



Solutions through cooperation

Statoil and sustainable development 2004



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Statoil is an integrated oil and gas company based in Norway. We are represented in 29 countries and have 23 899 employees. As the largest operator on the Norwegian continental shelf (NCS), our equity production in Norway is about one million barrels of oil equivalent per day. Our international output is rising steeply. Averaging 115,000 barrels of oil equivalent per day in 2004, it is set to reach in the order of 300,000 daily barrels by 2007.

We are the world's third largest oil trader after Saudi Aramco and the National Iranian Oil Company, and a substantial participant in the European gas market. We cover about 10 per cent of Europe's gas consumption and deliver gas to 14 countries

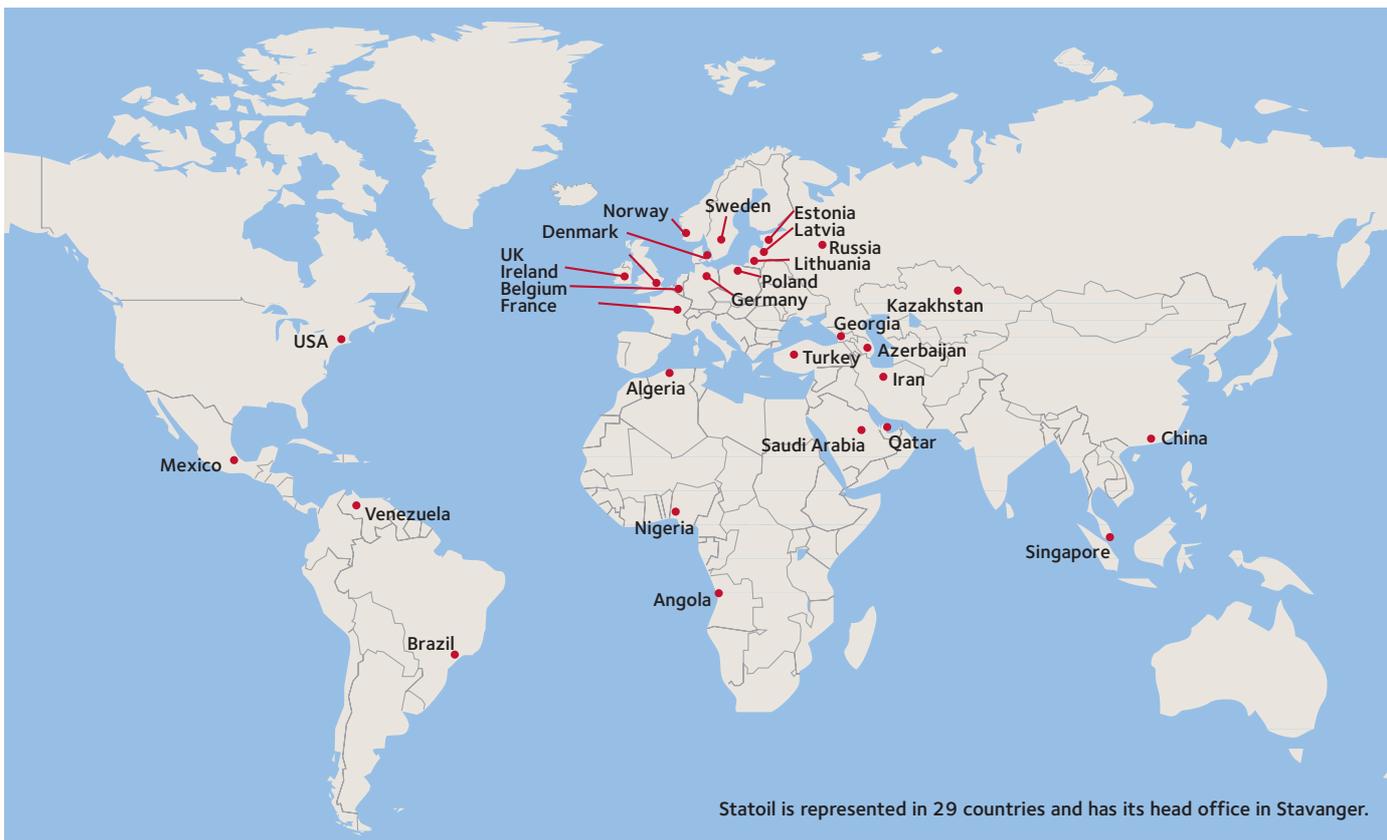
Our service stations are found in nine countries, we sell considerable volumes of petroleum products and we pursue substantial industrial operations.

As one of the world's biggest offshore oil and gas operators, we have been accustomed from the start to dealing with major environmental and safety challenges. We rank today among the world's most environmentally-efficient producers and transporters of oil and gas.

Value creation in Statoil can be described along a triple bottom line – economic performance, environmental impact and effect on society. Our annual report and accounts provides detailed coverage of financial results and environmental accounting.

This document will demonstrate – through examples and more detailed descriptions of guidelines, instruments, results and new targets – that we take the challenges associated with sustainable development seriously. On the basis of a clear set of values, we will conduct our business profitably and safely. At the same time, we will take account of the environment and show social responsibility.

Through increased awareness and commitment, we will improve our results along the triple bottom line so that they mutually reinforce each other. That forms the core of our commitment to sustainable development.



# Our performance at a glance

	2004	2003	2002
<b>Financials<sup>1</sup></b>			
Total revenues	306,218	249,375	243,814
Income before financial items, other items, income taxes and minority interest	65,107	48,916	43,102
Net income	24,916	16,554	16,846
Cash flows used in investing activities	31,959	23,198	16,756
Return on average capital employed after tax	23.5%	18.7%	14.9%
<b>Operations</b>			
Combined oil and gas production (thousand boe/d)	1,106	1,080	1,074
Proved oil and gas reserves (million boe)	4,289	4,264	4,267
Production cost (USD/bbl)	3.5	3.2	3.0
Finding and development cost (USD/bbl) (3-year average)	8.5	5.9	6.2
Reserve replacement rate (3-year average)	1.01	0.95	0.78
<b>Environment<sup>2</sup></b>			
Oil spills (cubic metres)	186	288	200
Carbon dioxide emissions (million tonnes)	9.8	10.0	8.9
Nitrogen oxide emissions (tonnes)	31,100	29,900	26,400
Discharges of harmful chemicals (tonnes)	167	367	411
Energy consumption (TWh)	48.1	47.1	42.1
Waste recovery factor	0.76	0.67	0.68
<b>Health and safety</b>			
Total recordable injury frequency <sup>3</sup>	5.9	6.0	6.0
Serious incident frequency <sup>3</sup>	3.2	3.2	3.8
Sickness absence <sup>4</sup>	3.2	3.5	3.4
Fatalities <sup>3</sup>	3	2	6
<b>Organisation</b>			
Employee satisfaction <sup>5</sup>	4.6	4.6	4.6
Proportion of female managers <sup>6*</sup>	26%	23%	23%
Union membership (per cent of workforce)*	73	70	70
R&D expenditures <sup>7</sup>	1,027	1,004	736

<sup>1</sup> Key figures given in NOK million

<sup>2</sup> Data cover Statoil-operated activities. Definitions on pages 34, 35, 37 and 45.

<sup>3</sup> Data cover Statoil employees and contractors. Definitions on pages 21 and 23

<sup>4</sup> Total number of days of sickness as a percentage of possible working days (Statoil employees)

<sup>5</sup> Working environment and organisation survey (Amou).  
Scale: 1 (lowest) - 6 (highest)

<sup>6</sup> New reporting system implemented

<sup>7</sup> 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 2004.

# Measures and results

Statoil's ambition to contribute to sustainable development is enshrined in our core values. The commitment we are making here finds expression in a number of targets and measures. This report shows how we have worked to promote sustainable development in 2004, and where our efforts will be concentrated during 2005.

In addition to presenting our results in each chapter, we provide an overview here of the most important priority areas.

	Page	Measures 2004	Results 2004	Further action 2005
Employees and the group	23	Avoid fatal accidents and major incidents which threaten life, health, the environment and material assets	Three fatal accidents, as well as incidents with a high potential – such as those on the Snorre A platform and at the Mongstad refinery, for instance	Target unchanged
	22	Reduce sickness absence (inclusive workplace)	Sickness absence reduced from 3.5 to 3.2 per cent	Maintain our low level of sickness absence
	13	Obligatory training in ethics and social responsibility for all employees	Programme initiated. All employees due to have completed it by 31 March 2005	Revise ethical guidelines and follow them up through information and training
	7	Communicate our values and make them visible to partners and contractors/suppliers	Targets/values were raised at joint meetings with contractors and partners and in the safe behaviour programme, which also involves contractor personnel	Communicate revised values base throughout the organisation. Incorporate these values in our tools and processes for human resources and organisation
The environment	34	Reduce annual greenhouse gas emissions by 1.5 million tonnes of carbon dioxide equivalents up to 2010*	Measures which contribute 26 per cent of the 2010 target were implemented by 31 December	Continue pursuing measures to achieve the target by 2010
Society	51	Specify frameworks for assessing the social impacts of our projects	Frameworks included in revised and formalised governing document for integrated environmental and social impact analysis (ESIA)	Create country-specific strategies for social responsibility in two nations in which we pursue our international operations.

\* 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

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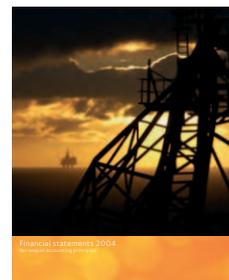
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The annual report and accounts contains the directors' report, the financial analysis, the annual accounts (USGAAP) and the HSE accounting. In addition come articles which give a good picture of our operations and governance systems as well as our 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 the most 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 2004 Norwegian accounting principles contain the Statoil group accounts and the company accounts for Statoil ASA, in accordance with the Norwegian accounting principles (NGAAP).

# Results

## Best ever

We had a record year in 2004, with a net income of NOK 24.9 billion. That represents an increase of 51 per cent from 2003 and is our best-ever result. Operating revenues came to NOK 306.2 billion compared with NOK 249.4 billion the year before. Our reserve replacement ratio was 106 per cent – which means that we found more oil and gas than we produced.

## Values

Our values and leadership principles have been revised. Being imaginative, hands-on, professional, truthful and caring about people and the environment are important qualities for developing a competitive organisation. Our values are presented in the *We in Statoil* booklet.



## Big transfers

We paid taxes totalling NOK 43.5 billion to the Norwegian community and NOK 28.1 billion in other countries in 2004. This edition of our sustainability report contains an overview of economic activities in the countries in which we have operations, which will also appear in subsequent years.

## First for emission trading

We were the first company to trade European Union emission allowances (EUAs) when the Nord Pool power exchange opened Europe's first carbon marketplace. In our view, emission trading will be the most effective way for industry to contribute to reducing greenhouse gas emissions.

## New environmental technology

A new treatment technology for produced water known as CTour, developed in cooperation with Stavanger's Rogaland Research, was installed on our Statfjord field in the North Sea. This solution will help to meet the Norwegian government's requirement that all environmentally-harmful discharges to the sea must cease by the end of 2005. The team responsible for developing this technology won our chief executive's prize for health, safety and the environment in 2004.

