour programme initially incorporated employees working on the NCS. The programme was extended in 2005 to cover the entire group. Seminars have been arranged in Stavanger for employees in the International Exploration & Production business area. A mobile version of the programme has also been developed, which has been used in Venezuela, China and Iran.

Positive trend in injury statistics

Statoil's performance indicators for 2005 for safety are the best ever recorded. The total recordable injury frequency shows a clear improvement, at 5.1 in 2005 compared with 5.9 in 2004. Statistics for lost-time injuries show that the personal injuries that do occur are less serious than previously.

The serious incident frequency for 2005 has also improved considerably, from 3.2 in 2004 to 2.3 in 2005, and this indicates that the risk of major accidents has been reduced. We will continue with our systematic and thorough safety efforts in order to further improve our safety results. HSE involvement is high throughout the group in connection with our improvement activities, in which the following elements are central:

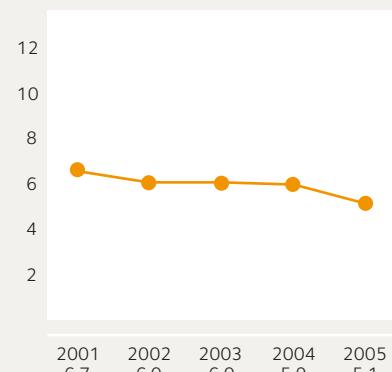
- HSE training programme
- Group-wide programme to change behaviour and attitudes
- Selection of and cooperation with our contractors
- Understanding and managing HSE risk in a global perspective

Planned measures 2005	Results 2005	Planned measures 2006
Avoid fatal accidents and major incidents which threaten life, health, the environment and material assets	Two fatal accidents in Norway involving contractor employees	Target unchanged
Achieve noticeable improvement in total recordable injury and serious incident frequencies	Total recordable injury frequency significantly improved (from 5.9 to 5.1), and serious incident frequency significantly reduced (from 3.2 to 2.3)	Target unchanged
Make the safe behaviour programme group-wide and carry out follow-up in all operational entities at least four times a year	The safe behaviour programme has been made group-wide	Continue to work on follow-up activities in the safe behaviour programme in accordance with the goals for 2005
Intensify the use of safety dialogues in the group	Safety dialogues are used nationally and internationally at the same level as previously	



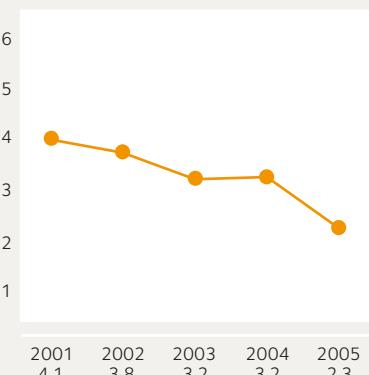
Statoil is building Europe's first plant for the export of liquefied natural gas (LNG) on Melkøya off Hammerfest.

TOTAL RECORDABLE INJURY FREQUENCY



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).

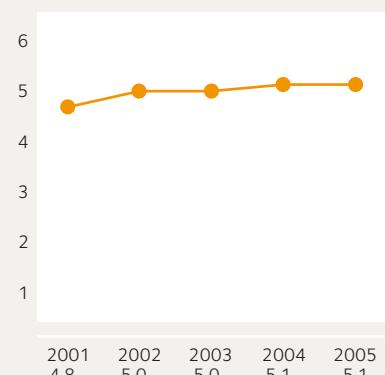
SERIOUS INCIDENT FREQUENCY



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



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

Source: Amou

Topic: Serious gas leak

In November 2005, a penalty notice of NOK 80 million was served on Statoil by the public prosecutor for Rogaland county in the wake of a gas blowout that occurred on 28 November 2004 on the Snorre A platform in the North Sea.

The gravity of the prosecuting authority's reaction is underlined by the fact that the fine is the highest ever to be imposed on a company in Norway. Indeed, the situation on the Snorre field on that Sunday in November a year earlier was serious. One hundred and eighty people were evacuated from the platform, while 36 remained on board and attempted to kill a well that was leaking large amounts of gas.

Platform manager Dag Lygre's comments to the in-house journal *Status* leave no doubt as to what was at stake on board the production platform that produces and processes 205,000 barrels of oil per day.

"We were on the verge of having to evacuate everyone who was left," says Mr Lygre. "That would probably have meant losing the platform. On the fourth and final attempt, we managed to kill the well. We only had eight cubic metres of mud in hand at that point – which is as good as having nothing left."

The gas blowout on the Snorre A platform is a story of a crew and a platform management that tackled the emergency situation with impressive calm, discipline and efficiency. Unfortunately, it also highlights a



Evacuees from the Snorre A platform have landed at Flesland Airport outside Bergen, and are on their way to the reception centre set up for them.

course of events characterised by insufficient planning, a lack of understanding of the risks and non-compliance with governing documents. The causal analysis revealed weaknesses within organisation and management, and systems and work processes.

Management accepted responsibility

However, the gas blowout on the Snorre A platform is also the story of a management team in the business area and on the Snorre field that has accepted responsibility, communicated openly on the unpleasant sides of the incident and, through practical initiatives, has shown that it cares about the platform employees and their families.

There is no hiding the fact that the events leading up to the gas blowout have been a heavy burden and have damaged the reputation of a group that devotes considerable resources to preventive safety work, and whose highly-profiled goal is zero harm to people and the environment.

"The gas blowout was an extremely serious incident and has been very demanding for Statoil," reports executive vice president Terje Overvik. He has himself been a platform manager and currently heads the group's Exploration & Production Norway (UPN) business area, with over 3,200 offshore personnel and operational responsibility for 22 oil and gas fields.

Following the gas blowout, Mr Overvik has given a clear message to his employees. He has strongly emphasised his own responsibilities and the responsibility that runs through all lines of reporting. His comments concerning the defects and deficiencies that have been revealed have been explicit. But Mr Overvik has been equally clear in pointing out the importance of developing the strengths and qualities in the Snorre organisation when the necessary improvement measures are implemented.

"This organisation has a good working environment, job satisfaction is high and the team spirit is strong," says Mr Overvik. "Determination is also a prominent characteristic in Snorre, which is why I believe we will succeed."

28 breaches in regulations

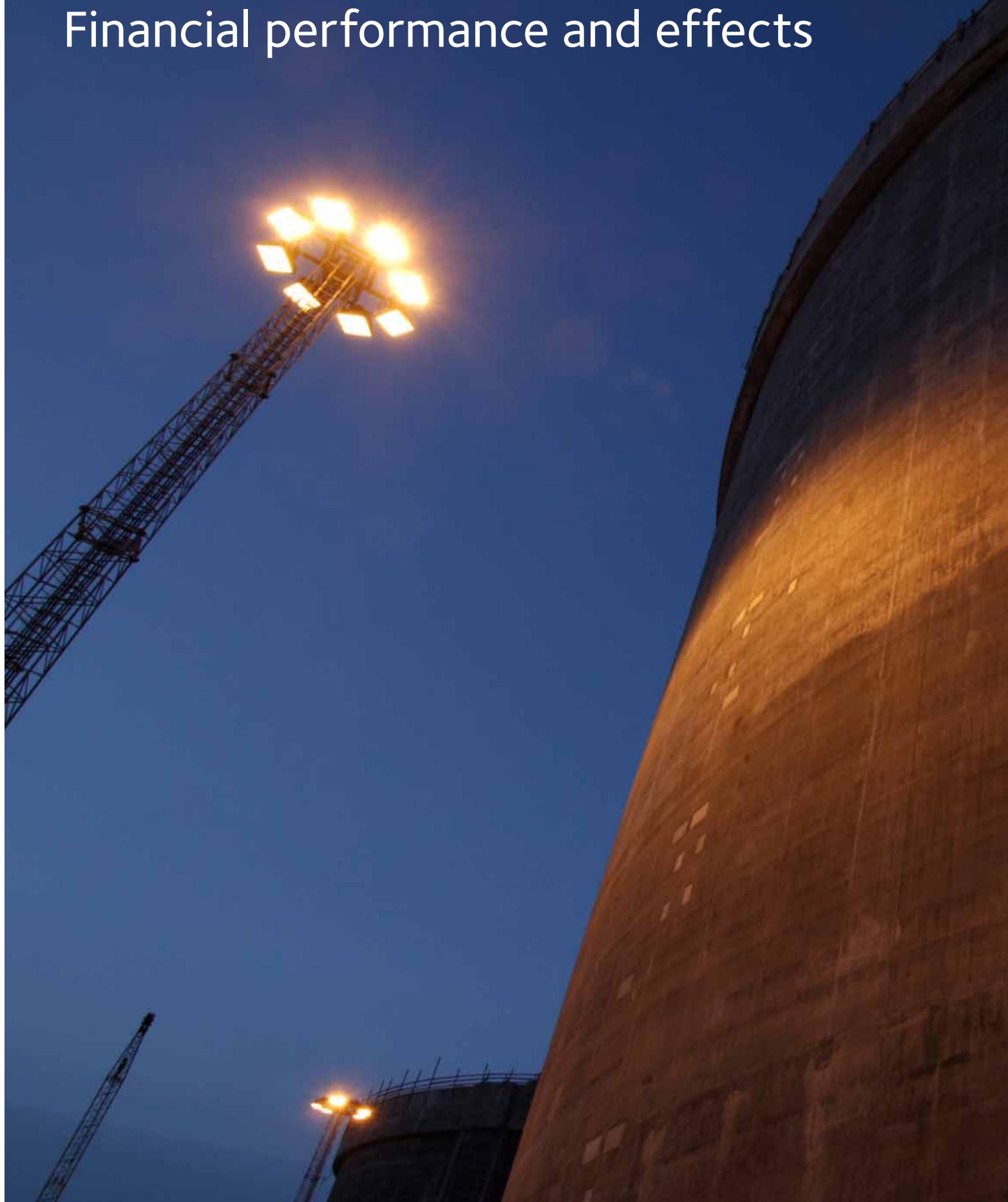
The direct cause of the incident on Snorre A was a suction effect which arose when an extra length of casing was pulled out and drew gas from the reservoir into an injection well. The platform was shut down for one and a half months following the incident. The Petroleum Safety Authority Norway (PSA) and Statoil carried out their own investigations, and the PSA concluded that Statoil had committed 28 breaches of the regulations.

Statoil has followed up its own investigation report with a comprehensive causal analysis. Union-management committees were involved in this work, and the project was executed in close collaboration with the safety delegate service and union representatives. The analysis was completed in November 2005 and has been followed up with an extensive programme of measures.

The Snorre organisation now carries out planning and drilling in line with the group's best practice. Risk evaluation has improved. The Snorre organisation has been strengthened both on land and offshore, and personnel have received better training in Statoil's governing documents. A special project has also been established to simplify and improve management systems and procedures in the group.

"The main conclusion is that we didn't do a good enough job," says Mr Overvik. "We failed in important areas. This incident is a reminder to us all of the risks involved in our activities and the alertness we must always display in all aspects of our operations, from planning to execution. This is my responsibility. I have therefore taken the necessary steps to ensure that we work in accordance with best practice on all our production installations on the Norwegian continental shelf. We must not have any similar incidents in the future."

Financial performance and effects



Statoil's business generates substantial economic spin-offs. The payment of direct and indirect taxes totalled NOK 89 billion in 2005.

By comparison, the total cost of education in the Norwegian national budget is NOK 96 billion.

Hammerfest has experienced positive spin-offs from Statoil's activities, and local firms experienced success in the competition to win contracts relating to the Snøhvit development. We have taken a closer look at Snøhvit and its spin-offs in a separate article in this chapter.

The 2004 report was the first time we presented comprehensive financial key figures from the countries in which we operate. Reporting has been improved in this year's version because we wish to contribute to greater openness about our own activities, as well as influencing other companies and authorities to follow our lead. Openness about financial transactions is an effective method of combating corruption and helps to achieve greater security and predictability.

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Financial performance and effects

Statoil's business creates substantial economic spin-offs. The group purchased goods and services, excluding petroleum products, for a total of NOK 62.8 billion in 2005, and it paid NOK 88.8 billion in direct and indirect taxes. There were additional spin-offs from direct and indirect employment and dividend paid to the owners.

It is difficult to measure the full effect of the business activity, however, over and above the direct spin-offs. One method that can contribute to holistic evaluations is the impact assessments. Such assessments are an integral part of the mandatory plans for development and operation of the individual fields. An impact assessment describes the impact of development and operation on the environment and the community. In impact assessments of field development, onshore plants and pipelines, we calculate the socio-economic consequences for the national and regional supply of goods and services, employment and socio-economic profitability. In addition, increased tax revenues for municipalities are calculated where relevant.

The Statoil group's profit before financial items, other items, taxes and minority interest totalled NOK 95.1 billion (preliminary figure) in 2005 compared with NOK 65.1 billion in 2004.

Some of the main figures from the business in 2005, including the impact on different groups, are shown in the table below:

	2004	2005
Income taxes paid	NOK 38.8 billion	NOK 54.6 billion
Indirect taxes paid	NOK 32.8 billion	NOK 34.2 billion
Signature bonuses paid	USD 2.6 million	USD 3.4 million
Proposed dividend	NOK 11.5 billion	NOK 17.8 billion
Pay and social benefits	NOK 13.7 billion	NOK 14.6 billion
Goods and services purchased (invoiced value)	NOK 62.8 billion	NOK 62.8 billion
Interest paid on loans	NOK 1.2 billion	NOK 2 billion
Investment in own business operations	NOK 42.8 billion	NOK 46.2 billion
Investment in research and development	NOK 1,027 million	NOK 1,066 million
Number of suppliers	22,500	24,899
Social investments	Not reported	USD 8 million

Direct and indirect taxes

A large proportion of Statoil's total value creation goes to the authorities in the form of direct and indirect taxes. In 2005, the Statoil group paid NOK 54.6 billion in income tax and NOK 34.2 billion in indirect taxes. Direct and indirect taxes paid in Norway totalled NOK 57.9 billion. Direct and indirect taxes paid outside Norway totalled NOK 30.9 billion.

As our investments in other countries result in production and revenues, taxes paid to the authorities in these countries will also increase. Direct and indirect taxes will normally not be incurred during the investment phase and, since a long period elapses from when a find is made to production start-up, there will be a number of countries shown in the activity overview on page 35 in which Statoil has investments, but pays neither direct nor indirect taxes.

Profit oil

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). Of the remaining production (profit oil), the partners receive a share of the petroleum produced, while the host country retains the rest. The sharing between the partners and the host country is specified in the production sharing agreement. The value of the petroleum retained by the host countries is NOK 2.7 billion for 2005 and applies to Algeria, Azerbaijan and Angola.