## Best in sustainability index

We were ranked as the world's best energy company on the Dow Jones Sustainability World Index in 2004. Compared with the 2003 assessment, we had progressed in guidelines, observance, and combating corruption and bribery. We also came third in the Goldman Sachs evaluation of sustainability work in the oil industry.

# Challenges

## Accidents

Three people lost their lives during 2004 while working on Iran's South Pars project. They were all employed by our contractors. These accidents represent a serious challenge for us. The total recordable injury and serious incident frequencies flattened out after developing positively in recent years.

## Serious gas leak

Most of the crew on our Snorre A production platform in the North Sea had to be evacuated on the evening of 28 November because of a serious gas leak from one of the wells. Thirty-five of the crew remained on board to stabilise the well. The platform was out of operation until February 2005.

## Refinery fire

Two people suffered minor burns when a fire broke out in the crude oil section of our Mongstad refinery near Bergen on the morning of 12 July. The flames were extinguished after about two hours. The financial cost came to NOK 100 million.

## Paid Horton fine

Our board resolved in October to pay a fine of NOK 20 million imposed by the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) over the Horton affair. This concerned the purchase of consultancy services relating to our activity in Iran. The decision to pay the fine represents no admission or denial of guilt. We have acknowledged that the Horton agreement represented a breach of our ethical guidelines.

# On the side of the future

by chief executive Helge Lund



The core of the sustainable development concept is the principle that this generation has a responsibility to ensure that our descendants inherit the same opportunities we have enjoyed.

Interest in the interaction between the business community and broad social interests has increased, and thereby the recognition that companies have a duty to operate in accordance with sound ethical principles and to accept responsibility for safety and the environment. A broad recognition of its social responsibility prevails today in the business community.

We in Statoil are conscious of our obligation to behave as a responsible member of society. Our commercial involvement rests on this responsibility, which ranges widely – from issues relating to the link between greenhouse gas emissions and global warming to practical measures for qualifying local companies to compete over contracts we award.

This report conveys the breadth of our commitment to sustainable development. It also presents some of the dilemmas we face.

On the basis of scientific evidence, we assume that production and consumption of fossil fuels can represent a burden on the environment, in part through global warming. At the same time, it would be unrealistic to imagine a development over the next 30-40 years where oil

“A broad recognition of its social responsibility prevails today in the business community.”

On the side of the future

and gas no longer served as the dominant energy bearers. Our job thereby becomes to minimise the unfortunate consequences of our business. One way in which we are doing this is to work systematically to reduce emissions to the air and discharges to the sea.

The issues involved are complex, and the dilemmas have no obvious solutions. We do not believe that the answer lies in rapidly phasing out fossil fuels in favour of renewable energy. Instead, we would urge an open exchange of views and are sceptical of all dogmatic stand-points relating to energy, the environment or sustainability.

Our contribution to reducing carbon dioxide emissions is twofold. We support active emission trading, and believe that this will be the most effective way for industry to help cut the global release of greenhouse gases. We are also working systematically on measures to reduce the volume of such gases emitted from our own facilities. That has put us in the absolute forefront among companies with the lowest carbon dioxide emissions per unit of oil and gas produced.

The world's first facility for removal and underground storage of carbon dioxide became operational in 1996 on our Sleipner East development in the Norwegian North Sea. We are storing carbon dioxide below ground on Algeria's In Salah gas field, and a similar facility forms part of our Snøhvit project in the Barents Sea.

Snøhvit is our first development in the far north. It combines cutting-edge subsea production technology with Europe's first export terminal for liquefied natural gas (LNG). This project ranks today as a field development which will cause no undue effects, and which is highly advanced in both environmental and technological terms.

We believe that great opportunities exist for finding more oil and gas off northern Norway. On the basis of our experience from Snøhvit, we think it is possible to develop these waters into a pioneering region for sustainable development with profitable commercial activities which meet stringent environmental standards. Ever since we drilled our first well on the northern NCS in 1981, we have given weight to dialogue with other social interests on the basis of mutual knowledge and trust. This dialogue has been founded on a shared desire for sustainable development of the north Norwegian community, with the emphasis on parallel progress for the fishing sector and petroleum activities.

Our operations currently span several continents. We work in countries with long democratic traditions, but also in nations where conditions are very different from those we are accustomed to in Norway – including weaker government systems and a weaker public sector. So we have devoted much effort to identifying specific issues which relate to our social responsibility. This involves pinpointing the areas where we meet the biggest challenges, and where our opportunities for exerting a positive influence are greatest. We have concluded that our efforts will yield the best results if we concentrate on local spin-offs, transparency and human rights.

We contribute to positive local spin-offs by recruiting and developing local employees, buying goods and services, and helping local suppliers to develop their expertise. Another way we can help is by transferring experience from the Norwegian petroleum industry to partners such as government agencies, national oil companies and contractors.

“We do not believe that the answer lies in rapidly phasing out fossil fuels.”

On the side of the future

We work for increased transparency on oil and gas revenues in those countries in which we operate. Such transparency will help to improve the administration of petroleum earnings while reducing opportunities for corruption. This and subsequent editions of our sustainability report will include key figures for a number of central producing countries. See the section on financial performance from page 28.

The contribution we can make to sustainable development depends to a great extent on our ability to collaborate with others. We will accordingly maintain our dialogue with various interests, in part through the UN's Global Compact initiative together with the business community. The UN has a great potential for coordinating efforts in the sustainability area among governments, commercial interests and voluntary organisations.

Our progress as a company will bring us into countries and projects where we cannot expect all our standards to apply immediately. Our goal of contributing to sustainable development does not mean that we can overcome every problem. But it does mean that we will work purposefully to close gaps relative to our standards. It also means that we are open about our plans for achieving this.

Working for sustainable development also means accepting specific responsibility for maximising resource utilisation and for the health and safety of everyone employed in our operations. We work purposefully to achieve ever better use of resources, and are a world leader for improved oil and gas recovery. On our best fields with platform-based wells, we currently recover 56 per cent of the stock tank oil originally in place (Stooip) in the reservoirs. Our ambition is to bring this recovery factor close to 70 per cent. On fields with subsea-completed wells, we have currently reached a recovery factor of 43 per cent and our ambition is 55 per cent.

Our ambition for health, safety and the environment is to cause zero harm, and we are working systematically to meet our HSE targets. We launched our safe behaviour programme in September 2003. This educational scheme aims to make each employee conscious of their personal responsibility for their own safety at work and that of their colleagues, and represents our biggest-ever commitment to improving safety. The programme will embrace a total of 25,000 of our own employees and personnel in companies working for us.

Our employees have built an organisation with strong qualities. It is now up to ourselves to achieve a continued industrial development which yields the best results for our shareholders and for the communities in which we conduct our operations.

On the basis of a clear set of values, we will work profitably and safely while also taking account of the environment and showing social responsibility. This forms the core of our commitment to sustainable development.

“Transparency will help to improve the administration of petroleum earnings while reducing opportunities for corruption.”



Helge Lund  
President and CEO

# Employees and the group

Contributing to sustainable development involves showing respect for people. This is about standards in working life, dialogue between employees and employer, the way performance is rewarded and how work on health and safety is pursued. These important issues are covered on the next 16 pages under the heading “employees and the group.”

But we also take this opportunity to write about the way we want to develop management, organisation and expertise into a competitive advantage. And we discuss what must underpin all practical work – values and ethics.

Our values and leadership principles were revised in the autumn of 2004. We regard them as fundamentally important for us. Sophia Mbakwe, one of our Nigerian employees, has the following to say about corporate values in an interview on page 10:

“They’re the very core of a company because they create an identity and reveal who it is and what it stands for.”



# Values and leadership principles

Our values and leadership principles are intended to provide guidance on how we behave, work and cooperate both in-house and externally. They were revised in the autumn of 2004 to make our values base clearer. These values and principles describe our qualities at their best – qualities which are important for further development of a competitive organisation. We believe it is important to be imaginative, professional, truthful, hands-on and caring in relation to people and the environment.

## Basis for building culture

Our values provide the foundation for building a good culture and reputation. A strong reputation is important if we are to realise our business goals. The way we run our business is just as important as the results we achieve.

To create good results over time, we are dependent on employees who are motivated and enjoy their jobs. The values base will help us to develop a good working environment and a strong corporate culture characterised by the qualities described in our values.

Big variations exist between the countries in which we operate with respect to politics, culture, and economic and social conditions. We work in settings characterised by change and uncertainty in many areas. A common values base provides continuity and contributes to security because we are clear about what we expect from the individual employee and from our group. The values help us to take decisions and find solutions which are acceptable in relation to the way we want to conduct our business.

## Creating a corporate identity

Common values help to give our group an identity among employees and to develop good and trusting relationships with partners, owners, governments, customers, organisations and other stakeholders. We also believe that clear values will help us to attract young, motivated and well-qualified employees.

Our values must be embodied and visible in the organisation. To achieve this, we will give priority to the following activities:

- managers will communicate our values in word and action in order to achieve ownership and common practice
- the values will be integrated in all human resource activities, such as recruitment, manager selection, performance evaluation and planning discussions, and expertise development
- the values will be communicated and made visible to partners and suppliers
- our working environment survey will be used to measure and systematically follow up the observance of our values, and ensure that the necessary improvement measures are adopted.

Our leadership principles set clear requirements for our managers. They must be dedicated, close to the business and their people, and clear about performance standards and individual accountability. Managers are monitored for delivery of results and change, developing and energising their people and demonstrating a passion for our values.

Measures 2004	Results 2004	Further action 2005
Communicate our values and make them visible to partners and contractors/suppliers	Targets/values were raised at joint meetings with contractors and partners and in the safe behaviour programme, which also involves contractor personnel	Communicate revised values base throughout the organisation. Incorporate these values in our tools and processes for human resources and organisation



**Name:** Jens R Jenssen

**Position:** Executive vice president for human resources, Statoil

**Q: Why is it important for a company to have values?**

A: We have enshrined our values in a special document. This provides clear guidance on the culture we aim to develop together.

In a world changing ever faster, it is important that our organisation has a fundamental stability in relation both to the people who work here and to the rest of society.

A values base provides a specific expression of such stability, and serves as a very good tool for developing people. Each of us can use it to evaluate our strong sides and to define and implement personal development plans.

A well-entrenched values base provides guidance on how we should behave in challenging conditions, both commercially and in relation to others externally and in-house. It clearly defines correct attitudes and behaviour in the organisation. These values meet the need we all have to look beyond our weekly results.

# Management and control



## Management and control

To reach our objectives, we need robust and efficient management systems. The interaction between the organisation, the management, the board and various stakeholders is of fundamental importance in corporate governance.

We apply the Norwegian model, in which governance responsibilities are divided between a chief executive and a board of non-executive directors. This structure ensures the independence of the directors. Combined with our other management and control systems, this institutional structure is important for creating economic, social and environmental value. Good corporate governance secures our licence to operate from society.