Signature bonus

The authorities in some host countries demand payment in advance of exploration activities for the rights to develop an exploration area. This type of payment is called a signature bonus. The size of the signature bonus is based on the exploration licence's presumed recovery potential and value, and the market's interest in the rights.

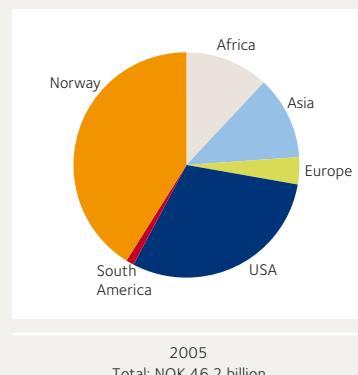
In 2005, Statoil paid USD 3.45 million in signature bonus in order to acquire the operatorship of two exploration licences in Libya. For one of the Libyan licences (Cyrenaica 94), Statoil was awarded a 100% share and it paid a signature bonus of USD 2.95 million. For the other licence (Kufra 171), Statoil and British Gas were awarded a 50% share each, and Statoil's share of the signature bonus was USD 0.5 million.

In 2005, Statoil was also awarded a 45% share in an exploration licence for deepwater block 315 in Nigeria. The Brazilian national oil company Petrobras is the operator and it has a 45% share, while the Nigerian company Ask has a 10% share. Statoil has been awarded shares in two deepwater exploration blocks in Brazil. Statoil was awarded a share of 50% in block C-M-539. The Spanish company Repsol was assigned operator responsibility and a 50% share. In the other block, ES-M-594, Statoil was awarded a 40% share, while Petrobras is the operator with 60%. It is expected that Statoil will pay a signature bonus for these three licences, but since the final negotiations have not yet been concluded, Statoil has not paid signature bonuses for these three licences in 2005.

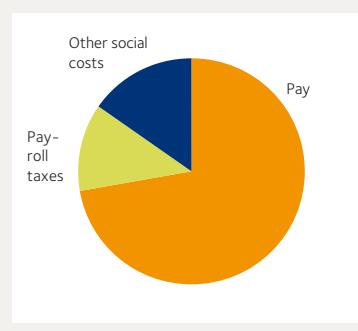


From the oil trading department at Statoil's office in Stamford, Connecticut. Keith Davis in conversation with external auditor Jignasha Patel. Stein-Erling Brekke in the background.

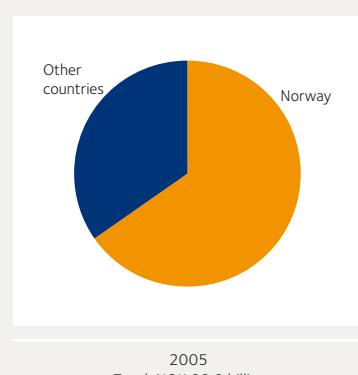
ACCUMULATED INVESTMENT BY GEOGRAPHIC AREA



PAY AND SOCIAL BENEFITS



TAXES PAID





Georg Kell
Executive head
UN Global Compact Office

How can the oil industry help ensure that revenues in oil-producing countries benefit the community as a whole?

Oil companies have a responsibility to ensure that the communities in which they operate benefit from their activities. In the same way that Statoil's presence in Norway has been tremendously important to many Norwegian societies, the company recognises its responsibility to bring benefits to communities in all countries where it operates.

As one of the founding participants of the UN Global Compact, Statoil has shown its commitment to responsible business practices by implementing the Global Compact's 10 principles. By acting transparently and making public what a business pays in taxes and royalties to host countries, companies such as Statoil contribute to greater governmental accountability and, hopefully, more equitable revenue-sharing with communities. I have been impressed by Statoil's ongoing efforts to work with governments, companies and other stakeholders to ensure a constructive and open debate about how oil revenues can be put to use to achieve optimal social and economic benefits.

Owners

The Norwegian government is Statoil's principal owner with an interest of 70.9% of the shares. The state's percentage owner interest changed from 76.3% to 70.9% after it sold shares in February 2005. At the end of 2005, there were about 64,000 shareholders registered in the Norwegian Central Securities Depository. Some of these shareholders are so-called custodian accounts, and the actual number of owners is therefore much higher. Eight thousand of the group's own employees are participants in Statoil's share saving plan, which was established in 2004. See the section on shares and shareholder matters on page 60 of the annual report and accounts for 2005 for more information about ownership.

For 2005, the board of directors has proposed to the annual general meeting an ordinary dividend of NOK 3.60 per share and a special dividend of NOK 4.60 per share. This means a total dividend of NOK 17.8 billion.

Employees

At 31 December 2005, Statoil had 25,644 employees. This is an increase of 1,745 from the end of the previous year. The increase is primarily due to a higher level of activity in Poland and Norway. About 50% of our employees currently work outside Norway. Statoil's payroll expenses for 2005 in the form of wages, pensions and other social benefits totalled NOK 12.8 billion. In addition, Statoil paid NOK 1.8 billion in employer's national insurance contributions.

Purchases

In connection with the development and operation of its activities, Statoil makes substantial purchases. In 2005, the invoiced value of goods and services, excluding petroleum products, purchased by Statoil was NOK 62.8 billion, including purchases for Statoil-operated licences. This means that part of the cost is covered by Statoil's partners. NOK 46 billion was invoiced to 8,050 companies located in Norway, while NOK 16.8 billion was invoiced to more than 16,850 suppliers with registered addresses in 80 different countries. On the other hand, it is not necessarily the case that goods and services are used in the country in which the supplier has its invoicing address. Projects will often have a combination of national and foreign suppliers.

Investments

In 2005, Statoil invested more than NOK 46 billion in its own operations. Investments increased substantially in the USA compared with 2004. This increase is due to Statoil's acquisition of the entire EnCana deepwater portfolio in the Gulf of Mexico for USD 2 billion in April 2005. In order to ensure the long-term development of Statoil, especially with respect to its long-term ambitions for production, the group will maintain a high level of investment in the years to come compared with previous periods.

Our international operations made social investments in the magnitude of USD 8 million in 2005. Azerbaijan, Angola and Venezuela were the countries that received most.

Research and development

In addition to technological development in field development projects, a significant part of our research is carried out at our centre for research and technology development in Trondheim. Our internal research and development is carried out in close cooperation with universities, research institutions, other operators and the supplies industry. Expenses for research and development totalled NOK 1,066 million in 2005.

Openness about financial transactions

Statoil continues to actively support the Extractive Industries Transparency Initiative (EITI), an

initiative which works for greater openness around businesses engaged in extractive operations. Progress has been made in several countries in which Statoil has operations. In March 2005, Azerbaijan delivered the country's first report in accordance with the EITI principles. In Nigeria, President Obasanjo has put forward a proposal for legislation which would require revenue and taxes to be audited in accordance with EITI. In October 2005, the authorities in Kazakhstan and 24 companies, including Statoil, signed a memorandum of understanding covering the use of EITI standards. A national council, which includes representatives from the authorities, parliament, companies and civil society, has been established to coordinate the work. The council's aim is to publish the country's first EITI report during 2006. Information about EITI in Nigeria and Kazakhstan is available at www.neiti.org and www.eit.kz/index.php?page=m_en, while www.eitransparency.org has more information on the overall initiative.

Publish What You Pay (PWYP) is another initiative for transparency about payments and revenue flows in oil, gas and mineral extraction, which consists of more than 280 voluntary organisations. In April 2005, Statoil's sustainability report for 2004 was highlighted by the organisation as a good example of willingness to be open about financial transactions.

Ensuring long-term value creation

One of Statoil's most important financial objectives is to ensure long-term value creation, and this means achieving a balance between several important objectives: HSE, efficient operation, the working environment, expertise development and satisfied customers. The greatest challenge is to ensure a good balance between profitability and production growth. Profitability, measured as normalised return on capital employed*, was 11.7% in 2005, which is somewhat lower than in 2004. The average daily production increased from 2004 to 2005 by 63,000 barrels of oil equivalent (boe). During 2005, the group made investments for future growth which have contributed to putting short-term profitability under pressure. Measured in terms of the total return to shareholders, dividends and the development of the share price, Statoil's profitability was higher than for other companies Statoil compares itself with.

In order to achieve long-term growth, it is necessary to increase holdings of oil and gas reserves faster than the rate of production. Statoil accounts for its proven reserves in accordance with the regulations adopted by the US Securities and Exchange Commission (SEC). The reserve accounts are verified by an independent third party. The size of our SEC reserves at 31 December 2005 was 4,295 million boe. This is an increase of 7 million boe compared with year-end 2004.



Statoil's development over the next few years will be characterised by access to many good investment opportunities, ensuring substantial growth until 2015. The high growth rate in production, however, requires large investments and a high activity level in the coming years. The long-term production ambition requires access to new resources and the group will therefore increase its exploration efforts in coming years. In 2005, Statoil spent NOK 4.3 billion on exploration.

Results of operations and share information	2003	2004	2005
Return on average capital employed after tax*	12.4 %	12.4 %	11.7%
Production (1,000 boe/day)	1,080	1,106	1,169
Production costs (NOK/ boe)	22.4	23.3	22.2
Share price Oslo Stock Exchange at 31 December (NOK)	74.75	95.00	155.00
SEC reserves at 31 December (million boe)	4,264	4,289	4,295

* Normalised for oil and gas prices, downstream margins and exchange rates

Ethical guidelines for Statoil's investment management

Statoil's total pension and insurance assets amount to NOK 31.1 billion. The assets are mainly managed by Statoil Kapitalforvaltning ASA and are invested in shares, bonds and certificates as well in property. For several years, the investment strategies for these assets have included a provision stating that investments will not be made in companies that operate in conflict with principles of ethical and environmental responsibility.

On the basis of Statoil's ethical guidelines, the group specified and further developed its ethical guidelines in the autumn of 2005. Statoil decided to use as its basis the same ethical guidelines as those used for investment management by the Norwegian Government Pension Fund – Global, formerly called the Norwegian Government Petroleum Fund. Statoil has established an ethics committee to advise the pension fund, the insurance company and other entities in the group with respect to which companies must not be invested in.



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 05 (5)	Purchase of goods and services (6) NOK million
Norway	19,023	349,485	51,366	6,550	11,909	13,128	46,113
Algeria	1,407	2,529	454	0	0	2	32
Angola	2,961	8,884	1,546	0	1	7	4
Azerbaijan	4,614	2,357	0	0	6	34	35
Belgium	5	13	0	0	26	50	733
Brazil	6	0	0	0	9	9	27
China	249	750	76	0	14	22	133
Denmark*	392	19,644	193	4,492	886	3,704	1,129
Estonia	20	1,084	0	368	34	550	200
France	0	63	2	0	15	11	197
Georgia	0	0	0	0	0	0	0
Germany	1	705	112	8,905	88	80	3,566
Iran	680	27	0	0	3	22	4
Ireland	456	6,178	3	4,365	242	1,318	422
Kazakhstan	1	(9)	0	0	1	4	1
Latvia	34	1,291	5	527	49	640	208
Lithuania	29	1,508	4	386	46	673	67
Mexico	0	2	0	0	0	0	0
Nigeria	1,089	0	0	0	9	45	23
Poland	213	5,472	4	140	193	3,221	398
Russia	0	0	2	0	7	146	49
Singapore	2	12,398	0	0	21	15	17
Sweden	292	16,086	135	8,422	775	1,698	615
Turkey	0	0	0	0	0	0	34
UK	391	3,031	415	31	206	159	3,222
USA	13,875	35,141	40	0	115	70	692
Venezuela	431	3,211	172	0	20	36	304
Rest of Europe**	0	0	96	0	0	0	3,809
Rest of world ***	23	0	0	0	0	0	810
Elimination****		(77,642)					
Total	46,194	392,208	54,625	34,186	14,675	25,644	62,844

* Includes the Faroes and Greenland

** Income taxes paid applies to the Netherlands

*** Investment is linked to Libya

**** Elimination due to sale within the company

(1) Total revenues (excluding Equity in net income of affiliates) by company location. In the sustainability report for 2004, total revenues were presented by customer location, that is, where the goods were sold.

(2) Income taxes paid for fiscal year 2005, but also taxes relating to earlier fiscal years and paid in 2005. In several countries Statoil does not pay income taxes. This is because we do not have production or other activities which give us current income. In the oil and gas industry, the lead time (the period from discovery to production start-up) may be long. This means that the company will invest substantial amounts for a number of years before generating any income and coming in a position where it will have to pay tax.

In 2005, Statoil paid income taxes in Algeria for the first time. Taxes paid to Angola have increased considerably compared to 2004.

(3) Carbon tax, area fees and royalty, petrol duty and similar (do not include value-added tax, VAT)

(4) Includes pension and payroll taxes

(5) Based on company location (in which country the company (with employees) is registered)

(6) Based on invoice address. Part of the costs is charged to partners in Statoil-operated activities, including as technical service provider.

Does not include purchase of petroleum products.

Topic: Snøhvit The region's businesses have delivered the goods

Whenever Statoil establishes petroleum activity in an area, it meets expectations regarding the contribution of petroleum activity to development of the local community. Local expectations often go beyond mere compliance with licence terms and framework conditions.



Tom Erik Lunga, his partner Karianne Olsen and three-year-old Aleksander have moved from Paris to Hammerfest, where Tom Erik is employed in the finance department in Snøhvit's operations organisation. He is one of many originally from the region who have returned because of Snøhvit. More than 60% of the employees in the operations organisation come from Norway's three most northerly counties.

They frequently include a desire for new commercial development, a hope that the local communities will be better able to attract new residents and a wish for the development of local and regional planning capacity. In a sustainability perspective, these expectations represent major challenges for the developer.

Statoil's experiences from Hammerfest and West Finnmark are being documented in a follow-up study jointly initiated and funded by Hammerfest municipality, Finnmark county council and Statoil. Development of the Snøhvit field began in 2002. The research project started in 2003 and will continue until the development has been completed and the operating phase is well under way.

The aim of the study is to map how regional development is created by mega-projects such as the Snøhvit development. The opportunities for local and regional businesses to benefit from the development were assessed in Statoil's impact assessment of the Snøhvit project which was presented in 2001. An impact assessment report was integrated into the statutory plan for development and operation, which must be submitted to Norwegian authorities in conjunction with a development application. The report provides a detailed description of the impact of a project on the environment and the local community, based on analyses of empirical data from developments in similar communities and assessments of the capacity of the regional business sector.

The region prior to the development

Hammerfest and West Finnmark are geographically remote, far from the petroleum industry's decision-makers in Stavanger and Oslo. West Finnmark is also a clear example of a region that has been developed under strong political direction, with a large public sector along the lines of the Norwegian welfare state as we remember it from the 1980s and 1990s.