### Control and good judgement

Good corporate governance requires that our top management has adequate control of the business and exercises good judgement.

Through the governance model, management will ensure that the business builds on our core values and is pursued in accordance with the established guidelines.

Our values and leadership principles describe behaviour and qualities which guide the way we meet challenges, develop customer relations and strengthen our competitive position. The obligation to observe our values in both word and deed is not open to compromise. We have revised our values and leadership principles in order to establish a clearer values base.

Our corporate governance system specifies clear frameworks and requirements for the way issues are handled, and for involvement and control in decision-making processes. This system builds on the definition of group-wide corporate processes. At the same time, it requires that the chief executive's meetings ensure unified decisions combined with monitoring of each business area. The system also involves the creation of arenas and networks which support the business entities through quality assurance and by establishing best practice.

### Voice of the workforce

Employees in Statoil are concerned with our social responsibility. This finds expression in the issues raised and discussions pursued in our bodies for union-management cooperation. In addition, representation on the board gives employees opportunities to participate in and exercise influence over the shaping of guidelines for our group.

The voice of the workforce is also communicated through the annual working environment and organisation survey (Amou), which has been conducted since 1986. This measurement tool is used to map developments with organisational issues, management efficiency and satisfaction with the working environment. Conducted anonymously, with no responses traceable back to individual respondents, the survey has achieved a response rate of 85 per cent in recent years.

Results from the survey conducted in the autumn of 2004 indicate that we generally have a good working environment, where employees can apply their expertise and experience in their job. Progress was made from 2003 in a number of areas:

- trust in the group management was restored, and had returned to the level which prevailed before the Horton affair
- confidence that we will succeed with our international ambitions had never been stronger among the workforce
- confidence that we show social responsibility and act in accordance with basic human rights had markedly improved
- cooperation between management and unions in the business units had improved.



**Name: Torunn Bogenes**

**Position: Corporate trainee, Statoil**

### Q: Has the oil and gas industry managed to give the sustainability concept a real content?

A: This concept can seem a little woolly and contradictory in relation to the oil and gas industry, but is made explicit in Statoil through our philosophy of zero harm to people and the environment as well as our strategy on health, safety and the environment. The petroleum sector has done a lot which is positive with both the environment and social responsibility, but still has some way to go. It has power and influence, which should be applied to improving on the environmental side.

Norwegian policies stimulate good attitudes and initiatives in this area. These should also be applied in the international arena.

The research being done in such areas as renewable energy sources and energy efficiency help to give sustainability a real content. So it's important to be bold and make a long-term commitment in this area.

Future developments in the industry should reflect a conscious commitment to ensuring that activities don't undermine the environment or the living standards we want coming generations to enjoy.

## Management and control

The 2003 poll revealed progress in such areas as safety, training, personal development and assessment of the respondent's immediate superior. This progress was both confirmed and reinforced in the 2004 survey.

Only marginal changes were registered for all questions concerning workloads and health problems. Respondents found it difficult to locate data in the electronic information systems, and results here were weaker than in 2003. Results were also relatively weak for cross-organisational cooperation.

### Risk management

Adopting measures to reduce risk represents the core of safe project execution and operation. Identifying risk elements early in the work process is important for taking action against individual hazards. Freedom of action is greater and costs lower in the early phases of a project than at later stages. We continued to develop our control systems in 2004, and increased the attention paid by managers to risk management in the early phase.

### Country risk

A special model for analysing country risk has been applied in all our major projects since 2003. This makes it possible to compare projects and investment opportunities across national boundaries. We increased our capacity for such analyses in 2004. In addition, we established requirements for undertaking integrity due diligence of future partners and contractors/suppliers. Work on measuring and integrating management of reputational risk in decision-making processes was initiated in 2004 and is due to be completed during 2005. At the same time, we will continue to develop requirements for integrating country risk in decision-making processes.

### Supply chain management

A substantial part of our business is conducted in cooperation with our contractors and suppliers. During 2004, 22,500 companies delivered goods and services worth a combined NOK 62.8 billion to us. Our results depend on the way we select contractors/suppliers and cooperate with them.

We tightened our selection criteria during 2004. Apart from requiring that our HSE standards are observed, we stipulate requirements relating to ethics.

Our contractors/suppliers must have guidelines on ethics and conflicts of interest in their own business which accord with our values and objectives. The contracts must contain provisions on this.

We initiated our safe behaviour programme in 2003. This embraces both our own employees and contractor personnel.

### Certifications

Our system for overall management and control was certified to the international ISO 9001 standard in the autumn of 2002. This certificate is valid for three years, subject to annual audits. The second of these audits was carried out with good results.

Most of our central operational entities are now certified to ISO 9001 and ISO 14001, and the remainder should achieve such certification during 2005.



**Name:** Sophia Mbakwe

**Position:** Senior government and public affairs coordinator, Statoil Nigeria

**Q: Why is it so important for a company to have values?**

**Q: Why is it so important for a company to have values?**

A: Values are important because they underpin our corporate culture. They're the very core of a company because they create an identity and reveal who it is and what it stands for.

Values are the soul of a company. They reflect what we regard as the most important qualities of our organisation, and provide guidance on how we should conduct our business. Values are also significant because they express to the outside world who we are, and thereby build our reputation.

With defined values in place, we don't need to develop specific guidelines for every aspect of our business. The values guide our choice of solutions and priorities.

I feel that I identify with Statoil's values. Each of the five words used to express them relate to our everyday activities. You've got to be imaginative, hands-on, caring, professional and truthful. These are good norms for us.

Our values are clear and make us into a rather distinct company – one concerned with values. We definitely "walk the talk".

As Statoil employees, we should support its values and apply them in our daily work.

**Assurance letter**

We used the assurance letter as a supplementary reporting and management tool for the second year running in 2004. Its purpose is to emphasise personal responsibility for observing our values and guidelines. Through these assurance letters, we also obtain better reporting in the sustainability area from descriptions of such topics as ethics, labour and human rights, diversity and contractors/suppliers.

Measures 2004	Results 2004	Further action 2005
Revise and improve our guidelines and selection criteria for contractors/suppliers	Developed stricter requirements for our contractors/suppliers on HSE and ethics. An extensive safety programme to raise HSE standards among our contractors was implemented	The working safely with suppliers project has been initiated to implement the new and stricter HSE standards with suppliers, and ensure better cooperation between client and supplier
Integrate ethics and reputation-related risk analyses in all commercial decision-making processes	Integrity due diligence requirements were formalised and integrated in the decision-making process	Implement a project to improve assessment of reputational risk
		Greater integration of country-risk analysis in decision-making processes

## Accepted fine in Horton affair

Our board resolved in October 2004 to accept a fine of NOK 20 million imposed by the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) over the Horton affair. This concerned the purchase of consultancy services from Horton Investments Ltd in connection with our activity in Iran.

Before issuing its penalty, Økokrim conducted an investigation to determine whether criminal acts had been committed in connection with the affair. The fine was paid without the board admitting or denying guilt. Before the decision to accept the penalty, we had acknowledged that the Horton contract represented a breach of our ethical guidelines. The board has adopted a number of measures to prevent a similar issue arising in the future.

The US Securities and Exchange Commission (SEC) has launched a formal investigation of the consultancy agreement with Horton to determine whether any provisions of America's securities legislation – including the Foreign Corrupt Practices Act (FCPA) – have been breached. Together with American prosecuting authorities, the US Department of Justice is conducting a criminal investigation into the affair. The SEC informed us in September 2004 that it was considering the launch of civil proceedings for breaches of American securities legislation, including the FCPA. We are cooperating with the US authorities to secure the information required by their investigations.

Concluded in 2002, the Horton agreement was worth USD 15.2 million over an 11-year period. USD 5.2 million had been paid when the contract was cancelled in September 2003. This affair resulted in the resignations of our chair, chief executive and executive vice president for International Exploration & Production in the autumn of 2003.

# Business ethics



## Business ethics

We expect all our employees to aim at high ethical standards and to accept a personal and binding responsibility in this respect. Acting in such a way is part of our corporate identity.

We regard corruption as obstructive to all development. It represents a threat to democratic values and an obstacle to free and open competition. Corruption is illegal, and also threatens a company's reputation and business operation.

We have set ambitious goals for our business, which are to be achieved through extensive internationalisation and growth. The risk that we will be confronted with unethical and corrupt practices is growing. That threat could be encountered wherever we do business. But the challenge of pursuing commercial activity in line with our principles is particularly demanding in areas where social and economic conditions have lowered the threshold for such practices. Choosing partners who share our principles helps to maintain a high ethical standard in our operations.

Corruption is a global challenge. Major investments can attract such practices in any society. So paying constant attention to business ethics is important for our work, both in Norway and internationally. We must also protect our business against other types of criminal activity, such as physical threats and robbery.

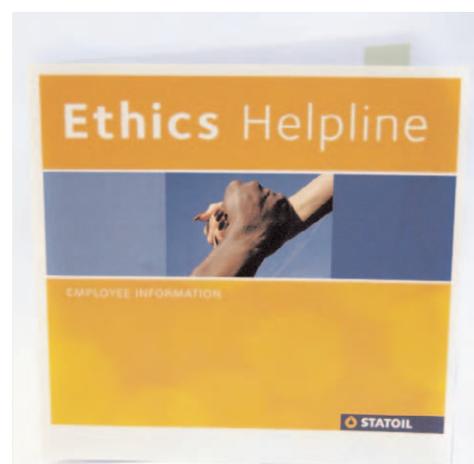
Two areas have been important in our work on ethics over the past year. We have developed a group-wide programme on ethics and social responsibility, which is now in use throughout the organisation. The aim is for all employees to have completed it by 31 March 2005. We have also continued to develop our in-house rules and procedures in order to keep pace with legislative developments. Our listing on the New York Stock Exchange means that we must observe US legislation on securities trading, which has become more extensive in recent years.

Work on business ethics is being pursued in several areas, and the development of clear ethical guidelines and standards has continued. A framework has been established for all procedures which can ensure that we avoid undesirable incidents. Our guidelines are developed and updated as required.

Consciousness-raising and prevention are pursued through systematic training. Our values base and ethical standards are conveyed to managers and employees in several ways. We now require all personnel to undergo ethics training at least once every three years. In addition, special courses are developed for selected groups of employees.

Monitoring and reporting of undesirable incidents takes place continuously through the line organisation or defined entities. Common guidelines have been developed for work on ethical issues in the corporate management and business area management teams. These bodies are required to discuss and follow up such activities in their own area of responsibility at regular intervals.

Measures 2004	Results 2004	Further action 2005
Obligatory training in ethics and social responsibility for all employees	Programme initiated. All employees due to have completed it by 31 March 2005	Revise ethical guidelines and follow them up through information and training
Customise ethics training for defined categories of employees	Incorporated in our management development measures. Own courses for selected groups of employees	Establish ethics committees at group level and in all business areas
Make the ethics help line group-wide	Established a permanent ethics help line accessible to all employees in their own language	



## Ethics help line becomes permanent

We resolved in the autumn of 2002 to establish an ethical help line for a trial period. This has given employees the opportunity to seek advice on or report ethical dilemmas they face in their place of work.