Statoil has established itself in a region with a strong and well-established public sector, with high employment levels for both men and women and a large component of service enterprises. This situation meant that the regional economy was already under pressure before the development, with the building-up of the public sector as a primary pressure factor. Furthermore, the region has been one of the most crisis-stricken regions for the last 20–30 years, with a major drop in employment, a population exodus and very few people moving in. The distance from the decision-makers and the strong public sector presence in the region helped to cement the opinion that the crisis was politically created and would require an external solution. The presence of Statoil challenged the state's position and the Snøhvit development created commercial opportunities that businesses themselves had to exploit.

The region's businesses have delivered the goods

The most obvious direct effect on the region's commercial development manifests itself in the number of deliveries from local and regional enterprises to Statoil as the developer on Melkøya.

At the end of 2005, deliveries worth NOK 37.2 billion had been made to the Snøhvit development project. Because of rising prices and an increase in the scope of the development, the figure is much higher than estimated in the 2001 impact assessment. Norwegian deliveries accounted for NOK 21.5 billion, or 57.7% of total deliveries. This is higher than the 50% estimated in the impact assessment. Enterprises in West Finnmark delivered goods and services for a total of NOK 1.784 billion. This accounts for 8.3% of Norwegian deliveries to the development. The assumption in the impact assessment from 2001 was 6%.

There may be several reasons why deliveries from local and regional enterprises have been greater than planned. The sectors that benefit from proximity to the development have increased their deliveries in step with increased activity in the development. They have had the ability and capacity

The article was written by Sveinung Eikeland, managing director of the research institute Norut NIBR Finnmark AS. Mr Eikeland is a sociologist and has worked on regional development and regional policies for Finnmark since 1985. Norut NIBR Finnmark is one of six companies in the Norut group in which the University of Tromsø is majority shareholder.

Follow-up study, Snøhvit

Norut NIBR Finnmark and the Finnmark University College are carrying out a follow-up study on the development of the Snøhvit project. The study documents local and regional changes in the wake of the Snøhvit development. The project analyses how people, businesses and organisations have handled the new situation following initiation of the Snøhvit development.

Snøhvit consists of a remotely controlled seabed production facility out in the field, connected by pipelines to a land-based facility where the natural gas is cooled down to a liquid form and exported.

 www.statoil.com/snöhvit

 www.norut.no

to meet the increased demand of the developer. Deliveries from enterprises providing so-called commercial services show that the region's businesses can also compete with enterprises from outside their immediate area. Local and regional providers of commercial services do not benefit to the same extent from proximity to the development location. At the end of April 2005, these enterprises had made deliveries worth NOK 74 million, and commercial service enterprises in Hammerfest enjoyed an 11% growth in employment in the period 2001–03 and a 57% growth in 2003–04.

Provision of commercial services in West Finnmark

Employee know-how is the most important production force in the provision of knowledge-based commercial services, and value creation is enhanced both for the service provider in question and for other enterprises.

Sixty-two enterprises in Hammerfest and Alta were involved in this type of service provision, and in 2004 they had a total turnover of NOK 162 million.

The Snøhvit contracts brought about a 37% increase in sales in the period 2002–04, which is 11 percentage points above the average growth for the enterprises in the region.

Winners in the area of knowledge-based service provision are civil engineering businesses, architects and lawyers.

Building of long-term capacity in regional businesses

The developer has a choice of several strategies when it comes to building the long-term capacity and ability of regional businesses. Statoil has helped to finance the organisation of regional business networking under the auspices of the Snøhvit Business Association. This association has implemented several programmes to qualify regional businesses for deliveries to the development. The developer is also developing regional business through ownership. Statoil has a large holding in Hammerfest Strøm, which develops tidal energy, and in Pro Barents, which is trying to find innovative ways of exploiting residual products and synergies from LNG production. Through its owner interests in NorlInnova, Statoil supports the commercialisation of research results, primarily at the University of Tromsø.

Furthermore, Statoil has supported supplier development programmes in several parts of northern Norway, with a focus on the development of new products and services targeting the petroleum industry.

Statoil's requirements for quality assurance and health, safety and the environment (HSE) systems have also played a direct role in bringing about vital changes to local and regional businesses.

Qualification and supplier development programmes are important because they involve enterprises that are not targeted to any great extent by public support systems. Traditional regional support systems are oriented towards the primary industries and new businesses, while new government support systems target knowledge enterprises in the major cities. Central players in regional development, such as the county council and the regional section of Innovation Norway, have been given a great responsibility with regard to modifying the region's trade and industry, but they lack resources. In these circumstances, it is the developer who is able to bring about the necessary reforms. With respect to new businesses, Statoil is working with the public support system in the region.

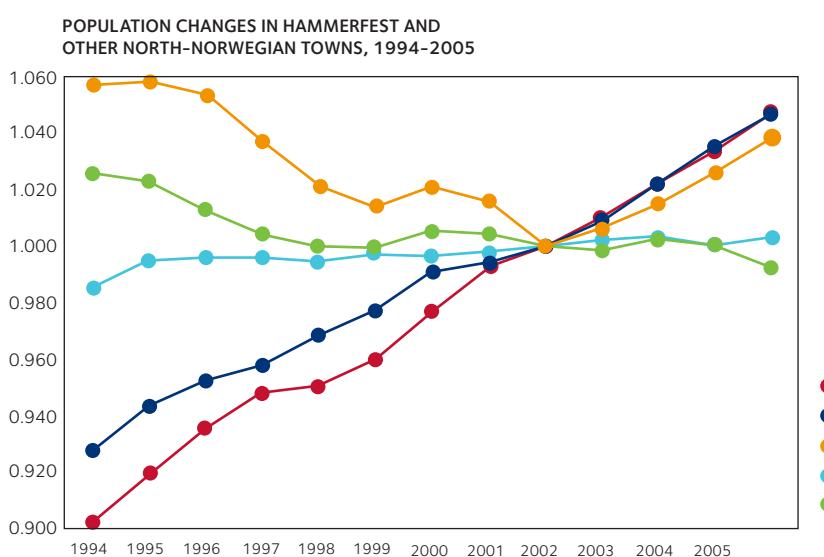
A challenge to create attractive communities

According to Statoil's own records, since the summer of 2002, between 13,000 and 15,000 people have been engaged for short or long periods in work in connection with the Snøhvit development in

Hammerfest. Of these people, 75% do not live in northern Norway. Of even greater importance to local development is the fact that employment among people registered as domiciled in Hammerfest increased by 219 persons in the period 2001–04. The relative growth from 2001 up to and including 2004 was 6.8 percentage points for women and 5.2 percentage points for men. These figures demonstrate that, despite the pressure on the labour market even before development, Hammerfest still had manpower that could be used in the development.

The major local activity growth is generating even greater pressure. There is keen competition between Statoil, as developer, the major contractors and local suppliers for skilled workers such as electricians and welders. The rising price of housing has made it even more difficult to recruit skilled workers. In both Hammerfest and Alta the average price of housing has doubled since 1999. The cost of rented accommodation has risen even more. Apartments of 70 square metres that could be rented for NOK 5,000 a month in 2001 are now fetching a monthly rent of NOK 11,500. The monthly rent for a modern apartment of 150–170 square metres is NOK 25,000–30,000.

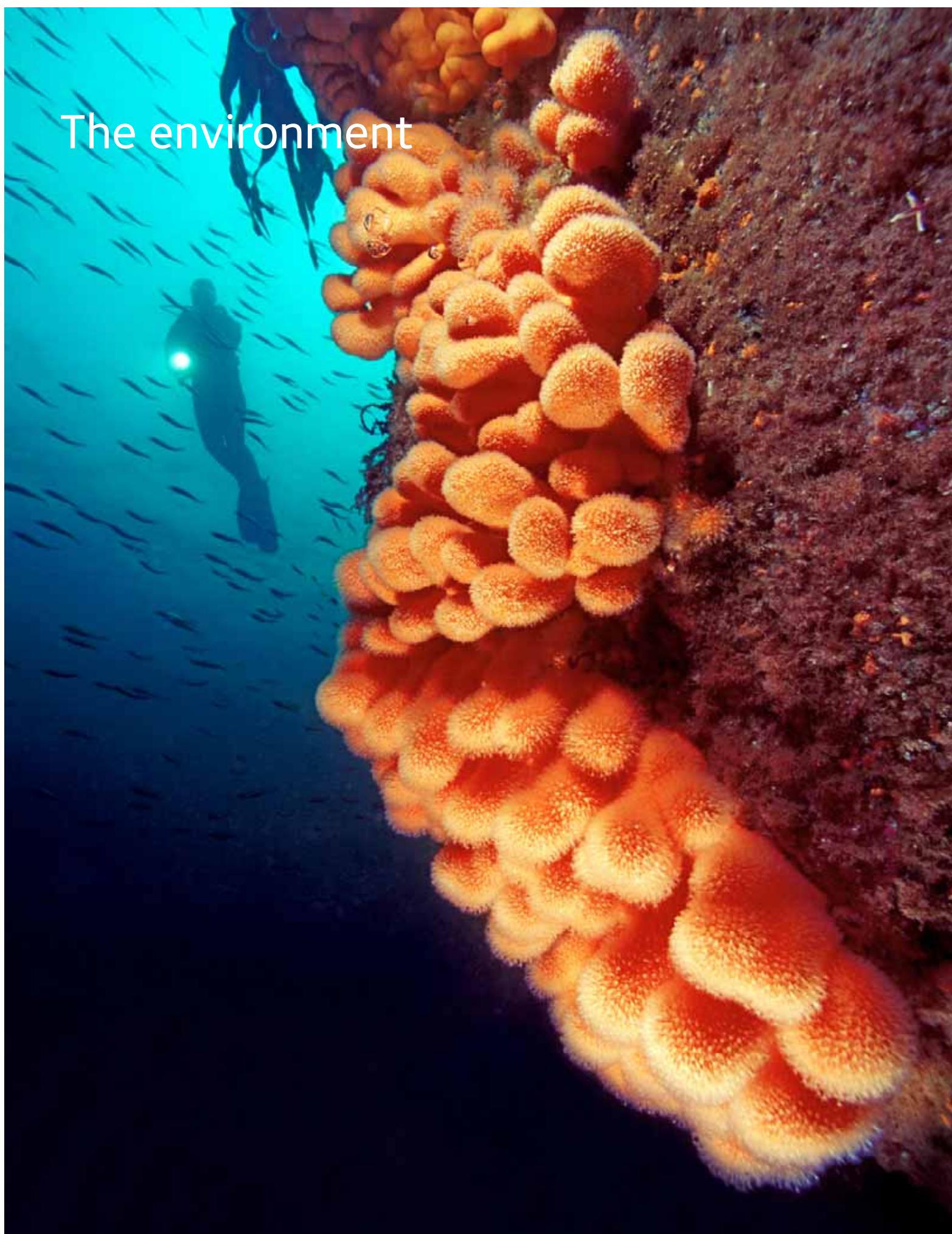
During the first phase of Statoil's activity in Hammerfest and West Finnmark, the region's businesses demonstrated through their deliveries that they were capable of contributing to the Snøhvit development. A stable and high level of activity beyond the development phase in Hammerfest and Finnmark will also present a challenge to these communities to enhance their power to attract new inhabitants by offering a stimulating life in attractive local communities. Statoil's financial support to the development of geology and chemistry studies at Hammerfest college of further education is one contribution towards this.



The graphic presentation shows the relative growth in the population of Hammerfest and four other urban municipalities in northern Norway since 1994, most importantly the marked break with the trend in Hammerfest in 2002. None of the other municipalities have experienced similar development.

More specifically, the figure shows the relative development of the population between 1994–2002 and 2002–2005. The start-up date of the Snøhvit development is the reference date for each of the municipalities. Specifically, the figures show that Hammerfest's population declined by approximately 6% between 1994 and 2002, while Tromsø's population increased in the same period by about 10%. Since the start-up of the development project, the population of Hammerfest has increased by between 2 and 3%, while Tromsø's population increased by between 3 and 4%.

The environment



The chapter on the environment is the most comprehensive in the sustainability report, and provides information about many different activities and measures that share the common goal of zero harm. This applies both to emissions and to the use of natural resources that can affect biological diversity.

Increased activity outside Norway presents Statoil with new challenges. This applies in particular to our international activities in desert areas and tropical regions where the use of limited water resources and issues relating to emissions require different approaches that are adapted to local conditions.

There is increasing concern about and focus on global warming and the need for measures to limit emissions of greenhouse gases. As a producer of fossil fuel, this issue concerns us, and we attach great importance to helping to find good technological and commercial solutions.

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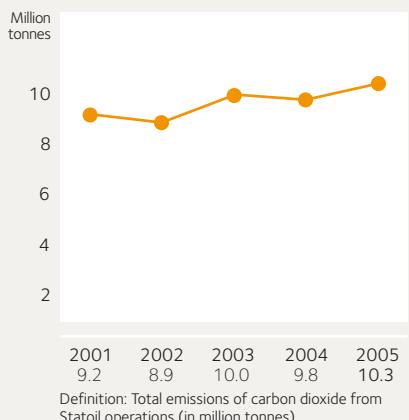
Defining zero harm to the environment

- preserve biological diversity by ensuring that no habitats are destroyed, no alien species are introduced and no impacts occur at the population level
- keep discharges/emissions below the carrying capacity of the relevant ecosystem
- limit the use of land, clean up and restore areas after activity there has ceased, and preserve cultural monuments and landscapes of special value

FLARING



CARBON DIOXIDE (CO₂) EMISSIONS



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 or 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.

Climate

Statoil's strategy for dealing with global climate challenges is based on:

- Energy efficiency and measures to reduce emissions from our operations
- Developing and marketing renewable energy
- Emission trading and application of the Kyoto mechanisms
- Capture and storage of carbon dioxide

International emission agreements and measures

Statoil believes that the greenhouse effect that creates global climate changes must be managed through binding international and global collaboration. In 2005, the following international regimes were established in order to limit greenhouse gas emissions:

- The EU emission trading system. Trading in emissions is gradually taking place as the member countries' quota registers are completed, but many countries still do not have their quota registers ready.
- The Norwegian Greenhouse Gas Emission Trading Act for facilities defined as participants in the EU system, with the exception of installations that pay carbon tax. This excludes the entire offshore sector.
- The regulations for implementing the Kyoto protocol were approved in December by the parties to the UN's framework convention on climate change and the countries that have ratified the protocol.
- The capture and storage of carbon dioxide was recognised as an important measure based on a comprehensive report by the International Panel of Climate Change (IPCC).