Marketing of the service was limited during the trial period. However, it has been made permanent from 1 January 2005 and expanded to embrace all employees in every country in which we have operations. An employee can call the help line in their own language.

The help line has been presented in a brochure distributed to all employees and through our in-house information channels. Our aim is to have an effective and confidential system accessible to every employee.

We have chosen to use an external service provider to respond to those who call the help line and to follow up their concerns. This approach also ensures a higher level of confidentiality.

# Labour relations



Statoil is committed to a set of core labour standards and to promoting dialogue and cooperation between employer and employees. We believe this contributes to creating a positive working environment, which promotes personal development and which helps to enhance trust and faith in our group. A good age distribution, a variety of cultural backgrounds and a reasonable balance between men and women will also create a better working environment and be positive for our organisation's ability to develop.

## Principles

We support core labour standards based on international conventions:

- freedom of association and collective bargaining
- freedom from forced labour
- elimination of child labour
- freedom from discrimination in employment.

These principles are enshrined in conventions under the International Labour Organisation (ILO) and are included in the UN's Global Compact partnership programme with the international business community, which we have endorsed. They form the basis for our human resources policy, which is intended to ensure equitable working conditions for employees both in our parent company and in our subsidiaries.

## Challenges

Our commitment to high labour and social standards will not be diluted by the fact that we are also involved in countries where labour rights have traditionally been weak. Proper observance of our corporate guidelines should ensure satisfactory working conditions for our employees. We also want to be perceived as a responsible employer because this will make us attractive in the labour market and increase understanding of our business activities.

## Performance

An open dialogue is important for in-house communication to achieve good relations with our employees. Works councils established both in organisational entities and regionally contribute to such discussion and gives employees opportunities to raise issues with management. They are also used to brief employees about our business activities. The way our formal union/management bodies function varies to some extent between countries owing to different legislation on and traditions of collaboration between employers and employees. Our European works council embraces employee representatives from all our principal businesses within the European Economic Area. The agreement which forms the basis for this collaboration was extended in 2002.

All employees are urged to take part in our annual working environment and organisation survey (Amou). This poll shows that our personnel take a positive view of working for us. A low labour turnover, particularly in our parent company, of 0.59 per cent is an indication that working conditions are regarded as good. The downstream business has traditionally had a high labour turnover, but we are working to reverse that trend. This has yielded positive results.

## Labour relations

Our share saving programme for employees is supported by 60 per cent of personnel in the parent company, which suggests strong loyalty and confidence in our prospects.

### Collaboration on dialogue

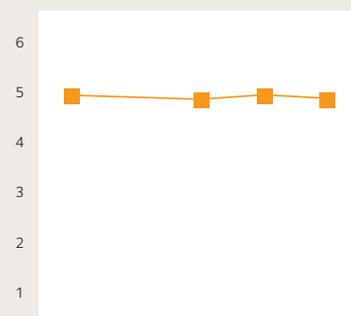
We have long been active in support of good working conditions and other labour standards, and have encouraged dialogue with external interest groups on such issues. A specific result of this commitment is our information-sharing agreement with the International Federation of Chemical, Energy, Mines and General Workers' Unions (ICEM). This is a global organisation with 20 million members in 110 countries. Concluded in 1998, our agreement with the ICEM was renewed for another two years in 2003.

Cooperation with the ICEM has focused primarily on discussing issues relating to our work on sustainability, training for union delegates and informing third parties about the content of our agreement.

Roughly 70 per cent of the employees in our parent company, Statoil ASA, are registered union members.

Measures 2004	Results 2004	Further action 2005
Retain a female proportion of 20 per cent among our managers	This proportion was 26 per cent	
Achieve a female proportion of 20 per cent in management posts for all business areas	The female proportion of managers in two of five business areas was still below 20 per cent	Target unchanged
Prepare group-wide guidelines for recruitment	Guidelines were prepared	The guidelines will be introduced in the first half of 2005
Increase the number of managers drawn from local staff in our international business	The number of local managers was unchanged	Target unchanged
Ensure that the workforce reflects ethnic and cultural diversity in those countries in which we have operations	Requirements to facilitate the appointment of local personnel were enshrined in human resources manuals	

### ETHICS IN PRACTICE



2000 2001 2002 2003 2004  
4.9 N/A 4.8 4.9 4.8

"In my unit we have a high level of ethical behaviour and practise good business morals"

Source: Amou

### CAREER OPPORTUNITIES

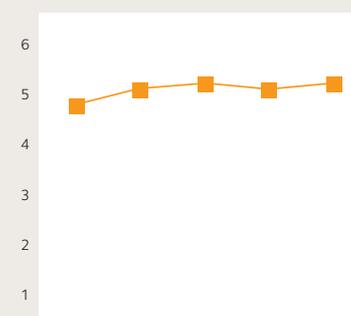


2004 2004  
4.2 4.2  
Women Men

"I am satisfied with my career opportunities in Statoil"

Source: Amou

### JOB SATISFACTION



2000 2001 2002 2003 2004  
4.8 5.1 5.2 5.1 5.2

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

Source: Amou

# Knowledge and skills

We want to develop our employees' expertise by giving them challenging jobs.



## Knowledge and skills

We intend to develop management, organisation, expertise and culture into a genuine competitive advantage. This means that we must recruit, develop and retain able and motivated employees. We want to develop expertise by giving our people challenging assignments combined with learning programmes which support their work.

### Challenges

Our plans for the next five years involve substantial growth. That creates an increasing need for additional expertise and to continue developing our existing capabilities. Expertise development will be based on the personnel requirements of the business units both immediately and in the long term. Recruitment and development of managers and employees is planned on the basis of clear expertise strategies. Giving new recruits a detailed introduction to the company is important. Good introductory programmes will help to develop a common culture based on shared values and a group-wide management system. A common culture makes it easier to achieve the best use of our resources.

### Performance

Strategic management of expertise involves the development of an overall plan for prioritising disciplines, directions and measures. A method for establishing and following up expertise strategies has been developed. This will be described during 2005 in a best practice document and incorporated in our management system.

### A learning organisation

The Statoil School of Business and Technology provides an important arena for learning and expertise enhancement, and is not a school in the traditional sense. Activities in 2004 focused on two areas: further development of the relationship between expertise requirements in the business and actual learning programmes, and being a prime mover for expertise-related measures in the business and specialist networks.

Responsibility for both operating and developing the learning portal – a web-based tool for registering to pursue learning activities and following these up – rests with the Statoil School. The portal was used to register 84,877 student days in 2004, covering 37,828 participants on 4,258 courses. In addition came 4,239 participants registered for e-learning, including 910 who started in 2004.

The Statoil School also contributed to the development of common tools and methods for expertise development and learning. Substantial work was devoted to the development of learning programmes. A few examples give an indication of their range – ethics and social responsibility in Statoil, a Snøhvit LNG introductory course, e-learning about information technology systems in emergency response leadership, and safe use of chemicals.

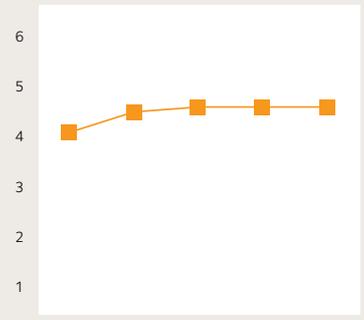
Further work was done with our management development programmes. About 400 managers participated in these, and 48 management teams have used them for collective development. Mentor and coaching programmes were established. A three-day introductory programme for externally-recruited managers and specialists has been provided since the first quarter of 2004.

### Corporate trainees

We established a corporate trainee programme in 2001, which is intended to meet part of our long-term expertise requirements in selected disciplines by providing structured development.

This scheme aims to equip young employees with broad knowledge and a good grasp of business. We received 2,600 applications for 26 trainee posts in 2004. Equal numbers of women and men were appointed. The two-year programme embraces job experience in three-four different parts of the group as well as learning modules.

#### ENJOY YOUR JOB

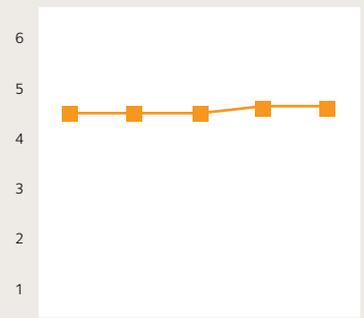


2000 2001 2002 2003 2004  
4.2 4.5 4.6 4.6 4.6

"All in all, how well do you enjoy your job?"

Source: Amou

#### KNOWLEDGE AND SKILLS

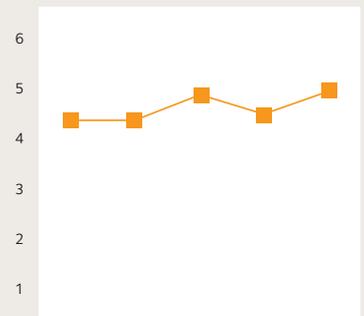


2000 2001 2002 2003 2004  
4.5 4.5 4.5 4.6 4.6

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

Source: Amou

#### STATOIL'S AMBITIONS



2000 2001 2002 2003 2004  
4.4 4.4 4.7 4.5 4.8

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

Source: Amou

## Knowledge and skills



**Name:** Fred Higgs  
**Position:** General secretary,  
 International Federation of Chemical,  
 Energy, Mine and General Workers'  
 Unions (ICEM)

### Q: What is the trade union movement's most important contribution to sustainable development?

A: The ICEM believes that the trade union movement has a major part to play in achieving and maintaining sustainable development. We have a vested interest in seeking to secure our members jobs both today and tomorrow. We are ready to criticise companies employing our members when necessary, but always try to do so in a constructive manner.

Our contribution to achieving sustainability involves us in a wide and varied range of activities. These include engaging with inter-governmental agencies, international financial institutions, national governments and industry initiatives. We also have a growing dialogue with the ethical investment community.

Otherwise, our most direct contribution to sustainable development is the pursuit of global agreements with multinational enterprises.

These enshrine internationally recognised principles and standards which a company will apply wherever they operate, regardless of whether they are required to do so by national law. We regard this as very important, since legislation in many countries does not protect human rights, labour rights or the environment.

Our trainee scheme has topped a popularity poll among Norwegian students carried out by Universum Communications. In the same graduate survey, we have also been rated as the most attractive Norwegian employer for eight years in a row by technology students and three years in a row by economics students. Over the past two years, we have also been regarded as the most attractive employer by young workers with up to eight years of experience.

### Cooperation with academic institutions

We continued to cooperate with Norwegian academic institutions in 2004 on the basis of existing long-term contracts, where our annual costs are about NOK 50 million. The goals for such collaboration can be summarised as follows:

- researching and developing knowledge in specific areas in order to identify solutions to our future challenges
- financing professorial chairs and doctoral students to develop unique expertise
- contributing to the transfer of knowledge and experience between us and our academic partners
- providing our employees with access to leading-edge expertise via web-based learning
- establishing an arena for recruiting able personnel

We commissioned Stanford Research Institute to evaluate our cooperation with these academic institutions. The findings were positive.

### Apprentices

Our parent company, Statoil ASA, has Norway's largest apprenticeship scheme, and maintains a high and stable level in training skilled workers. The annual intake is about 120 apprentices, and we took on 128 in 2004 as against 111 the year before. We currently have 239 apprentices spread over 23 different locations. A scheme has also been established which allows Statoil employees to secure a skill certification by documenting adequate and relevant practical and theoretical experience approved by the Vocational Training Board. Being certified as a crane operator is currently attracting much attention, with more than 100 employees having indicated their interest. This skill certification was officially approved in 2003.

### Summer project

Our summer project took place for the first time in 1998 as a collaboration with the Norwegian University of Science and Technology and Sør-Trøndelag University College. It was intended to play a role in recruiting newly-graduated specialists and to improve cooperation between industry and higher education bodies. The purpose is to give students job experience in an industrial company, with the emphasis on various modes of working and multidisciplinary teams. This distinguishes the project from traditional holiday employment.

The students work in project teams which support our principal goals for HSE, improved oil recovery, internationalisation and new business opportunities. We provide each team with a project manager, and the work is pursued in cooperation with tutors, professors and scientific staff at the educational institutions involved. Eighty-one students worked on 25 project tasks in the 2004 summer project.

Measures 2004	Results 2004	Further action 2005
Continue the Statoil School of Business and Technology in the business areas	Schools were established in all business areas. Stronger connection between commercial goals and prioritised measures	Further development of and improved efficiency for the Statoil School in relation to commercial targets
Improve the efficiency of our measures to enhance expertise	Expanded use of the common Learn@Statoil portal. More shared administrative processes established	
Improve commercial understanding along our value chain by maintaining educational programmes in cooperation with university-level institutions	Modules developed which can form part of a Master of Petroleum Management degree, including a module on business-driven field development	Devise and implement a common group system for determining targets, performance and development of managers and employees

# Big commitment to personal safety

We launched the safe behaviour programme in September 2003 as our biggest-ever drive to improve safety. Some 25,000 people – both our own employees and personnel from contractors working for us – are expected to complete this educational scheme before it ends in 2006.

The aim is to make each person conscious of their personal responsibility for their own safety at work and that of their colleagues.

The programme starts with a two-day workshop, which presents participants with the consequences of serious accidents, why such incidents occur, and what the individual can do to prevent them.

## Wants people to think more

Tony Kvarven works on Normand Ivan, one of the service vessels we charter on the NCS. He has taken part in the safe behaviour programme, and believes it to be an important initiative.

“I think this will get crew on the vessels to think more about their own safety and that of their colleagues,” he says. “At the workshop, we got to hear many examples of how badly wrong things can go, and how many are affected when an accident happens.”

“Nobody at the workshops lectures anyone about the need to behave more safely,” adds Geir Pettersen, our senior vice president for safety. “The programme is designed to allow each participant to draw their own conclusions and adjust their personal behaviour on the basis of their experiences in the workshop.”

## Follow-up important

But it takes time to change ingrained habits. So the safe behaviour programme includes arrangements for following up the workshops with systematic activities at each workplace for at least four years.

This follow-up aims to make people aware of how accidents can be prevented. The technical expression “barriers” is used for such preventive measures. For many years, a great deal of attention has been paid in safety thinking to technical barriers. But most accidents are a result of human action, and participants in the workshops carry out group tasks to enhance their awareness of the preventive barriers which each employee can construct. Examples include observance of the rules, open dialogue and concern for others.

Follow-up of the safe behaviour programme at each workplace will seek to strengthen such human barriers by getting each employee to change their attitudes and behaviour. This is being pursued through departmental meetings, HSE meetings and at each employee’s workplace, whether it be in a process plant or the deck of a ship.

 [www.statoil.com/sbp](http://www.statoil.com/sbp)



## Occupational health and the working environment



## Occupational health and the working environment

A good working environment is important for the individual employee and crucial for our group in reaching its targets. We believe that high standards for occupational health and the working environment exert a positive influence on behaviour and attitudes. That results in greater efficiency and good operational regularity, which in turn have a positive effect on total value creation for the community.

### Inclusive workplace and sickness absence

We concluded an agreement in 2002 with Norway's National Insurance Service on seeking to create a more inclusive workplace. This programme is based on the view that both physical and mental health benefit from being in work, and that the workplace is an important arena for solving health problems and overcoming disability. All entities in the group are required to monitor employees who take sick leave. Support measures must be put in place so that employees with health problems or reduced ability to function can quickly return to work. Should sick leave be necessary, systematic follow-up will be important.

We will also customise conditions for older personnel and employees with disabilities. Our objective is to reduce sickness absence. One instrument for achieving this is a programme which aims to help employees improve their physical condition through exercise. Over the past 11 years, several hundred employees with chronic musculoskeletal problems have been helped to enhance their daily lives through this fitness programme. It has attracted international interest.

Our sickness absence is almost half the national average in Norway. Statoil Sverige, which has 500 employees, was named Sweden's best workplace in the autumn of 2004 against competition from 1,300 other companies. The jury highlighted the way we have created a workplace with high job satisfaction, low sickness absence and little staff turnover.

### HSE culture

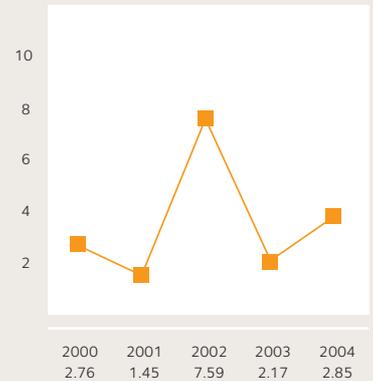
The HSE culture programme we have established is partly intended to enhance understanding of the factors which influence attitudes and behaviour relating to health, safety and the environment in an organisation. Improvements were made in 2004 to the way we assess our HSE culture. We have a number of measurement tools which collectively provide a good overview of HSE conditions in our various entities. The results will play a key part in shaping effective HSE measures. Both managers and employees need to work on behaviour, expertise, collaborative working, procedures and physical conditions in our group.

### Personnel redeployment

We face a number of challenges relating to organisational change, particularly on mature Norwegian fields where production is declining and the workforce has to be downsized. Experience shows that meeting the goals for an inclusive workplace is more demanding during such change processes. Arranging alternative work for people with a reduced ability to function will be more difficult, for instance.

When the volume of work declines or jobs are transferred, personnel need to be redeployed to new assignments. The unions are active participants in and contributors to the processes involved, where we seek to find good solutions both for the individuals concerned and for the group. A case in point is Statfjord, where production has declined sharply. The workforce on this North Sea field declined by about 140 people from 2001-04, and plans call for just over 120 to go during 2005. This downsizing is being achieved without redundancies by redeploying everyone to other jobs in the group.

FATAL ACCIDENT RATE



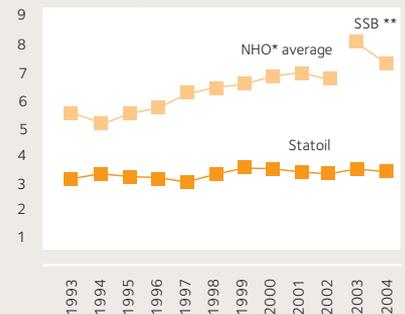
Definition: The number of fatalities per 100 million hours worked (Statoil employees and contractors).

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 3rd quarter 2004

### Computer technology and the workplace

We have witnessed very rapid technological advances in recent decades. However, growing automation and increasing use of computerised systems calls for a focus on employee opportunities and limitations. As long as an operation involves people, the workplace and work tasks must be shaped to take account of this. One ambition is accordingly to achieve a people-centred design when shaping jobs and workplaces.

The human factors concept puts people in the centre, with technology and organisation helping them take the right decisions, contribute to efficient operation, and establish positive, healthy workplaces. In adopting human factors analysis, we implement systematic analyses based on defined methods to deal with the interaction between people, technology and organisation.

We have worked over the past year to implement human factors analysis in a number of our projects, both new developments and modifications. This primarily concerns control room layout and the design of driller's and crane cabins. Through these projects, we have established ourselves as a pioneer with the human factors approach.



**Name:** Stein Bredal  
**Position:** Materials coordinator and convenor, Confederation of Vocational Unions (YS), Statoil

**Q: What is the trade union movement's most important contribution to sustainable development?**

A: Through union representation on the Statoil board and corporate assembly, we help to clarify which aspects should be included in the sustainable development concept. We ensure that these aspects are made visible, and ask critical questions during the process.

The high state shareholding in our group means that the general public feels that it owns part of us, so our activities attract particular attention. It is important to ensure that concepts such as transparency and social responsibility are invested with a genuine content and can be monitored by the media, politicians and shareholders. Ensuring that employees' union rights are respected by Statoil – also where we are a licence partner – is important for the union movement. Our group belongs among the front runners here. On the basis of our corporate values, we should also be able to send a message to the authorities in countries in which we work when they act contrary to our ethical guidelines. The union movement would often prefer that the oil and gas companies expressed themselves more strongly than they have so far. The companies should take a more united stand against what we regard as breaches of human rights.

Measures 2004	Results 2004	Further action 2005
Reduce sickness absence (inclusive workplace – IA)	Sickness absence reduced from 3.5 to 3.2 per cent	Maintain our low level of sickness absence
Customise the normal working day so that as many as possible can reach their agreed retirement age (IA)	Stable trend for age of retirement in Statoil, 2002-04	Target unchanged
Get people on long-term sick leave back to work (IA)	Long-term sick leave showed a clear decline in our parent company	Adopt IA methodology throughout our group

### Prized for health work

Statoil Nigeria won a prize in 2004 for its contribution to combating HIV/Aids through the international SmartWork development programme. This best practice award was presented on 9 December by the Academy for Educational Development, which includes the Nigerian Ministry of Labour among its supporters.

Margareth Sogbesan, the medical officer at our Nigerian subsidiary, also received a personal award for her role in launching the HIV/Aids support programme.

# Safety

Our goal is to conduct our business without harming people or the environment. Although many people regard this as fairly unrealistic, we believe that accidents can be avoided.

When we analyse accidents, certain causes crop up time and again. Such incidents often result from inadequate supervision by or attention from management, and unclear formulation of expectations. They are caused by failure to observe procedures, insufficient training and expertise, or a breakdown in communication. Something can be done about all these factors. But this is a long-term job, not least in getting the right attitudes ingrained. If we are to succeed, both technical and human barriers against accidents must be in place and respected.

The safe behaviour programme (see separate article on page 19) is the biggest drive we have ever launched to influence behaviour and attitudes towards safety work.

Three people lost their lives during 2004 while working for us. These fatal accidents happened in phases six-eight of Iran's South Pars development, and the deceased were employed by contractors doing work for the project. Their deaths underline the need to cooperate closely with our contractors to improve safety for everyone working on our behalf. The accidents were investigated with the aim of identifying their underlying causes and proposing measures to prevent a repetition.