Statoil is positive to this development of frame conditions for a climate policy that facilitates the implementation of cost-effective emission reductions of greenhouse gases across national borders. This is especially important for petroleum activities in Norway, where most of the group's emissions take place. On the NCS there is little opportunity of achieving significant emission reductions without disproportionately high costs, since the oil and gas facilities already have extremely low levels of carbon emissions per unit produced.

Measures to reduce emissions

Through the measures taken in 1997, Statoil's goal is to ensure that our emissions of carbon dioxide equivalent in 2010 are at least 1.5 million tonnes lower than if this action were not taken. The emission reductions are measured in proportion to the group's stakes in the individual facilities. Measures implemented to the end of 2005 corresponded to 47% of the target. Some measures that were implemented previously have been included in the calculation basis in order to ensure a consistent practice in accordance with the definition of the emission measures.

Some installations have incurred new costs for carbon dioxide emissions through participation in the trading system. Of these, the Mongstad refinery implemented new measures in 2005. Through improved energy combustion and the installation of heat exchangers for steam boilers in 2004, emissions were reduced by around 45,000 tonnes, without these measures being attributable to the introduction of the emission trading system alone.

Statoil has given its approval to a voluntary standard for reducing flaring through participation in the Global Gas Flaring Reduction Partnership, which is administered by the World Bank. This partnership supports our policy of preventing the flaring of surplus gas, but also entails a commitment to reduce flaring caused by operational disruptions.

Emission trading and utilisation of the Kyoto mechanisms

Statoil's emission trading entity was established in 2005 in order to ensure cost-effective observance of the group's carbon caps. Statoil assumes that the offshore oil and gas activities will be included in the emission trading system from 2008, and that the majority of the emission quotas must be obtained in the emission trading market.



A limited number of transactions have been carried out through leading exchanges such as Nord Pool and the European Climate Exchange. Statoil carries out ongoing assessments of the emission trading market and credits for emission reductions through the Kyoto mechanisms that can be used to meet its own carbon caps. Statoil continuously assesses potential measures that can reduce emissions in operations in which the group has a stake, and which can be approved within the Kyoto mechanisms. We also assist other oil and gas companies in developing similar projects.

Capture and storage of carbon dioxide

Statoil is heavily involved in exploring the commercial opportunities for carbon dioxide management, both in Norway and internationally. In Norway, the opportunity for utilising carbon dioxide for improved oil recovery (IOR) has attracted a great deal of attention. Statoil has previously carried out a comprehensive assessment of the Gullfaks field based on the delivery of carbon dioxide from gas-fired power stations in Norway or from more concentrated sources in continental Europe. However, the conclusion was that the current capture technology, transport and storage would have a negative net present value of several billion kroner for the owners of Gullfaks.

The new Norwegian government that came into power in the autumn of 2005 has stressed the importance of capturing, storing and using carbon dioxide for IOR. The government has indicated that it may make a considerable contribution to such activities, both financially and by establishing state-owned companies that can capture carbon dioxide and supply it to fields for IOR application.

On this basis, Statoil has stepped up further its commitment in order to clarify opportunities and financial prerequisites for implementing IOR through the use of carbon dioxide. The group is also considering utilising the injection plant on Sleipner for handling the carbon dioxide that could be separated at gas-fired power stations and other sources in Norway, as well as other countries around the North Sea basin. A memorandum of understanding between the Norwegian authorities and the UK could accelerate this work.

Statoil recently introduced a proposal to store carbon dioxide from the Kårstø gas-fired power station, when it is finished, on Sleipner. In this connection, we will consider the possibility of using this carbon dioxide for IOR from the Volve field near Sleipner.

Participating in EU work

Statoil actively participates in the EU Commission's work to establish a technology platform for electricity generation with zero emissions. The purpose of the platform is to act as a foundation for the EU's commitment to developing technology and solutions in this area in collaboration with industry and other centres of expertise and interest groups. Statoil is represented in several committees and working groups.

Statoil has continued its involvement in a number of international research and pilot projects for carbon dioxide management, a number of which are financed through the EU's research budget. The same applies to the US Carbon Sequestration Leadership Forum (CSLF), which has a high level of activity with regard to the development of expertise and involvement in order to disseminate industrial solutions for storing carbon dioxide and using it to achieve IOR.

Planned measures 2005	Results 2005	Planned measures 2006
Work for incorporation of the whole Norwegian petroleum sector in the emission trading system from 2008	Work has been carried out, but has not been cleared by the authorities	Continue to work for the inclusion of the Norwegian petroleum sector in the emission trading system from 2008
Reduce annual greenhouse gas emissions by 1.5 million tonnes of carbon dioxide equivalent by 2010*	Measures which contribute 47% of the 2010 target were implemented by 31 December	Continue pursuing measures to achieve the target in 2010

* 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.

World's largest carbon dioxide project for improved oil recovery

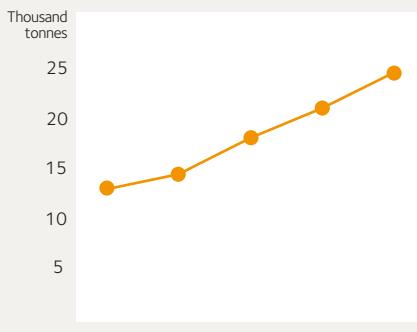
In March 2006, Shell and Statoil signed an agreement to examine the possibilities of developing the world's largest offshore project for the use of carbon dioxide for improved oil recovery (IOR). The project consists of a gas-fired power station at Tjeldbergodden in mid-Norway which will provide carbon dioxide to the Draugen and Heidrun oil and gas fields in the Norwegian Sea. Electricity from the power station will also be sent to the platforms, thereby reducing carbon and nitrogen oxide emissions from these installations to almost zero.

The project is in line with international and national climate aspirations and responds to the challenges of increasing energy requirements and the related increasing carbon dioxide emissions. The project could potentially utilise and store approximately 2–2.5 million tonnes of carbon dioxide annually in the Draugen and Heidrun fields.

Establishing this carbon dioxide value chain is technologically and commercially challenging. The project will therefore depend on considerable government financing and cooperation, especially with regard to carbon dioxide capture and transport. A large power station in this region will entail huge socio-economic savings which must benefit the project.

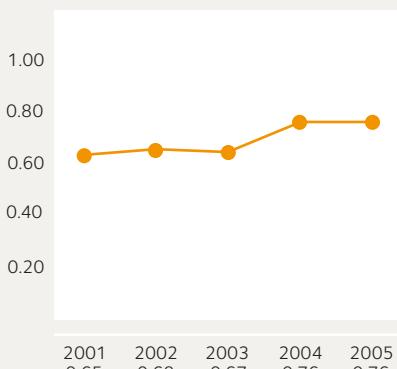
In 2006, Statoil and Shell will look at the commercial and technological aspects of the project, to clarify the preconditions for profitability. The companies want to be constructive contributors to secure robust industrial solutions for the carbon dioxide issue. Plans call for the various elements of the project to be phased in during the period 2010–12.

WASTE (EXCL HAZARDOUS WASTE)



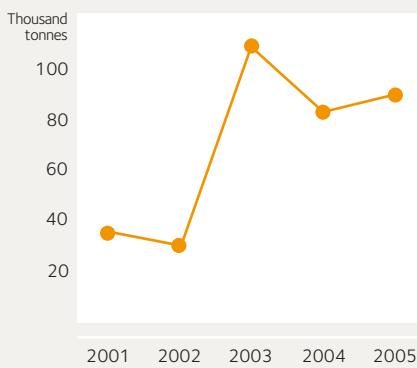
Definition: Total amount of waste for landfill and for recovery (excl hazardous waste) from Statoil operations (in thousand tonnes).

WASTE RECOVERY FACTOR



Definition: The waste recovery factor comprises industrial waste from Statoil operations and represents the amount of waste for recovery in relation to the total quantity of waste (hazardous waste not included).

HAZARDOUS WASTE



Definition: Total amount of hazardous waste from Statoil's largest land-based plants and operations on the NCS (in thousand tonnes). Hazardous waste is defined by national legislation in each country.

Discharges to the sea

Statoil has for many years engaged in extensive monitoring of water quality and bottom sediments around the platforms, but we have found little or no impact caused by discharges to the sea.

Produced water, drill cuttings and water-based drilling fluid are the most important discharges to sea. Produced water comes up from the reservoir together with the oil and gas, and is separated and treated on the platform before being returned to the reservoir or discharged to the sea. The volume of produced water usually increases as the fields become older. The Tampen area in the North Sea now produces more than twice as much water as oil.

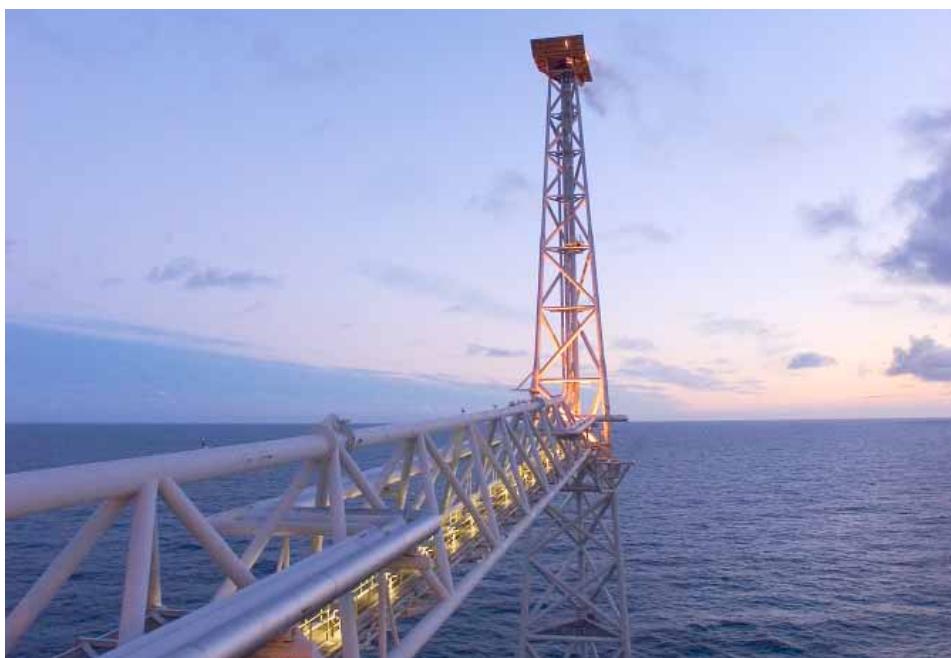
Extensive research has shown that barite and other chemicals found in drilling fluid and various other natural components and chemical additives in produced water may have a harmful effect on the marine environment if concentrations are high enough. We therefore work continuously to reduce the impact on the environment as much as possible, thereby reducing the risk of harm to a minimum.

Calculation of environmental risk

The environmental impact factor (EIF) is used to assess the environmental risk resulting from the discharge of produced water. The effect of different treatment methods, the replacement of chemicals and injection can be compared, thereby providing a good basis for choosing those measures that are most beneficial to the environment.

In cooperation with seven other oil companies, we have further developed EIF to also include discharges from drilling. It has been used in connection with more than 10 exploration drillings on the Norwegian continental shelf (NCS) and the Faeroese continental shelf and in the Caspian Sea. We are also considering using EIF as a decision-making tool in other countries where we have operations.

It is Statoil's opinion that the assessment of environmental risk, including environmental sensitivity, discharge quantities and timeframe, is a better way of protecting the environment than, for example, the



A fine evening on the Sleipner field.

setting of concentration limits alone. This is supported by the Norwegian authorities, and the authorities of several other European countries are positive to the development work being done in this field.

Zero harmful discharges

The Norwegian authorities have stipulated a requirement for zero harmful discharges from petroleum activity on the NCS by the end of 2005. In 2003, Statoil submitted binding plans to the Norwegian State Pollution Control Authority (SFT) for how this goal will be met.

Most of the planned measures have now been implemented. For practical reasons, the remainder will be implemented in 2006. An assessment of our zero discharge work carried out by the SFT in the autumn of 2005 was generally positive, but they stated that they will be following some fields closely and will consider setting new requirements for them.

Significant improvements

In 2005, the environmental risk for Statoil-operated fields, expressed as EIF, was reduced by more than 60% compared with the level in 2000. This has been achieved despite the fact that the quantity of produced water rose by more than 40% during the same period. New measures have been implemented, and these will further reduce the environmental risk. The discharge of oil with produced water has been reduced by more than 27.6%, and this amounts to more than 550 tonnes of oil during the period from 2000 to 2005.

Our first choice for new fields is to inject produced water, but other solutions can also be selected if overall assessments of environmental and safety-related factors conclude that other solutions are better.

Produced water is injected with 80–95% regularity on the Heidrun, Snorre B, Kvitebjørn and Glitne installations.

Production on the Kristin field started in 2005. Due to very high reservoir pressure, the produced water cannot be safely and responsibly reinjected. Other formations in the area are also unsuitable for injection. However, the amount of produced water is small, and only a small amount of chemicals will be used. The best solution, based on an overall assessment, is to use cleaning prior to discharge to sea.

The Statfjord field has been a pioneer in the development and installation of CTour cleaning technology. On the Gullfaks A and C platforms, low discharge quantities of oil and chemicals have been achieved by optimising the existing processing and treatment plants.

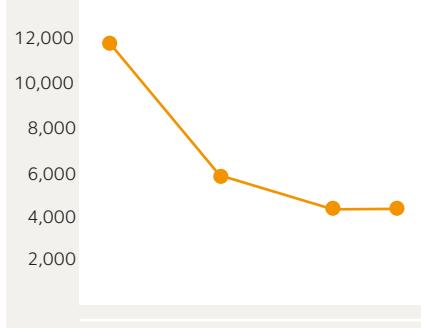
Drill cuttings and drilling fluid

By using oil-based drilling fluids on the NCS, the drilling waste can either be injected into a well or brought to shore for safe handling. Water-based drilling fluids are re-used to a great extent, and discharges have been significantly reduced in recent years.

In most cases, we do not find there to be an overall environmental benefit from bringing waste from water-based drilling fluids onshore, except in particularly vulnerable areas. With respect to drilling off Lofoten and the Barents Sea, there is a general requirement for zero discharges of drilling waste.

However, the handling and transport of large quantities of cuttings to land involves a significant safety challenge. For the Guovca exploration well in the Barents Sea and the most recent well on Snøhvit, we have therefore tested different systems for transporting cuttings to the supply vessels. With the exception of the top-hole section, all cuttings from these wells have been transported to shore for handling. Safe transport and environmentally responsible handling of the cuttings onshore is still a considerable challenge.