A serious gas leak occurred on 28 November 2004 in a well on the Snorre A platform in the North Sea. Most of the crew were evacuated to other installations in the area. The leak did not lead to a fire or explosion, and nobody was injured. After being brought under control on 29 November, the well was secured and the platform analysed to ensure an acceptable resumption of production. The platform came back on stream in February 2005. This incident has been investigated both in-house and by the Petroleum Safety Authority Norway.

After several years of decline, the serious incident and total recordable accident frequencies were at the same level as in 2003. We are confident that future developments will improve, and that our systematic and thorough safety work will yield results. Our group has a strong commitment to HSE, and we are concentrating on the following principal elements for continued work in this area:

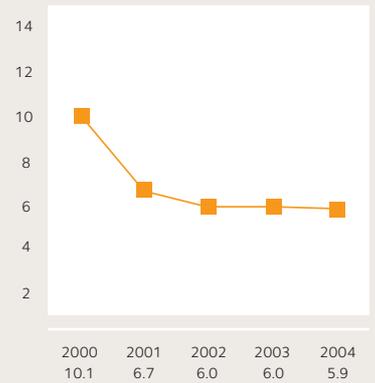
- an HSE training programme
- a group-wide programme for changing behaviour and attitudes
- the use of open safety dialogues
- the selection of and cooperation with our contractors and suppliers
- understanding and managing HSE risk in a global perspective.

## Targets

The zero mindset will remain the focus of attention in our safety work. Our target for 2005 is to avoid accidents which threaten life, health, the environment and material assets.

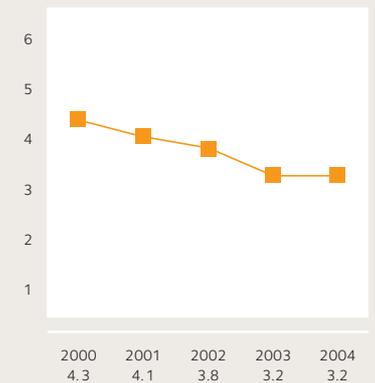
Measures 2004	Results 2004	Further action 2005
Avoid fatal accidents and major incidents which threaten life, health, the environment and material assets	Three fatal accidents in 2004, as well as incidents with a high loss potential – such as Snorre A and Mongstad, for instance	Target unchanged
Achieve a noticeable improvement in both total recordable injury and serious incident frequencies	Results for 2004 were the lowest ever. The improvement was marginal, and the target is accordingly regarded as not met	Target unchanged. Extend the safe behaviour programme throughout the group and follow it up in every operational entity for at least four years
The goal for Exploration & Production Norway is that every employee and their manager should hold two safety dialogues per year	Target was met in 2004	Strengthened use of safety dialogues in our group

**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).

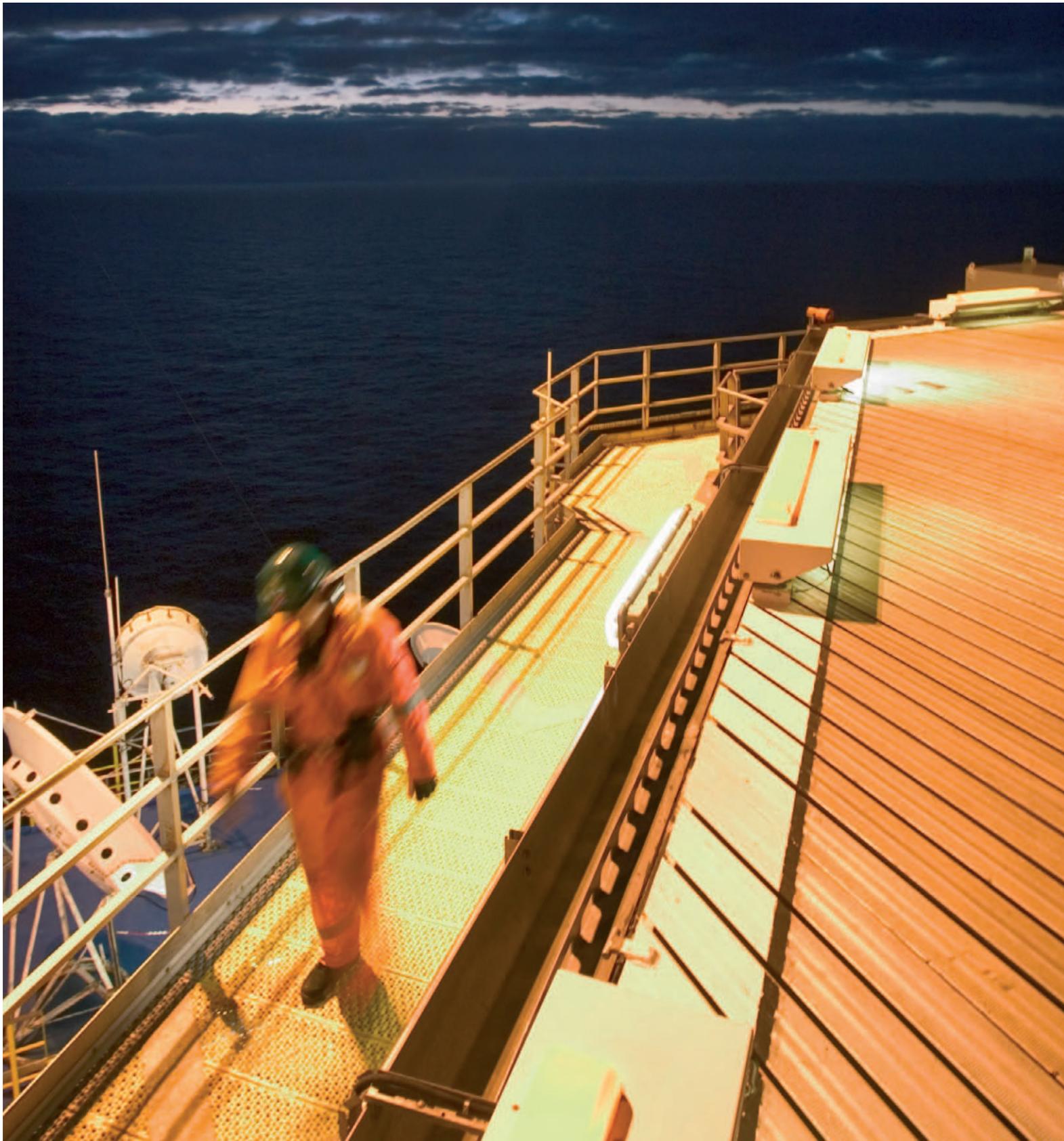
**SERIOUS INCIDENT FREQUENCY**



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. Risk matrices have been established where all undesirable incidents are categorised according to the degree of seriousness, and this forms the basis for follow-up in the form of notification, investigation, reporting, analysis, experience transfer and improvement.

# Financial performance and effects



## Financial performance and effects

Our primary duty is to safeguard long-term value creation for the shareholders. We do this by operating profitably and safely, taking care of the environment and showing social responsibility. Our operations have substantial positive effects through direct and indirect employment, procurement of goods and services and payment of direct and indirect taxes.

Measuring the impact of our activities is difficult, but we are working to develop better systems. We want to make the direct economic effects visible by providing a survey of different payments to key players. This presentation is based on the reporting guidelines developed by the oil and gas business through the International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API).

Our group achieved an income before financial items, other items, income taxes and minority interest of NOK 65.1 billion in 2004, compared with NOK 48.9 billion for the year before. A number of key figures for the business in 2004, with their effects for various groups, are presented in the table below. The content of the various figures is shown in the table on page 28.

Income taxes paid	NOK 38.8 billion
Indirect taxes paid	NOK 32.8 billion
Signature bonuses paid	USD 2.6 million
Proposed dividend	NOK 11.5 billion
Payroll costs	NOK 13.7 billion
Procurement of goods and services (invoiced value)	NOK 62.8 billion
Interest on borrowing	NOK 1.2 billion
Investment in own operations	NOK 42.8 billion
Research and development expenditures	NOK 1.0 billion
Suppliers	22,500, with mailing addresses in 80 countries

A large proportion of our value creation goes to governments in the form of direct and indirect taxes. Our group paid NOK 38.8 million in income taxes and NOK 32.8 billion in indirect taxes in 2004. Norway's share of our total tax payments was NOK 43.5 billion, with other governments receiving NOK 28.1 billion. As our investment in other nations yields increased production and revenue flows, tax payments to these countries will increase.

Some host countries require payments in the form of signature bonuses for the right to develop an exploration area. The size of such bonuses is based on the development potential of a licence. We paid USD 2.6 million in signature bonuses during 2004 to secure the operatorships for six deepwater blocks in three licences on the Brazilian continental shelf. We are the sole licensee in one of these awards, we have 60 per cent of the second with national oil company Petrobras as our partner, and we have 40 per cent of the third. This was our only payment of its kind in 2004.

### Government is biggest shareholder

The Norwegian government is our principal shareholder. Its holding was reduced from 81.7 to 76.3 per cent through a sell-down in July 2004. At 31 December 2004, we had 58,879 shareholders registered with the Norwegian Central Securities Depository. Of these, 197 were nominee accounts.



**Name:** Øystein Olsen

**Position:** President, Statistics Norway

### Q: What are the most important factors which must be taken into account when assessing petroleum industry spin-offs for Norway?

A: Norway's economic development has been stronger than in most other industrialised countries over the past 30 years, and the petroleum sector has been a significant factor in creating this prosperity.

It currently accounts for 18 per cent of our gross domestic product and 40 per cent of our total exports. Twenty-five per cent of overall government revenues derive directly from the oil and gas business.

This has given the government substantial freedom of action in its financial policy. It's been possible to pursue active measures to curb rising unemployment during economic recessions, for instance.

In addition comes the direct activity on the NCS, which has given impulses to the rest of the economy and helped to develop a substantial Norwegian offshore supplies industry.

Oil and gas operations on the NCS have unquestionably developed into a high-tech industry, which has become a breeding ground for advanced knowledge-based activities. However, quantifying the significance of this for the rest of the economy is difficult.

## Financial performance and effects

Our board has proposed to the annual general meeting that NOK 3.20 per share be paid in ordinary dividend for 2004 and NOK 2.10 as an extraordinary dividend. This represents a total pay-out of NOK 11.5 billion.

### **Substantial procurement**

The invoiced value of our purchases of goods and services, excluding petroleum products, amounted to NOK 62.8 billion in 2004. That includes procurement for the licences we operate. NOK 44.9 billion was invoiced by companies located in Norway. We used about 22,500 suppliers with mailing addresses in 80 countries during 2004. More than 8,700 of them had their location in Norway.

### **New employees**

We had 23,899 employees at 31 December 2004, up by roughly 4,600 from a year before. This increase primarily reflects our acquisition of ICA's shareholding in Statoil Detaljhandel Skandinavia AS in 2004. More than 45 per cent of our personnel work outside Norway.

Transfers to employees in the form of pay, pension and other social benefits totalled NOK 12 billion. We also paid NOK 1.6 billion in payroll taxes.

Interest paid on borrowing came to NOK 1.2 billion in 2004. These charges relate to both short- and long-term loans.

To ensure our long-term development, we will be investing substantial sums over the next three years. We invested NOK 42.8 billion in our own business during 2004.

### **Transparency in financial transactions**

The extractive industries transparency initiative (EITI) is directed at achieving greater openness about cash transfers between companies and host countries. Its aim is to encourage reporting in accordance with agreed standards so that income flows are made transparent in a way which prevents corruption and promotes an equitable distribution of revenues. We gave our support to this initiative at the EITI's first meeting in London during June 2003.

While the EITI model does not have global support, work through its network has prompted certain countries to express their willingness to apply the EITI standards. Of these nations, Azerbaijan is the first in which we pursue exploration and production activities. The country's authorities, four national and 17 foreign oil companies – including us – and several interest organisations signed a letter of intent in November 2004. Agreement prevails between the oil companies and the Azerbaijan government that each company will report its financial transactions to an independent third party, which will analyse the data and publish an overall auditor's statement. Together with BP and ExxonMobil, we made an active contribution ahead of signing the letter of intent. More information on EITI work in Azerbaijan can be found at [www.oilfund.az/](http://www.oilfund.az/).

Information on the reporting standards can be found at

 [www.eitransparency.org](http://www.eitransparency.org)

## Financial performance and effects

Operational results and targets and share information	2002	2003	2004
Return on average capital employed after tax*	10.8%	12.4%	12.3%
Production (1,000 boe/d)	1,074	1,080	1,106
Finding/development costs (USD/bbl), three-year average	6.2	5.9	8.5
Production costs (USD/boe)	3.0	3.2	3.5
Share price Oslo Stock Exchange, 31 December	58.50	74.75	95.00

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

### Securing long-term value creation

Our most important financial goal is to secure long-term value creation. This requires the balancing of several important targets, with the biggest challenge being to secure a good balance between profitability and production growth. The most widely-used measure of profitability is return on capital employed. Capital employed is total capital less interest-free debt. Profitability means that we run our business in a positive way and thereby help to secure jobs and provide our owners with a good return on the capital they have invested in us. Higher production growth often means increased investment, which first yields a return in the longer term. Investment thereby helps to depress short-term profitability.

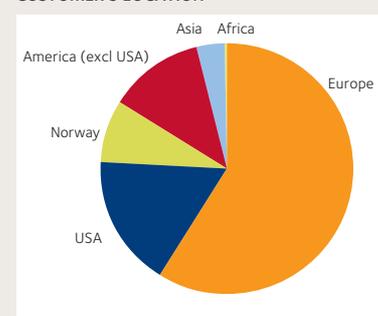
### New reserves

Building up our oil and gas reserves at roughly the same pace as we produce our existing holdings is crucial to achieving long-term growth. We book such reserves in accordance with the requirements of the US Securities & Exchange Commission (SEC). These bookings are verified by a third party. To ensure long-term production growth, we must secure access to new developable reserves, either through exploration or by acquisition. In the short term, production growth can be influenced by more efficient operation and improved recovery.

### Substantial growth

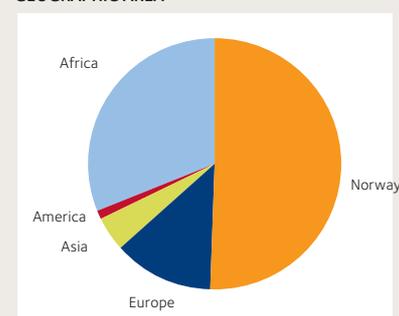
Our development over the next few years will be characterised by access to many good investment opportunities which ensure substantial expansion towards 2007. We expect an average annual increase in production of eight per cent from 2004 to 2007. This high growth rate calls for big investment, and the level of capital spending is expected to lie around NOK 30-35 billion per year towards 2007. We also want to expand our exploration efforts in order to secure the basis for long-term growth. The underlying profitability of the project portfolio is sound. It will contribute to profitability in 2007 on the basis of normalised assumptions.

#### SALES AND OTHER REVENUES BY CUSTOMER'S LOCATION



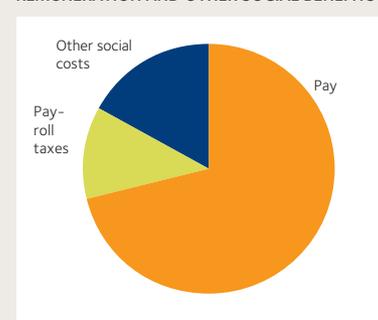
2004  
Total: NOK 305 billion

#### ACCUMULATED INVESTMENT BY GEOGRAPHIC AREA



2004  
Total: NOK 42.8 billion

#### REMUNERATION AND OTHER SOCIAL BENEFITS



2004  
Total: NOK 13.7 billion

## Financial performance and effects

### Overview of activities in all countries

	Investment NOK million	Sales and Other income <sup>1</sup> NOK million	Income taxes paid <sup>2</sup> NOK million	Indirect taxes paid <sup>3</sup> NOK million	Payroll costs <sup>4, 6</sup> NOK million	Employees at 31 Dec 04 <sup>5</sup>	Purchases of goods and services <sup>6, 7</sup> NOK million
Norway	21,720	24,813	37,190	6,352	11,916	12,550	44,880
Algeria	9,735	254	0	0	0	1	4
Angola	3,285	0	876	0	1	4	2
Azerbaijan	3,965	0	0	0	5	33	19
Belgium	0	6,034	0	0	18	47	1,545
Brazil	16	0	0	0	8	7	7
China	98	155	12	0	13	23	0
Denmark	682	10,852	17	4,502	632	3,585	1,234
Estonia	25	912	0	327	35	547	0
Faroese	10	450	5	0	27	135	17
France	5	7,745	0	0	9	10	228
Germany	0	12,951	129	7,973	36	46	4,677
Iran	1,834	0	0	0	2	17	4
Ireland	327	6,141	19	4,131	320	1,288	429
Kazakhstan	2	0	0	0	0	3	2
Latvia	20	1,336	8	444	40	594	3
Lithuania	46	1,579	3	391	44	651	1
Nigeria	176	0	0	0	6	43	286
Poland	0	4,690	4	48	0	2,214	209
Russia	0	0	3	0	0	135	14
Singapore	0	4,142	0	0	13	17	15
Sweden	88	20,608	56	8,624	270	1704	767
Turkey	10	1,424	0	0	0	0	20
UK	352	70,535	482	27	185	158	3,519
USA	132	51,436	40	0	70	58	613
Venezuela	317	92	0	13	10	29	62
Rest of Europe	0	34,914	0	0	0	0	3,529
Rest of world	0	43,946	0	0	0	0	674
Total	42,844	305,009	38,844	32,832	13,660	23,899	62,759

1 Total revenues (excluding Equity in net income of affiliates) by customer location.

2 Income taxes paid for fiscal year 2004, but also taxes relating to earlier fiscal years and paid in 2004.

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

4 Includes pay, social benefits (including pension costs) and payroll taxes.

5 Based on company location.

6 Part of the costs is charged to partners in Statoil-operated activities, including as technical service provider.

7 Excludes purchases of petroleum products.

# Profitable and sustainable in Latvia

The Statoil brand is among the most visible in the Latvian capital of Riga, as anyone who travels its streets can quickly see. We moved into Latvia in 1992 and rank today as one of its biggest companies. With 594 employees at 31 December, we now operate 49 service stations, five automated stations and an oil product terminal. Our local subsidiary was Latvia's second-largest taxpayer in 2004.

Economic recovery began in 1991 for the three Baltic states of Estonia, Latvia and Lithuania, following the dissolution of the Soviet Union.

We opted to enter Latvia at an early stage, when the national political and economic position was still unclear, and have helped to build its new economy by investing EUR 67 million.

Although it has taken time to build up strength in a new market, Statoil Latvia paid its first group contribution to the parent company in August 2004.

Economic progress both for Latvia and for us is illustrated by the growth in our annual turnover over recent years. It more than doubled between 1998 and 2004, from NOK 497 million to more than NOK 1.3 billion.

## **A leading brand**

Our brand stands in Latvia for quality, innovation and credibility. Several market surveys give us the strongest brand name among the country's petrol retailers.

Baiba Rubess, who heads our Latvian operation, identifies three main reasons for this strong position – a distinctive business culture, motivated and competent employees, and extensive dialogue with the authorities and interest organisations.

## **Distinctive culture**

"We've developed a distinctive business culture with clear concepts at our stations," explains Ms Rubess. "All our employees know what we stand for, and act accordingly. We have clear products and campaigns for the goods and service we deliver. These are communicated and implemented to the full. Doing this for a number of years has given us a very good brand through satisfied customers. Our position has strengthened as customers have become more quality-conscious and not just focused on price. We now sell almost three times as many hot dogs as McDonald's does hamburgers, and are better known for our fast food than McDonald's."

"We can't always deliver automotive fuels at the lowest price. Our goal is to offer an equitable and sensible price, with quality and good performance for products and services. That's yielded results over time. One example is our battle against the 'grey market' in automotive fuels. It's no secret that major quality problems have been, and to some extent still are, associated with much of the fuel sold by more or less serious suppliers in Latvia. By consistently delivering good fuel quality, we've identified ourselves as a serious and responsible player."

## **Competent and motivated**

"We're committed to top quality, service and professionalism in everything we deliver," Ms Rubess continues. "That can only be achieved through competent and motivated employees. We've devoted a lot of time and effort to training and expertise development for our personnel, and we're seeing the results of this today. All our staff will be perceived as honest, professional and caring. Satisfied employees mean satisfied customers."

Profitable and sustainable in Latvia



Profitable and sustainable in Latvia

### **Dialogue with government**

Statoil pursues extensive collaboration and dialogue with Latvian interest organisations and government agencies. A difficult issue is the acquisition of sites for establishing new stations – who gets paid and how much, and who is involved?

“Through an open process, we’ve avoided accusations about and threats of corruption and bribery in establishing and expanding our business,” reports Ms Rubess. “In the longer term, this can help to improve such processes in the oil sector and in Latvian industry in general.”

She makes it clear that major challenges have sometimes been faced in maintaining our corporate requirements and standards while remaining a competitive player in the Latvian market. The local business culture is different from that in Scandinavia. We have nevertheless secured good working conditions by being open with the market, the media and the political arena, even though much time has to be devoted to certain processes.

Ms Rubess believes that a presence in Latvia throughout the transition from planned to market economy has been important for us. The position in Latvia is constantly changing.

“We don’t only want to keep up with changes in society and the economy, but also to help influence them,” she says. “We’ve shown that it’s possible to succeed financially in this change process without compromising our ethical values and principles.”

We back education in Latvia, which is important for building and developing expertise. Financial support is provided for a master’s programme in business economics and for various scholarships. Personnel are recruited and helped to continue their education in close cooperation with various Latvian educational institutions.

### **Road safety in the Baltic states and Poland**

Major challenges relating to road safety and driving culture are faced in the Baltic states and Poland. We take this seriously, and are working systematically on various road safety measures.