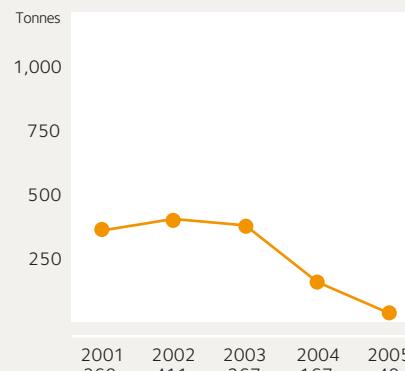
ENVIRONMENTAL IMPACT FACTOR (EIF)



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 2001 and 2003 are not included.

DISCHARGES OF QUESTIONABLE CHEMICALS



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

OIL SPILLS



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

All unintentional oil spills are included in the figures with the exception of those collected inside a facility (platform/plant) and which accordingly cause no harm to the surrounding environment. However, such spills are included for downstream market operations.



Gunnar Kvassheim
Member of the Norwegian parliament:

How can we make carbon dioxide (CO₂) management commercially attractive?

The willingness to take the Kyoto obligations seriously, the willingness to think long-term, collaboration between industry and the authorities, coordination across different sectors, and technology developments that reduce costs – these are some of the most important prerequisites for achieving commercial conditions for CO₂ management. Technology is currently available that enables carbon capture from gas-fired power stations. In order for such facilities to be commercial, the investment and operating costs must be reduced.

In collaboration with top industrial companies, and with Aker Kværner leading the way, Gassnova is working on a technology development project, which aims to make carbon capture plants cheaper to build and more efficient to run. The signs are that this ambition will be achieved within a couple of years.

There is a considerable financial potential in establishing a CO₂ value chain. The starting point must be that CO₂ is seen as a resource and not a problem. By considering the environment and value creation in relation to each other, the foundation can be laid for commercial solutions, which is not the case when the individual elements are considered separately.

Accidental spills

The *Eirik Raude* drilling rig which was used to drill Statoil's Guovca exploration well in the Barents Sea had an accidental spill to sea of 1,170 litres of hydraulic fluid on 12 April 2005. The oil type is in the black chemical category, but the authorities' assessment was that the spill had no significant environmental impact.

A major oil discharge of 340 cubic metres occurred from the Statoil-operated Norne field in the Norwegian Sea on 23 November. For more information, see the environmental data in Statoil's annual report and accounts (pages 138–140).

Planned measures 2005	Results 2005	Planned measures 2006
75% of all oil loaded offshore to be shipped in tankers with emission-reducing VOC technology	Sufficient capacity has been installed (13 facilities), but due to technical problems with the newest facilities the VOC reduction requirement has not been fully complied with	All installed facilities in normal operation to meet the reduction requirement in 2006. Plans call for three-four new facilities to be installed to meet reduction requirement in 2007
Zero harmful discharges to sea from oil and gas activities on the Norwegian continental shelf by the end of 2005	Planned measures implemented for most fields. A few fields had to postpone their measures until 2006	Implement outstanding actions to achieve the goal of zero harmful discharges to sea
Further develop the environmental impact factor (EIF) calculation tool for all emissions to the natural environment	New operational EIF tools have been developed for emissions to air, for drilling and for acute emissions	Approve and implement the calculation tool. Develop better user interface for EIF air. Further develop EIF for discharges from land-based plants to sea
Establish best practice for handling drilling waste from land-based operations	Fact finding and risk assessments for exploration drilling in Hassi Mouina, Algeria completed. Best practice under development	Area-specific drilling waste management plan to be completed

Biological diversity

Conserving biodiversity represents a key element in sustainable development. Statoil aims to help conserve it by protecting natural habitats, avoiding the introduction of alien species and preventing impacts at the level of plant and animal populations. These are challenges we already face in our operations in Norway, and which will also require considerable focus in our international activities.

Biological diversity embraces all living creatures and plants, and the ecosystems of which they form part. It is not only very important as a source of food, medicines and natural resources, but also has great spiritual, cultural and aesthetic significance.

Collaboration

The Energy and Biodiversity Initiative (EBI) – a collaboration between Statoil, three other oil companies and five conservation organisations – presented recommendations on how conserving biological diversity can be integrated with oil and gas activities. Several measures that were initiated by the EBI are now being continued in a biodiversity working group under the International Petroleum Industry Environmental Conservation Association (IPIECA) and the International Association of Oil & Gas Producers (OGP), in which Statoil is participating actively. The ambition of this group is to increase the awareness of biodiversity within the petroleum industry in general, and to develop guidelines and tools to conserve biodiversity.

Another of our involvements is a project to conserve biodiversity and reduce habitat fragmentation in selected areas in the Russian sector of the Arctic. The aim of this project is to test and further develop methods for integrated ecosystem management and involvement of local communities.

Mapping and monitoring

Our environmental monitoring activities were expanded in 2005 and now embrace a broader scope of biodiversity in deep water in the Norwegian Sea. We have also been involved in an international pilot study through the OGP that has focused on the effects of noise on sea mammals and other marine organisms.

Statoil also has representatives on the management committee of a research programme concerning seabirds and petroleum activities. In collaboration with the Norwegian Institute for Nature Research (Nina), Statoil took the initiative for this programme in 1999. In 2005 it was implemented for the Lofoten-Barents Sea area with contributions from the Norwegian Oil Industry Association (OLF), the Ministry of Conservation and the Ministry of Petroleum and Energy.

Requirements to work processes for environmental and social issues are stipulated in a separate governing document, which also describes biodiversity requirements. This means that biodiversity is now considered in all projects where it is relevant. Biodiversity has been an important topic of discussion in several early-phase projects, and in the choice of development solutions. The choice of route for the Langeled gas pipeline is one example.

Continuation of activities and further action

In 2006 we will continue our collaboration with conservation organisations and other oil companies to promote the conservation of biodiversity and to develop common standards, guidelines and tools. Our monitoring and mapping of the marine environment will be further developed to include documentation of biodiversity related to drilling operations through the use of remotely-operated vehicles (ROVs).

Statoil is constantly assessing whether to perform biodiversity studies in the different areas where we operate. The group is working on biodiversity in the Plataforma Deltana project in Venezuela, to name one example.

Planned measures 2005	Results 2005	Planned measures 2006
Biological diversity will be assessed in all relevant projects	Requirements defined in governing document have been implemented in early-phase projects and in the selection of development solution	Studies ongoing to concretise the group's biodiversity challenges
Collaboration with specialist groups and organisations to develop guidelines and tools to conserve biodiversity	Guidelines prepared for ecosystem policy and guidelines for biodiversity action plans	Continue the collaboration and contribute to the implementation of the international impact analysis conference
Increased focus on biodiversity in mapping and environmental surveillance	Expansion of environmental surveillance in deep water, Seabird Population Management and Petroleum Operations (Seapop) programme implemented, pilot study on the effects of marine noise on sea mammals implemented	Participate in programme for mapping drilling activities, further develop the Seapop programme and participate in marine noise research programme



Olav Kårstad
Project manager, Statoil

How can we make carbon dioxide (CO₂) management commercially attractive?

Through the CO₂ injection projects on Sleipner and Snøhvit, Statoil is regarded as a pioneer for a completely new type of climate initiative. There are several reasons why these projects came about, but perhaps the most important one is the carbon tax that the Norwegian authorities introduced for petroleum activities back in 1992. This tax is high and is so far unequalled in other countries. Large volumes of CO₂ have been used for several decades to improve oil recovery from oil reservoirs on land in the USA and some other countries. This has taken place on purely commercial terms, and without the climate being considered. One crucial reason why the use of CO₂ for improved oil recovery has become such a major activity in the USA is the access to cheap CO₂ from natural reservoirs. Until now, the oil activities in the North Sea have not had such cheap CO₂ sources at their disposal. Together with reservoir and cost factors, this has delayed a similar development. The frame conditions may, however, be changing, which could accelerate such projects. Since the Kyoto protocol came into force in February 2005, the emission of CO₂ into the atmosphere has become costly in many countries. I believe that this will gradually become a significant driving force for improved oil recovery through the use of CO₂. But for this to happen, the storage of CO₂ in geological formations must be recognised internationally as a safe method, and be accepted as part of the quota trading system for greenhouse gases.

Products

Our ambition is to develop efficient products that meet customer requirements and entail the lowest possible resource consumption and environmental impact. Product quality must be continuously developed if products are to keep abreast at all times of the innovations that are taking place, in the field of engine and exhaust gas cleaning technology, among others.

Statoil produces and sells a broad spectrum of products developed from both fossil and renewable sources. The production of all products requires energy and entails emissions to air and discharges to water. It is often the case that the cleaner the product, the more energy is required to produce it.

Petrol and diesel will dominate

Conventional fuels will dominate for many years to come, and Statoil is therefore endeavouring to make petrol and diesel more environmentally friendly. Combined with modern engines and exhaust gas cleaning systems, the removal of sulphur from fuel means that conventional technology is environmentally competitive.

Our refineries at Mongstad and in Kalundborg can supply petrol and diesel with a low level of sulphur – less than 10 parts per million (ppm) – and since 1 January 2005, Statoil has sold this quality on the Norwegian, Danish and Swedish markets. The European Union (EU) requires full implementation in all member states by as early as 2009.

Exhaust gases from engines are becoming cleaner and cleaner, not least because they are equipped with new cleaning systems to meet stricter EU requirements. Nitrogen oxides (NO_x) cleaning using AdBlue is such a system. AdBlue is the commercial name of a chemical based on urea. Statoil is now planning how AdBlue can be made practically available on the motor vehicle market. In 2005, we also supplied 180 tonnes of urea to supply vessels in the North Sea. This reduced NO_x emissions from the vessels by about 125 tonnes. We expect the use of urea to increase in this market in the future.

In Denmark it has been possible for the agricultural industry to tank sulphur-free fuel as Statoil was first on the market with 10 ppm sulphur in Danish agricultural diesel.

Statoil has reduced the sulphur content in fuel oil in Denmark and now only supplies oil with 50 ppm or 10 ppm sulphur. In Norway and Sweden, the sulphur content is higher, but in Sweden we offer fuel oil with 10 ppm sulphur and in Norway fuel oil with 50 ppm sulphur.

Increased focus on bioproducts

Statoil wishes to lead the field in the use of bioproducts in our markets. All the 95 octane petrol that we sell in Sweden contains 5% bioethanol. In Sweden we also sell considerable amounts of E-85, which is petrol with 85% bioethanol. At year-end 2005, we had 83 service stations selling E-85 in Sweden, an increase of 23 stations from year-end 2004, and approximately 30 new ones are planned



Per Andersson fills his vehicle with a mixture of 85% ethanol and 15% petrol at a Statoil service station in Stockholm. At 31 December 2005, Statoil had 83 sales outlets in Sweden for this environmentally-friendly fuel.

in 2006. In Sweden, Statoil also sells diesel based on rapeseed oil at eight stations as well as biogas fuel from waste at three stations. Statoil in Lithuania has also started to sell petrol containing 5% bioethanol.

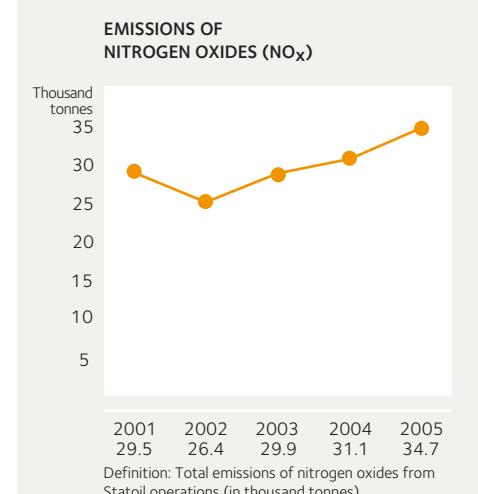
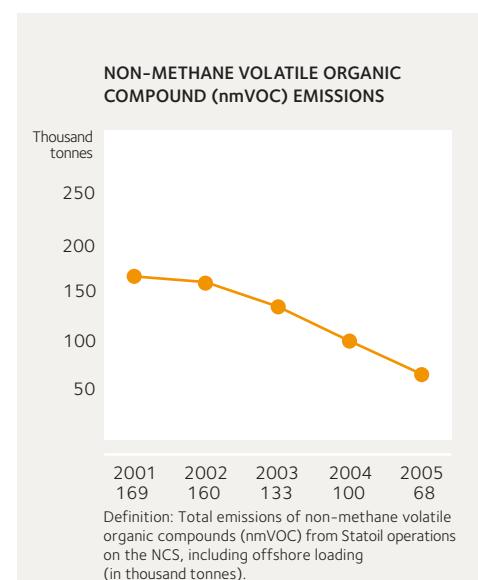
Statoil is positive to biofuel from local waste and biofuel with a major environmental effect. Statoil has continued its efforts to produce oil from salmon waste. In 2005, selected large clients in Norway consumed about 2.9 million litres of diesel containing 2-5% salmon oil. This represents a saving to the environment of around 180 tonnes of carbon dioxide. In Norway, the demand for biodiesel has been low so far, but we believe that the market will gradually increase in coming years.

Wood pellets are renewable energy, and Statoil is a major player in the wood pellets market in the Nordic countries. An increasing number of big clients and private persons are switching to wood pellets as an alternative to oil products. In 2005, the sales volume in Norway, Sweden and Denmark totalled 191,000 tonnes, which corresponds to about 10% of the total market.

Lifecycle analyses

Statoil cooperates with the Conservation of Clean Air and Water in Europe (www.concawe.be) on investigating energy use and carbon emissions from fuel, production processes and engine combinations. The data base which resulted from this work forms the basis for selecting environmentally friendly solutions. In Statoil we require lifecycle analyses for new products and mixture components. This also applies in connection with the introduction of new processes, if the environmental characteristics are expected to change substantially.

Planned measures 2005	Results 2005	Planned measures 2006
Carry out lifecycle analyses for new products	No new products launched	Carry out lifecycle analyses as required



Reuse is beneficial

The turnover from the sale and rental of surplus materials was NOK 65 million in 2005. This is an increase of NOK 17 million from 2004. The increase is primarily due to high activity in connection with new projects relating to the offshore activities and onshore plants.

Surplus materials are defined as materials and equipment that can be reused for their original purpose. This does not include waste handling. The materials are categorised as saleable material and equipment for rental, respectively. Good traceability and an efficient sales process has led to increased sales revenues for the owners, higher second-hand value and improved environmental gains. Very small amounts of surplus materials are recycled as metal returned for remelting.

The sale of used and unused tubing, 6,500 tonnes in total, was the biggest product group in 2005. Surplus materials from Statoil are sold to customers all over the world. Rental equipment from surplus material stores is used in drilling projects on the Norwegian continental shelf, including the Snøhvit and Norne fields, while used rental equipment has been used in subsea operations on Tordis and Kristin.

www.statoil.com/surplus

Research and development

All Statoil's activities affect the environment. Statoil's research activities are central to achieving the goal of zero harm to the environment. We work on:

- increasing knowledge about the impact of our activities and products on the surroundings
- developing risk assessment tools
- developing technology in order to reduce the risk of harm to the environment
- developing fuels
- renewable energy
- energy-efficient solutions
- carbon dioxide management
- hydrogen

Statoil's total research activities amounted to NOK 1,066 million in 2005 compared with NOK 1,027 million in 2004. Environmental requirements and technology are integrated in all relevant research programmes, and research is carried out in close cooperation with our suppliers and other research communities.

Statoil invests in the supplies industry and contributes to building up companies that work on environmental technology. We have patented a total of 391 different inventions that are currently active. In 2005, patents for 35 inventions were applied for.

Tools for calculating environmental risk

Statoil led the work on developing the environmental impact factor (EIF), a calculation tool for assessing the environmental risk of discharges of produced water. This tool is now used by the industry and the authorities. EIF is discussed in more detail in the chapter Discharges to sea on page 44.

During 2005, corresponding calculation tools have been developed for emissions to air of nitrogen and sulphur oxides and volatile organic compounds, discharges from drilling and acute emissions. The tools that cover discharges to sea are also being adapted for international use.

Reduced discharges to sea

CTour cleaning technology has been installed on Statfjord C and it has produced good results so far. The same technology is to be installed on the other two Statfjord platforms in 2006. EPCON cleaning technology has been installed on Heidrun, Snorre A and Norne, and it is being assessed for Gullfaks and Tyrihans.

Statoil works continuously to reduce the use of chemicals and to develop and use more environmentally friendly variants, and this has produced excellent results. At the same time, materials, process design and operating methods are being developed that require less use of chemicals for the separation of oil and gas, and for the control of corrosion and of hydrate and wax formation.

Vessels that load products at Statoil's onshore facilities discharge considerable amounts of ballast water. Even though the monitoring of facilities has not proved that harmful organisms have been introduced, we are participating in the development of new technology for the purification of ballast water on ships.

Research on Arctic topics

Petroleum activities in the Barents Sea and other Arctic areas involve extra challenges in connection with transport, emergency response to oil spills and handling of produced water and drilling waste.

Statoil is doing extensive work to improve the technology for combating oil spills in coastal and ice-covered areas. This work is closely related to the increased focus on technology development and on increasing knowledge about Arctic areas.

Other important areas for our environmental research are energy efficiency, technology for the reduction of nitrogen oxide emissions, carbon dioxide management, the use of gas, and hydrogen as an energy carrier.

Statoil is working on identifying possible solutions for the establishment of a commercial carbon dioxide value chain. The work includes reviewing different technologies for carbon capture, potential transport solutions and various storage alternatives. It is a prerequisite for a commercial value chain for carbon dioxide that the authorities change the financial framework conditions.

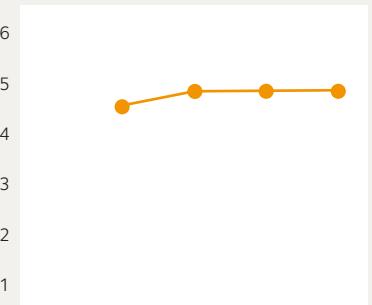
Hydrogen centre with filling station

As part of our work on hydrogen as an energy carrier and in cooperation with Statkraft and Det norske Veritas, we are building a centre for technology development and demonstration, the Hydrogen Technology Research Centre (Hytrec) in Trondheim. It is scheduled for completion in 2007 and will include a research department, a hydrogen filling station and a visitor centre. The objective is to develop clean, safe and energy-efficient solutions for the production of hydrogen from water and natural gas. The hydrogen will be tested further in vehicles and used for combined energy and heat production.



Statoil's goal is to achieve a leading position in terms of understanding and solving environmental challenges in connection with petroleum activities in the Arctic.

NATURAL ENVIRONMENT



"Concern with the natural environment is given high priority in my entity."

Source: Amou

New energy

The unit for new energy will engage in business development in areas of long-term significance to Statoil. Its efforts will focus on the reduction of greenhouse gases, on increased use of cleaner energy carriers and the development of new energy solutions based on hydrogen, energy efficiency, renewable energy and carbon dioxide management. The unit was established in 2002 in order to attend to business opportunities resulting from changes in the energy markets.

It remains uncertain whether hydrogen will become an important energy carrier despite the great attention hydrogen is attracting internationally. Both technological and commercial obstacles must be overcome if hydrogen is to become a viable fuel in the transport market. If a market does develop, Statoil can become a hydrogen supplier by producing hydrogen from natural gas at an early phase.

The first hydrogen station in Stavanger

Statoil is a participant in HyNor, which is a national development project created in order to promote the use of hydrogen in the Norwegian transport sector. The objective is to develop an infrastructure of filling stations so that it will be possible to drive on hydrogen from Stavanger to Oslo by 2008. In August 2006, Norway's first hydrogen station will be established in Stavanger. The station will sell pure hydrogen and a mixture of natural gas and hydrogen. Hydro, Statkraft and the county councils in Akershus and Rogaland are among the participants in HyNor.

New energy is taking part in a project called FYK which promotes environment-friendly fuels and innovative Norwegian environmental technology. The project aims to develop a car that will use a mixture of hydrogen and natural gas called hythane as fuel. Hythane burns cleaner than natural gas alone.

Collaboration with Volvo

In 2005, Statoil and Volvo formed the company PowerCell AB, to develop and commercialise hydrogen and fuel cell technology. The first product is an auxiliary generator unit for the production of electricity in heavy vehicles that require electricity in the driver's sleeping area, for the cooling unit or lifting devices. The auxiliary generator unit eliminates the need to idle when the vehicle is stationary. Installing the unit in a large vehicle will result in an annual reduction in greenhouse gases of about 30 tonnes of carbon dioxide, and a reduction in emissions of nitrogen oxides and particles.

Biofuel

Biofuel—bioethanol and biodiesel—are man-made liquid fuels produced from organic raw materials. Biofuel can be used in vehicles in pure form or combined with other components. In May 2003, the EU adopted the directive on the promotion of the use of biofuel. The directive set a target for biofuel to constitute 2.0% of the total fuel consumption in EU countries in 2005 and 5.75% in 2010. Norway has not yet implemented the directive, but in the autumn of 2005 the Norwegian authorities set their own target figures for biofuel: 2% in 2007 and 4% in 2010.

During 2005, the new energy unit established production of biofuel as a potential new priority area within the renewable energy field. Our starting point is Statoil's expertise and position in the fuel market. Statoil wishes to prepare for a possible situation in which fuel suppliers are required to add bio-components to petrol and diesel.

Energy-efficient solutions

Increased efficiency in the use of energy is one of the most important contributions to reducing the effect on the climate caused by the use of fossil fuels. Combined heat and power production, also called co-generation, is the most important single measure in the EU in this area aimed at reducing carbon dioxide emissions and improving security of supply. In February 2004, the EU adopted a co-generation directive, which is intended to stimulate increased use of co-generation.

New energy is involved in co-generation through its 90% holding in EC Power AS, a company that develops and sells micro co-generation systems of 10–20 kW that run on natural gas and diesel. In 2005, the company concentrated its efforts on the German market and sold about 100 systems during last year. Sales are expected to rise to between 700 and 800 systems in 2008.

Through its 82% holding in Energikilden AS, the new energy unit is involved in co-generation from landfill gas. Landfill gas is an energy source which reduces carbon dioxide when burned because landfill gas has a greater effect on the climate than carbon dioxide. Energikilden AS put two new plants into operation in 2005 and a third will commence operation in February 2006. In 2005, the company produced roughly 9.5 million kWh of electricity.

 www.statoil.com/newenergy

Young eco-dialogue

At the end of 2004, Statoil's senior vice president for the environment took the initiative to form a team of young Statoil employees and gave them a special environmental mandate: to challenge the group internally on environmental issues and communicate with external organisations such as interest groups and youth sections of political parties.



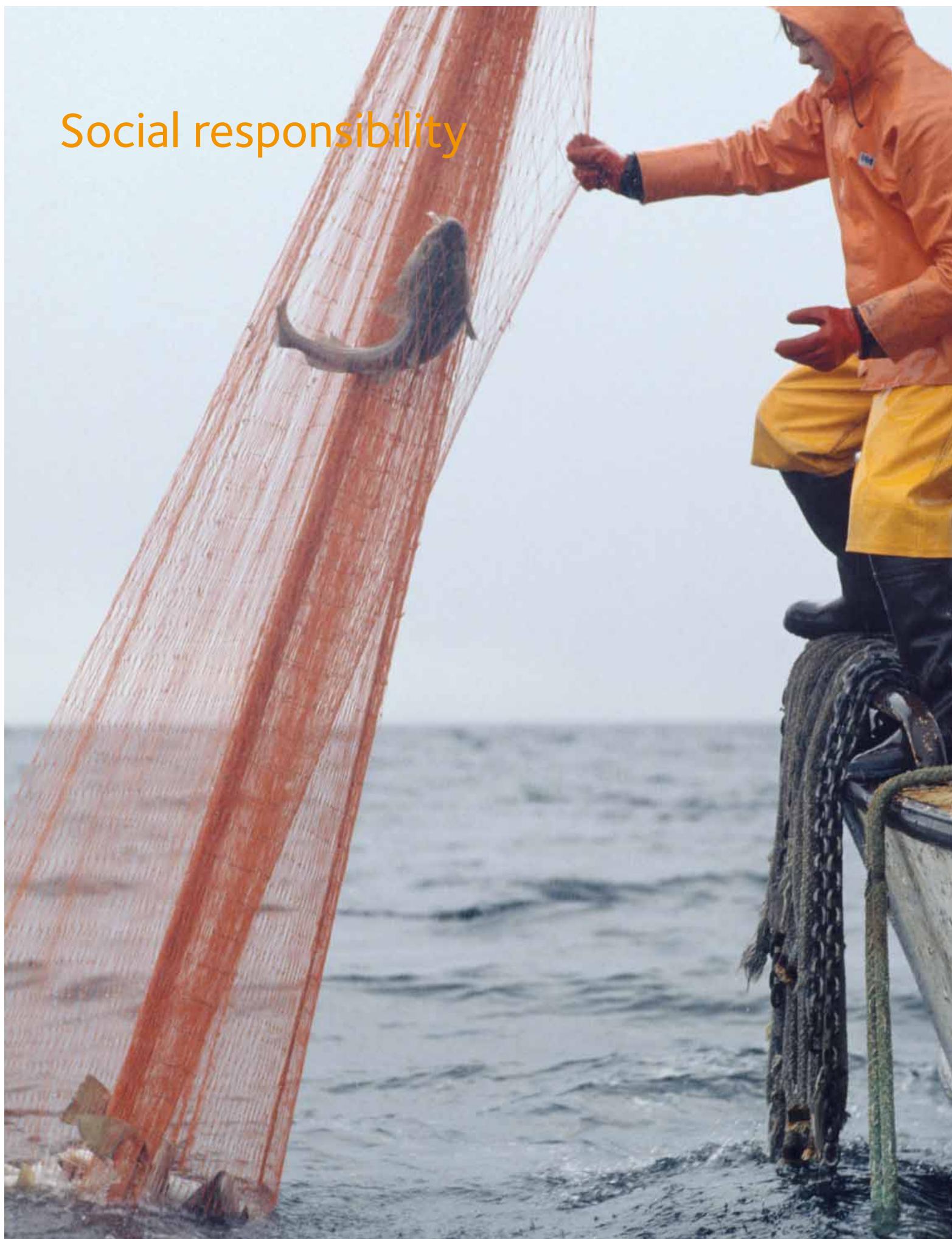
Torunn Bogenes and her team will raise challenging environmental issues.

The team is headed by Torunn Bogenes, a corporate trainee in the health, safety and environment staff function, and comprises six young employees aged between 28 and 35 from different parts of the organisation. The reason for creating this team is that the environmental agenda in society is, to a large extent, set through pressure from the youth sections of political parties and environmental organisations with young members.

"In the first year of our work we invited young politicians to accompany us to Hammerfest and the Snøhvit facilities," says Ms Bogenes. "We combined the visit there with a seminar on environmental challenges and issues related to the oil activities in the far north."

The team was also responsible for the programme and execution of the group's Natural Environment Day, where the theme was climatic challenges.

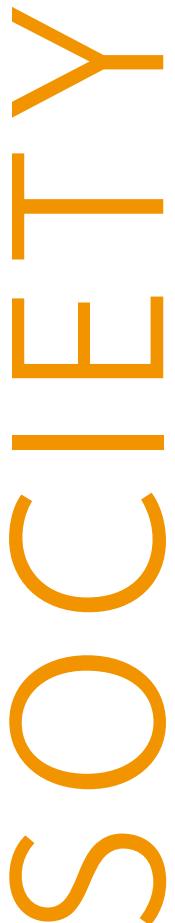
Social responsibility



We will conduct our activities in a manner that combines strong financial results with focused efforts on the environment and social responsibility. The picture accompanying this text serves to remind us that important preconditions for exercising social responsibility are openness, dialogue and cooperation with those affected by our activities.

We have drawn up a corporate strategy for social responsibility built on the three focus areas: transparency, labour rights and human rights and local spin-offs. One of the main elements in the strategy is the development of plans for social responsibility in the countries in which we operate. Information on our work on country plans is provided in a separate article – with examples from our activities in Algeria.

We have also included an article on the fishing community of Akassa located at the mouth of the Niger Delta, where we have supported a development project since 1997 that builds on significant local participation. In 2005, we received a distinction from the World Petroleum Council for best community project for our involvement in the Akassa project.



Strategy

In 2005, Statoil drew up a strategy for social responsibility. The strategy is built around the three target areas – transparency, human rights and labour rights, and local spin-offs. The strategy emphasises that all activities and measures must be based on the group's objectives and needs and the challenges it faces, as well as the needs of society. In order to succeed it is important to carry out thorough risk analyses and impact assessments. Based on these analyses and extensive dialogue with various stakeholders Statoil identifies expectations of and risks to the group and the consequences for society. Country plans are prepared on that basis. The process of developing country plans is described in more detail in the next chapter.

Transparency

Statoil has undertaken to inform stakeholders about the group's activities, challenges and results. Dialogue with stakeholders is an important means of identifying risk and creating realistic expectations.

Statoil supports important industrial openness initiatives such as the Extractive Industries Transparency Initiative (EITI) and the Publish What You Pay campaign. This year, we have again decided to publish a number of key figures from our production countries such as revenues, taxes paid and payroll expenses. By showing greater openness about financial key figures we hope to encourage more transparency in the industry. This may contribute to greater predictability in the oil and gas industry. We will thereby reduce the risk both to the society in which we operate and to the group.

We still do not find it appropriate to publish figures for surrendered "profit oil"^{*} in individual countries as we are bound by confidentiality clauses. In 2006, we will initiate discussions in relevant international fora aimed at reducing confidentiality restrictions in future contracts.

In connection with the World Economic Forum's initiative on partnering against corruption, Statoil has proposed closer cooperation with three other important initiatives: Transparency International, the International Chamber of Commerce and the Global Compact's 10th principle on anti-corruption. The proposal bore fruit in December when all four made a joint statement on their intention to cooperate with each other.

* Profit oil, which is the net production volume remaining after costs and investments have been paid, is shared between the participants in a licence and the authorities.

Human rights and labour rights

The most important work on human rights is done through our day-to-day running of the organisation. Raising consciousness is integrated into the business process through the inclusion of human and labour rights into risk analyses and impact assessments. In 2005, in cooperation with Amnesty International, we trained our employees to deal with dilemmas and issues concerning human rights.

Statoil's approval of the UN's Global Compact initiative (page 68) is an important means of communicating the group's support for sustainable business principles to the world at large. In 2005, we contributed to the requirement for reporting progress on the implementation of the principles being made more stringent.

"The Shanghai Declaration" is a result of the Global Compact's China Summit. The declaration forms a good foundation on which to discuss and implement improved labour and human rights when cooperating with Chinese companies.

Through the Business Leaders' Initiative on Human Rights (BLIHR), we seek to increase our ability to understand and deal with local operational issues. BLIHR comprises 10 companies from various industries which cooperate to develop tools and methods. This is done in collaboration with important voluntary organisations which challenge the companies' social responsibility and commitment to human rights in their operational activities. This collaboration is nearing the end of its first phase. In 2005, Statoil was actively involved in the preparation and launching of "A guide for integrating human rights into business management", which has now been submitted for comment to the different industrial sectors.

The Voluntary Principles on Security and Human Rights initiative is now in its fifth year. The initiative has been important in highlighting the connection between respect for human rights, security and security services. One important element is how we can prevent violations of human rights – or be accused of being complicit in such violations.

Local spin-offs

Only a few countries with significant oil and gas production have succeeded in utilising the revenues and activities generated to create positive and sustainable development. It is important to Statoil to contribute to positive development in the societies in which we operate. One means of doing this is to conduct our business in an ethically responsible manner and to high standards.

Through analyses we try to identify possibilities and limitations that exist, for example in the local supplier industry, the general infrastructure, in education and professional expertise. By working systematically we seek to exploit and maximise the positive spin-offs resulting from our presence in a local community, region or country.

Statoil wishes to build on and further develop the potential generated by establishing new commercial activity in a local community. We therefore work actively to establish standards and procedures for purchasing goods and services locally, and on using the local supplier industry and labour in our concrete projects. In terms of suppliers for our core activity, it can be difficult to balance our requirements for quality and high standards with local needs for jobs and the development potential provided by participation in the project. Statoil's thinking and work in this area is in line with the Growing Sustainable Business initiative taken by the UN with a view to encouraging foreign companies and investors to contribute to building sustainable business activity in developing countries.

Planned measures 2005	Results 2005	Planned measures 2006
Implement the project for improved measurement of risk to reputation	First part of project carried out	Further develop operational method for managing risk to reputation
Increased integration of analysis of country risk in the decision-making process	Is now integrated into all projects with moderate to high country risk	None
Develop indicators to measure social consequences as part of the impact assessment in Algeria	Baseline study carried out. Impact assessment of our drilling operation initiated	Conclude the impact assessment of the drilling operation. Establish relevant follow-up and monitoring of preparations for the next phase of the project
Develop a robust method for measuring the indirect financial spin-offs of our presence through a pilot project	Identification of best practice has been carried out. A proposal for further preparation and operationalisation is available	Implement a pilot project in which different methods are tested throughout the business
		Develop a "toolbox" for developing and evaluating country-specific strategies for social responsibility
		Test a tool for selecting suppliers based on social responsibility criteria

SOCIAL RESPONSIBILITY



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

Source: Amou



Raymond Johansen
Norway's deputy foreign minister

Should Statoil be an ambassador for democracy when it operates in countries with different systems of government?

The Norwegian authorities and companies have a common interest in ensuring that a Norwegian financial presence in international markets helps to promote stability and reduced political risk. The social responsibility that the companies display is important, particularly with regard to the extraction of natural resources. A good corporate culture and high integrity create spin-offs locally. By ensuring there is sufficient local input, Statoil can contribute to the transfer of expertise and technology.

Safety needs must be safeguarded in a way that does not impinge on human rights. It is also important to help ensure that resource revenues are administered in a way that promotes development and social stability.

I commend Statoil for publishing its payments to host countries in 2004. This is an example of how Statoil can communicate values that underpin democracy and stability. In this way, Statoil is an ambassador for values that Norway can profit from by promoting. Social responsibility should be a Norwegian competitive advantage.

Country plans

One of the main elements in Statoil's social responsibility strategy is the development of local plans covering the countries in which we operate. The plans must be integrated in the projects we take part in, and in the business plan for the country. Work on the plan will be based on the projects in which we are involved, business plans and objectives, the social risks that we have identified and local needs. This means carrying out a comprehensive and thorough survey and engaging in dialogue with all the relevant stakeholders, from politicians to the local community and voluntary organisations.

The main challenge lies in ensuring that the activities we implement will have a lasting effect and long-term value for society and the group.

The model illustrates the process of developing country plans



At present there are no sufficiently precise tools to measure the value and effect of this type of involvement. The value that the different stakeholders assign to our presence is an important criterion for whether or not we succeed. In 2006, we will continue to work on developing measurement tools that will assist us in this process.

At the end of 2005, plans or drafts of plans have been drawn up for a total of nine countries. By the end of 2006, our ambition is that all the plans will have a form and content that reflects the group's priorities.

Algeria

Statoil is a partner in Algeria's third and fourth largest gas projects, In Salah and In Amenas, and is operator for Hassi Mouina, an exploration licence in the Sahara that covers an area half the size of Denmark. Our partners in Algeria are the Algerian national company Sonatrach and BP.

Although the oil and gas sector in Algeria accounts for a significant part of the country's value creation and almost all its export revenues, only a small part of the country's workforce and a small number of companies are either directly or indirectly involved in the industry. In the vast desert areas in the south, where the entire production of oil and gas takes place, the local community is dependent on the few jobs that the industry provides. An important long-term objective in our new plan for the country is therefore to assist in establishing local service and supply companies, so that local supply chains are put in place.

A survey of the social factors in the inhabited areas in and around the Hassi Mouina block has given us insight into the needs of the local community and the greatest challenges facing it.

In 2006, we will cooperate with the UN Development Programme (UNDP) on the project Les Routes des Ksour. The objective is to develop the local infrastructure in the villages in and around the Hassi Mouina block in order to better facilitate the growth in tourism. This will create employment and provide increased revenues for local communities. By conserving old villages and renovating traditional underground waterways, we will also preserve the rich cultural heritage.

Cooperation with the Algerian Petroleum Institute (IAP) is an important contribution to strengthening

Algeria's oil and gas industry. Statoil has bought a 10% stake in this institute, which is to become the new national centre for training and contract research. This cooperation will help us to strengthen Algerian expertise at the national level. This also provides Statoil with an important national recruitment base for business activities in Algeria.

In August 2005, Statoil and Sonatrach signed a memorandum of understanding on business cooperation in Algeria, Norway and internationally. The cooperation covers research and development, drilling and health, safety and the environment (HSE).

Statoil's programme for personal safety, the safe behaviour programme, is being introduced in Algeria. In 2006, employees of In Salah Gas will participate in the Algerian version of the programme. The plan is that all employees in Sonatrach and those employed by the company's suppliers will participate.

Planned measures 2005	Results 2005	Planned measures 2006
Establish country-specific strategies for social responsibility in two of the countries in which we have our international operations	Carried out	Establish country-specific strategies for social responsibility for all countries in which we do business

Dialogue and cooperation

Statoil's sustainable development ambition cannot be realised without dialogue and cooperation with the communities in which we operate. We want an open dialogue with all interest groups that are affected by our activities. It is important to obtain feedback about how we are perceived by the outside world.

Oil and gas activity mainly involves the exploitation and processing of national natural resources. This means that it is subject to official regulation through laws, regulations and other provisions. Environmental requirements in connection with development and operation are becoming increasingly important, and constitute a central element in dialogues between Statoil and the outside world. In our dialogue with central decision-makers, we apply Statoil's values of openness and honesty and attempt to clarify how the choice of direction will affect our own interests and those of the world around us.

Oil and gas developments are often very large and extensive projects capable of transforming a local community. Our dialogue with local authorities, organisations and neighbours is therefore very important in the operating phase as well as in the development phase. In Statoil's opinion, a good relationship with neighbours constitutes a value in itself.

An example of such dialogue can be seen in our refinery at Mongstad near Bergen, where for many years we have had a neighbourhood committee composed of representatives from nearby village associations and the mayors of the adjacent municipalities. The neighbourhood committee provides a forum for Statoil to inform its neighbours about its operations and listen to their views. Mongstad also has extensive contact with local schools.

In the international arena, the Akassa project in Nigeria is a good illustration of how important a dialogue with stakeholders is to success. A central element of this dialogue is the building of an understanding of local conditions in order to manage risk and contribute to positive development in Nigeria.

Wide-ranging cooperation

Statoil cooperates with a number of humanitarian and interest organisations. We currently have corporate agreements with the Norwegian Red Cross, the Norwegian Refugee Council, Amnesty International, Transparency International, The United Nations Development Programme (UNDP), the Environmental

Our stakeholders

Statoil's external stakeholders include suppliers, customers, investors, official bodies, trade unions, humanitarian organisations, environmental organisations, politicians, partners and the local community. Statoil wants an open dialogue with all these groups, to inform them about our activities and plans and to learn from their experiences.



Peter Mellbye
Executive vice president for International Exploration & Production, Statoil

Should Statoil be an ambassador for democracy when it operates in countries with other systems of government?

Statoil operates in a number of countries that have systems of government that differ from that in Norway. As a company, we have developed a set of values that are expressed through *We in Statoil*. The individual's rights and the protection of these are important elements in this set of values.

We have specific regulations that address how we carry out our business. Ethics, and health, safety and the environment are some of the key aspects. Statoil's most important contribution in the countries where we operate is the value creation for which our investments lay the basis. Moreover, we run our business in accordance with our values and rules, we respect our employees' rights, we accept social responsibility and we are transparent with regard to, for example, payments to the authorities in host countries.

I believe that doing business with the aim of changing the system of government in the countries where we operate falls beyond the scope of what a company can legitimately do.

Foundation Bellona and the Norwegian Society for the Conservation of Nature. It is important to use these agreements to enhance expertise and raise awareness in Statoil about the challenges relating to the environment, human rights, transparency and humanitarian issues. We believe that close dialogue with different partners can have a positive impact on our ability to develop sustainable commercial opportunities.

The different networks and interest organisations in which Statoil participates are an important arena for dialogue and cooperation. The World Business Council for Sustainable Development, the International Association of Oil & Gas Producers and the International Petroleum Industry Environmental Conservation Association are examples of fora where experiences can be shared and challenges and solutions discussed. Participation in all these arenas provides the opportunity for joint initiatives and tools for handling challenges in the fields of the environment, human rights and corruption.

Dialogue with the EU

Statoil's EU affairs office in Brussels is the group's channel into the EU system. The office was established in 2002, and is intended to cover two main functions: firstly, to obtain and pass on relevant information about EU activities to the various Statoil entities that are affected by decisions taken in Brussels, and secondly, to act as Statoil's spokesman vis-à-vis the authorities and the various networks in Brussels.

Much of the EU policy-making takes place outside the formal institutions, in a great number of different networks. It is the job of the EU office to ensure that it picks up on debates and trends in such arenas, allowing it to form a picture of tomorrow's legislation and policies.

The EU headquarters in Brussels is not authorised to administer energy production in EU and EEA member states. However, the EU is obviously an influential think-tank. The EU's comprehensive gas directive is an example of just how important the organisation's policy is in the field of energy. It is vital for Statoil, as one of the biggest gas suppliers in Europe, to pick up on all facets of the policy that defines the framework conditions for European gas trading.

Statoil's EU office has also provided important input into the EU system on environmental issues, and it is now a natural participant when important climatic and environmental issues are being discussed.

Environmental cooperation

In 2005, Statoil entered into three-year cooperation agreements with the Environmental Foundation Bellona and the Norwegian Society for the Conservation of Nature. The object of the agreements is the mutual exchange of information and ideas to achieve a better understanding of the natural environment.

Bellona and Statoil will also challenge each other to promote further development of forward-looking environmental solutions. This should enable Statoil to make environmental improvements in its own activities. Bellona and Statoil are in active dialogue and exchange relevant professional material and experience. This cooperation aims at establishing a shared factual base and will focus on two main areas: climate and petroleum activities in the far north.

The cooperation agreement is intended to contribute to the development of a safe and environmentally acceptable environmental standard for Statoil's petroleum activities in the far north.

Through the agreement with the Norwegian Society for the Conservation of Nature, the parties hope to increase their knowledge about environmental challenges, in particular marine biology issues. We will share expertise on existing and future environmental factors and framework conditions, taking the consequences of new knowledge as early as possible and exchanging ideas about possible solutions. Statoil and the Norwegian Society for the Conservation of Nature have divergent views on petroleum activities in the far north but agree that we share a need for dialogue on the factual basis for the activities.

Social investments

Social investments address social problems outside Statoil's area of responsibility. They constitute part of the total activity plans for social responsibility for the individual countries and follow the process described in the previous chapters.

The projects supported by Statoil aim to build local capacity and to promote human rights and transparency. We also aim to improve local conditions relating to health, safety and the environment through our social investment projects. The process to be followed is described in Statoil's social investment guidelines.

Statoil's social investments must meet the following requirements:

- The projects will be carried out in cooperation with voluntary or international organisations with expertise in the chosen field.
- The projects must accord with the group's guidelines.
- The projects must have clearly-defined start and finish dates.

In addition to its own social investment projects, Statoil also contributes to projects run by operators of fields in which we participate. Statoil tries to ensure as far as possible that these projects meet the same requirements with respect to content and implementation as in its own projects.

In 2005, Statoil's social investments totalled about USD 8 million and included projects in 11 countries.

The allocation of funds largely reflects the group's activity in the individual countries. The highest investments are therefore made in Azerbaijan, Venezuela and Angola. Statoil also makes social investments in Nigeria, Iran, Brazil, Algeria and the Faeroe Islands and is planning investments in



Lill Heidi Bakkerud
Union official, Statoil

Should Statoil be an ambassador for democracy when it operates in countries with different systems of government?

Statoil was the first company to enter into a global agreement with an international trade union federation (the Norwegian Oil and Petrochemical Workers' Union – Nopef/the International Federation of Chemical, Energy, Mine and General Workers' Unions – ICEM). ICEM has 20 million members in 122 countries. The group is committed to complying with human rights – wherever it has operations – as laid down by the UN's International Labour Organisation (ILO). The pioneering agreement was entered into in 1998. There are currently 36 different global groups that have such agreements.

In a world that is becoming smaller, and in which companies are globalising their operations to an ever-increasing extent, it is vital that union rights are not undermined, but developed and strengthened. The trade union movement is a fundamental element of democracy. Without a trade union movement there is no democracy. Through the Nopef/ICEM agreement, Statoil is committed to operating in line with values that are found in a democracy. Thus, by complying with the principles in the agreement, Statoil can help to develop working conditions that are in line with democratic values. The group's acceptance of the trade union movement at all levels, from the local to the global, motivates the human rights efforts around the world – and actively contributes to the development of democracy in the individual countries.

Planned measures 2005	Results 2005	Planned measures 2006
Increase attention on social investments in line with the expansion of our international operations	Carried out	Continue the increase in line with the growth in our international projects and investments

Topic: Akassa A development project with local responsibility

Akassa is a fishing community located on the outer Niger delta. The clan's 30,000 members are scattered throughout 19 villages. There is no road system, no electricity supply and no clean drinking water.



The Akassa project is special because solutions have not been brought in from outside, but formed through internal discussions and decisions. In the early phase of the project, local residents gave priority to improving health services.

Since 1997, Statoil has supported a development project in Akassa which is largely based on substantial local involvement and participation in both planning and operation of the project. For its involvement in the project, Statoil was awarded a distinction for best community project by the World Petroleum Council in 2005.

The Akassa project was developed in cooperation with two voluntary organisations. One of them provided organisational project support, while the other provided specialised advisers who participated on local terms in working groups composed of people from Akassa. These groups were organised through the local project organisation Akassa Development Foundation (ADF).

Objectives and activities

One of the objectives of the project is to train the Akassa people to plan and carry out their own development work. One such activity is that they themselves run the ADF. The organisation is formally registered in Nigeria as a trust fund. It has about 50 employees and all except three or four of them are from the Akassa clan.

The activities are divided into five main areas: abolition of poverty, building local capacity, the environment, the infrastructure and institutional capacity development.

The long-term objective of the project is to establish the ADF as an independent development organisation which finances its own activities without assistance from Statoil, with activities in the five areas mentioned above. A pre-condition for independence is the partial transfer of the activities to local authorities as soon as they are ready to take over.

In the following, we will take a look at the ADF's activities and discuss the long-term potential for them to be carried out without assistance from Statoil.

Combating poverty

Establishing a micro-credit project has made it possible for individual members of the Akassa community to take up loans in order to make simple business investments in everything from grain seeds and fishing nets to establishing a mineral water trade and purchasing "market boats". This then enables them to earn a living.

Development of human resources

The residents' first priority in the early phase of the project was to improve health services in the area. This was done by establishing small, basic health stations in the least-developed areas of Akassa. Training was also implemented to improve the hygiene of local midwives. Basic pharmacies have also been established in several villages. The clan also contributed to ensuring that a public health centre was completed and taken into use.

The women's interest group identified a great need for nursery schools, which has resulted in the Akassa people now having several nursery schools in operation. These nursery schools provide several hundred pre-school age children with training and education. The ADF also instigated the building of a local resource and training centre. It teaches sewing, welding and computer skills. An internet café has also been established. One of the long-term goals of the resource and training centre is to provide training in the "Akassa model" to representatives from other communities in Nigeria.

Utilisation of the natural resources

The ADF has identified fish stocks and natural resources, and it has also proposed rules for sustainable utilisation of them. It is hoped that the local authorities will play an active role in implementing the rules.

The youth movement has also put a substantial amount of effort into the protection of the sea turtle colony that lay their eggs along Akassa's beaches. This work has resulted in Nigeria signing the Convention of Migratory Species.

Infrastructure

The infrastructure in Akassa is poor. Through the ADF, many basic improvements have been carried out, from building bridges to roofing and whitewashing communal buildings and schools. Everything is based on cooperation between individual groups, villages and the ADF. Through these activities, it appears that voluntary cooperation has now found its natural place as a working method among the people of the Niger delta.

Institutional capacity development

Through the establishment and operation of the ADF, members of the Akassa clan are trained to establish and run organisations. Training is also provided through practical work in planning, budgeting and project implementation. The prioritising and planning of projects is part of the institutional training.

An important aspect of capacity development is the implementation of full transparency in case processing and decision-making in the ADF. Budgets, accounts and plans are published both at the local ADF office and in the local newspaper.

Method

A cornerstone in the ADF's work is the relationship between the organisation and the local community. Another fundamental aspect is the organisation's ability to include large parts of the Akassa population in the organisation's decision-making processes.

Through transparent case processing and prioritising, an annual national development plan for Akassa is prepared. The plan provides the basis for a detailed budget based on consensus. In turn, this forms the basis for aid from Statoil. Aid is allocated on a yearly basis following a detailed review of the ADF's budget proposal. Follow-up and disbursement take place on a monthly basis in order to catch any budget variances at an early stage.

What is special about the Akassa project is that the solutions are not borrowed from others, but are developed through internal discussions and decision-making processes.

The Akassa model's transparent case processing and its roots in traditional African consensus democracy have contributed to its success.

The Akassa project has shown that a method largely based on involvement can be successful if it is combined with the development of institutions and local capacity.

Governing structure

Annual general meeting

The AGM is held every year before the end of June, and considers the annual report and accounts as well as the dividend to be paid. It elects members of the corporate assembly for two-year periods of service.

Corporate assembly

The corporate assembly monitors the management of the group by the board and chief executive, makes a statement to the AGM on the accounts presented by the board and considers issues of major significance in relation to the group's resources. In addition, the assembly elects directors and members of the election committee.

Board of directors

The board supervises the management and the group's activities. It adopts Statoil's plans and budgets, and handles issues of major strategic or financial significance for the business. It is responsible for the accounts and presents a proposal for the allocation of net income to the AGM. The board appoints the chief executive and establishes formal powers of attorney between board and chief executive.

The shareholder-elected directors are independent of and have no business relationships with Statoil. Nor is the corporate executive committee represented on the board. The corporate assembly elects seven members of the board, which in addition comprises three worker directors elected by and from the workforce.

The chapter on corporate governance in the annual report and accounts and the www.statoil.com/cg web site provide more detailed information.

Chief executive officer (CEO) and the corporate executive committee

The corporate executive committee comprises the chief executive and nine executive vice presidents, each with responsibility for a business area or corporate staff function.

Internal audit

The internal audit function is the group's independent controlling body, which monitors the business to ensure that it is subject to adequate management and control. The senior vice president for the corporate audit function reports directly to the chief executive and the board.

External audit

Statoil's external auditor is appointed by the AGM, and does no other work for the group in order to avoid conflicts of interest.

GRI index

GRI index	Page in report	Global reporting initiative	Reporting elements
Vision and strategy			
1.1	Cover, 4, 9-10, 56-57	Statement of Statoil's sustainability vision and strategy	
1.2	2-4	Statement from the CEO	
Organisational profile			
2.1	Cover	Name of reporting organisation	
2.2	Cover, 2	Major products and/or services, including brands if appropriate	
2.3	N/A*	Operational structure of the organisation	
2.4	N/A*	Description of major divisions, operating companies, subsidiaries and joint ventures	
2.5	Cover	Countries in which the organisation's operations are located	
2.6	N/A*	Nature of ownership; legal form	
2.7	N/A*	Nature of markets served	
2.8	Cover, 35	Scale of the reporting organisation	
2.9	N/A	List of stakeholders, key attributes of each, and relationship to reporting organisation	
Report scope			
2.10	71	Contact persons for the report	
2.11	Cover	Reporting period	
2.12	N/A	Date of most recent previous report	
2.13	N/A	Boundaries of report	
2.14	N/A	Significant changes in size, structure, ownership or products/services	
2.15	N/A	Basis for reporting	
2.16	N/A	Restatements and reasons for restatements	
Report profile			
2.17	66	Decisions not to apply GRI principles	
2.18	N/A*	Accounting criteria/definitions used	
2.19	N/A	Significant changes from previous years in measurement methods	
2.20	N/A	Policies and internal practices to provide assurance about the report	
2.21	69	Policy and current practice with regard to providing independent assurance about the report	
2.22	Cover	Means by which report users can obtain additional information	
Structure and governance			
3.1	11-12, 65	Governance structure of the organisation	
3.2	N/A*	Percentage of board of directors that are independent, non-executive directors	
3.3	N/A	Process for determining the expertise board members need to guide the strategic direction	
3.4	11,65	Board-level process for overseeing the management of sustainability risks and opportunities	
3.5	N/A	Executive remuneration for achievement of non-financial goals	
3.6	65	Organisational structure for implementation and audit of non-financial policies	
3.7	Many	Codes of conduct/policies relevant to sustainable performance	
3.8	N/A	Shareholders' communication with the board of directors	
Stakeholder engagement			
3.9	N/A*	Basis for identification and selection of major stakeholders	
3.10	59-62	Approaches to stakeholder consultation	
3.11	59-62	Type of information generated by stakeholder consultations	
3.12	59-62	Use of information resulting from stakeholder engagements	
Overarching policies and management systems			
3.13	12-13	Explanation of how the precautionary principle is addressed	
3.14	Many	Endorsed voluntary economic, environmental and social charters and initiatives	
3.15	17-19, 56-57	Principal memberships in industry/business associations and interest organisations	
3.16	11-12, 20-21	Policies and/or systems for impact management	
3.17	31-39, 41-53, 55-65	Approach to managing indirect economic, environmental and social impacts	
3.18	N/A	Major decisions regarding the location of, or changes in, operations	
3.19	Many	Programmes and procedures pertaining to economic, environmental and social performance	
3.20	12	Certification pertaining to economic, environmental and social management systems	

* Information about this can be found in Statoil's annual report and accounts for 2005. N/A = Not available

GRI index

GRI index	Page in report	Global reporting initiative Aspects addressed in this report
Economic performance indicators		
EC1-2	34-35	Customers
EC3, 11	20-21, 30-32, 35	Suppliers
EC4	30-32	Suppliers
EC5	30-32, 35	Employees
EC6-7	34-35	Providers of capital
EC8	35	Public sector
EC9, 12	N/A	Public sector
EC10	30	Public sector
EC13	29-39	Indirect economic impacts
Environmental performance indicators		
EN1-2	N/A*	Materials
EN3-4, 18-19	N/A	Energy
EN17	52-53	Energy
EN5, 20-22	N/A	Water
EN6-7, 25, 27, 29	41, 46-47, 63-64	Biodiversity
EN23, 24, 26, 28	N/A	Biodiversity
EN8, 10-13, 31	2-3, 41-46, 50	Emissions, effluents and waste
EN9, 30, 32	N/A	Emissions, effluents and waste
EN33	20-21	Suppliers
EN14	47-49, 51	Products and services
EN15	N/A	Products and services
EN16	7, 26	Compliance
EN35	N/A*	Overall
Social performance indicators		
LA1	32, 35	Employment
LA2, 12	N/A	Employment
LA3-4, 13	11, 16-18	Labour/management relations
LA5-7, 14-15	22-25	Health and safety
LA9, 16-17	18-19	Training and education
LA10-11	16-17, 19	Diversity and opportunity
HR1-2, 8	3, 20-21, 56-59	Strategy and management
HR3	16-17, 56-57	Strategy and management
HR4	16-17, 56-57	Non-discrimination
HR5	17	Freedom of association and collective bargaining
HR6	17	Child labour
HR7	17	Forced and compulsory labour
HR9-10	N/A	Disciplinary practices
HR11	N/A	Security practices
HR12-14	See 2004 report	Indigenous rights
SO1, 4	57-64	Community
SO2	12-13	Bribery and corruption
SO3, 5	N/A	Political contributions
SO6-7	N/A*	Competition and pricing
PR1, 4-6	N/A	Customer health and safety
PR2, 7-8	47-49	Products and services
PR9-10	N/A	Advertising
PR3	N/A	Respect for privacy

Global Compact

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

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: 3, 17, 56–57

Principle 2: Make sure that they are not complicit in human rights abuses
Pages: 3, 56–57

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
Page: 17

Principle 4: The elimination of all forms of forced and compulsory labour
Page: 17

Principle 5: The effective abolition of child labour
Page: 17

Principle 6: The elimination of discrimination in respect of employment and occupation
Page: 17

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges
Pages: 41, 45–47, 52 and 53

Principle 8: Undertake initiatives to promote greater environmental responsibility
Pages: 41–53

Principle 9: Encourage the development and diffusion of environmentally friendly technologies
Pages: 41–53

Anti-corruption

Principle 10: Business should work against all forms of corruption, including extortion and bribery
Pages: 12–13, 32–35

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 2005 (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 misstatement. 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 2005 on pages 134–140, 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, 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 9 March 2006:
 - site visits to 10 entities, selected by Ernst & Young (selection is based on a rotation principle, together with an evaluation of the entity's nature, significance and specific risks). During site visits we have interviewed managers and personnel who participate in collecting the data for the HSE accounting
 - testing on a sample basis to evaluate whether the data from the various entities have been correctly incorporated in the HSE accounts, and overall analyses of the data compared with earlier reporting periods
 - testing on a sample basis that the HSE accounting presented is based on defined and consistent methods for measuring, analysing and quantifying the data
 - evaluating 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 the article about Snøhvit, written by a third party, 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, 9 March 2006

ERNST & YOUNG AS



Jostein Johannessen
State authorised public accountant

We welcome your
feedback.

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Statoil's reports 2005



Annual report and accounts 2005

STATOIL



Statoil and sustainable development 2005

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Annual Report on Form 20-F 2005

STATOIL



Financial statements 2005
Norwegian accounting principles

STATOIL

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.

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.

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.

The financial statements 2005 Norwegian accounting principles contain the Statoil group accounts and the company accounts for Statoil ASA, in accordance with the Norwegian accounting principles (NGAAP).



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