Our efforts involve cooperating with a number of partners to reverse the frightening statistics for highway accidents. These collaborators include the Red Cross, the police, schools and local road safety organisations. Examples of activities initiated and under way are:

- First-aid course given by us and the Red Cross at our stations in various parts of the region.
- Road safety training for children, involving 20,000 youngsters in more than 100 cities in Poland alone. This programme includes a CD-Rom for schoolchildren which allows them to engage in role play and learn about highway hazards.
- We offer free testing and adjustment of cars every autumn. Customers can pop into one of our stations at specified times to have their car checked for safety.
- Information materials on road safety are distributed at our stations. Extensive campaigns aimed at changing attitudes have been run on national TV channels, with the emphasis on the dangers of drink-driving and aggressive road behaviour.

**Recently restored buildings in Riga remind visitors that Latvia’s capital has been a trading hub for centuries. Founded in 1201, it became part of the medieval Hanseatic League of north European merchant cities in 1282.**

# The environment

## **Zero harm is the goal**

Our emphasis is on causing zero harm through emissions/discharges and utilising natural resources which could affect biological diversity. The activities we pursue affect the environment to varying degrees, depending on the character of the area in which we become involved, which activities we pursue and which technological solutions we choose.

## **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.



# Climate

## Emission trading and global challenges

Climate change caused by human activity is a challenge which calls for a long-term response. That in turn requires binding international agreements and the development of new technology and solutions. Climate strategy forms an integrated part of our business strategy. An important requirement for future growth and profitability is that we contribute to sustainable development. We will help to cut global emissions of greenhouse gases by reducing the amounts we release from our activities, by participating in emission trading and by utilising the Kyoto protocol's project-based mechanisms.

Per unit produced, our carbon dioxide emissions are among the lowest in the oil and gas industry. The goal is to implement special measures in our own business which ensure that our emissions in 2010 are 1.5 million tonnes lower than they would have been if this action were not taken. Measures implemented to the end of 2004 corresponded to 26 per cent of the target.

## Emission trading in Statoil

We have established trading in greenhouse gas allowances and credits as part of our business, including credits secured from our investment in the World Bank's carbon funds.

Three of the facilities we operate have become subject to carbon caps in 2005, with associated allocation of tradable emission allowances. These are Mongstad and Tjeldbergodden in Norway and Kalundborg in Denmark. The Norwegian Greenhouse Gas Emission Trading Act, which came into force on 1 January 2005, requires that Norway affiliates to the EU emission trading regime through an agreement. However, the European Commission maintains that Norway, as a member of the European Economic Area (EEA), must implement the emission trading directive. We also believe that this will be the best solution. It is not clear whether Norway will secure an agreement which provides greater flexibility than EU member countries possess. All facilities in Norway which pay carbon tax, including offshore installations, are excluded from the national emission trading scheme until 2008, and what will happen after that remains uncertain. In our view, use of the Kyoto mechanisms and emission trading would be a far more effective way for the industry to help reduce global greenhouse gas emissions than maintaining the current carbon tax. It would help Norway meet its Kyoto obligations in a cost-effective manner.

## Carbon funds

We have committed USD 10 million to the World Bank's Prototype Carbon Fund (PCF) and USD 2.5 million to its Community Development Carbon Fund (CDFC). These invest in projects approved under the clean development mechanisms (CDM) or joint implementation (JI). Cost-effective emission reductions achieved in other countries can thereby be credited to the investor and used to meet Kyoto commitments. The Kyoto protocol, which sets binding emission targets for industrial countries, came into force on 16 February 2005, and commits Norway to ensuring that its total greenhouse gas emissions in 2008-12 are no more than one per cent above their level in 1990. The latter figure was 52 million tonnes of carbon dioxide equivalents.

## Carbon dioxide management

We are a leader in carbon capture and storage below ground. This is being done today through injection of carbon dioxide into underground formations on Sleipner East in the North Sea and Algeria's In Salah gas field. A similar storage solution has been chosen for our Snøhvit development in the Barents Sea. All these projects are characterised by the need to separate a high carbon dioxide content from the natural gas.

Injecting carbon dioxide below ground for long-term storage or as pressure support for improved oil recovery (IOR) offers a possible way to reduce the concentration of this gas in the atmosphere.



**Name:** Tore A Torp

**Position:** Adviser on carbon dioxide storage, Statoil

### **Q: How can professional cooperation be strengthened in order to reduce greenhouse gas emissions?**

**A:** We have been collaborating well internationally for several years on carbon storage. Research institutes from countries all over the world are participating together with the supplies industry as well as the electricity and petroleum sectors. Statoil is involved in running many of these projects, which also have government support in a number of countries. The international collaboration began after we became the first company to deposit carbon dioxide below ground almost nine years ago, on our Sleipner East field in the North Sea. Openness with research data and results is a principle and an essential requirement in today's global cooperation. Future work must build on confidence by the authorities, the environmental organisations and the general public that carbon deposition is a secure storage method which reduces greenhouse gas emissions, and that the carbon dioxide won't leak out over time. Another challenge is to reduce the costs and energy required to separate carbon dioxide from natural gas.

## First with emission trading

We were the first company to trade European Union allowances (EUAs) for emitting carbon dioxide when the Nord Pool power exchange opened Europe's first carbon marketplace on 11 February 2005. Under this transaction, we sold EDF Trading – part of Electricité de France – the rights to emit 5,000 tonnes of the greenhouse gas.

We have concluded an agreement with Nord Pool to use this exchange for carbon trading. The marketplace became operational just before the Kyoto protocol came into force on 16 February, launching emission trading across national boundaries as an important mechanism for reducing global releases of greenhouse gases.

“Although we made a sale on the opening day, I would emphasise that we'll be a net buyer of carbon allowances in 2005-07,” explains Mats Fredriksson, who heads our emission trading business. “That reflects the fact that we've already taken a number of steps to release less carbon dioxide from our installations. Further cuts will be very expensive, which makes us a buyer.”

In addition to trading on Nord Pool, we will also be concluding bilateral deals with European net sellers of carbon allowances.

We have conducted extensive reservoir studies on Gullfaks to identify IOR opportunities for this North Sea field. Carbon capture is very expensive, and technology needs to be developed to cut these costs. With existing technical solutions, capturing, transporting and storing carbon dioxide on Gullfaks has a negative net present value of several billion kroner. We are involved in a number of research programmes to reduce the cost of carbon capture. When these costs are lower than today, and the cost of emitting greenhouse gases is higher, both carbon storage and injection for IOR could prove commercially viable.

### Allowances and other mechanisms

Many industrial installations in the EU and Norway became subject to caps of their carbon dioxide emissions at 1 January 2005, and can trade emission allowances in a new market. Each allowance provides the right to release one tonne of carbon dioxide. Most allowances will be allocated free of charge. A plant can choose between reducing its own emissions or buying allowances if that is cheaper. They must measure their carbon dioxide emissions, keep account of their allowances and provide allowances corresponding to their emissions at the end of each year. Supply and demand in the market will determine the price of an allowance.

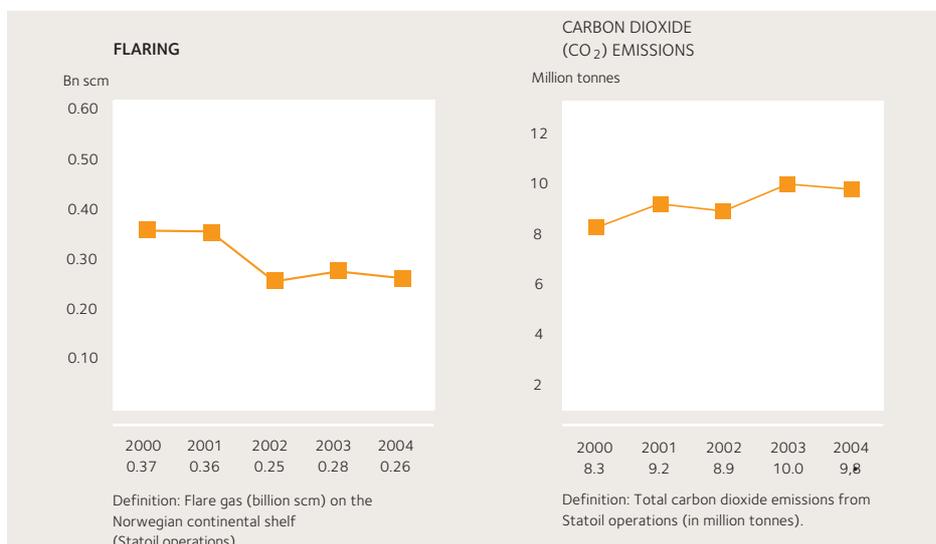
### Other mechanisms

Joint implementation (JI) means that one industrial country pays for measures which reduce emissions in another industrial nation. This will give the payer the right to release more carbon dioxide at home, while the host country's emissions will correspondingly decrease.

The clean development mechanism (CDM) allows industrial countries to secure emission credits by paying for measures to reduce greenhouse gas emissions in developing countries which have not been given a reduction target. These measures must also contribute to sustainable development in the recipient country.

Measures 2004	Results 2004	Further action 2005
A central group-wide function for emission trading is being created and should be operational during 2004	Emission trading was established as planned, and has now begun trading carbon allowances	Work for incorporation of the whole Norwegian petroleum sector in the emission trading system from 2008
Reduce annual greenhouse gas emissions by 1.5 million tonnes of carbon dioxide equivalents by 2010*	Measures which contribute 26 per cent of the 2010 target were implemented by 31 December	Continue pursuing measures to achieve the target by 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.



# Reducing discharges to the sea

A target of zero harmful discharges to the sea by the end of 2005 has been set for the NCS.

The most important discharges from the oil and gas industry are produced water, drill cuttings and water-based drilling mud. We have extensively monitored the seabed around our installations for many years, and this work has been widened in recent years to include the water column. Since oily drill cuttings and oil-based mud ceased to be released to the sea in 1991, these discharges have revealed little or no impact.

Extensive research has nevertheless established that barytes and other mud components, as well as various natural components and chemical additives in produced water, can have harmful effects on the marine environment if their concentration becomes high enough. As a result, we want to minimise the burden on the environment and the risk of harmful effects.

## Calculating environmental risk

To assess the environmental risk posed by discharging produced water, we have developed the environmental impact factor (EIF) together with other oil companies and the Norwegian Pollution Control Authority (SFT).

This calculation tool allows us to compare the effect of different treatment methods, chemical substitutions and waste injection, and provides a good basis for choosing measures which yield the biggest environmental gain. It has been used by all the operators on the NCS for prioritising measures to be adopted in meeting the government's requirement for zero harmful discharges to the sea by the end of 2005. Together with seven other oil companies, we are now extending the EIF to cover drilling discharges. The tool has been adopted in our exploration activities on the NCS and the Faroese continental shelf.

Introducing the EIF in our other international operations is under consideration. We want to offer this decision-making tool to the governments of countries in which we have operations.

## Zero harmful discharges

Binding plans on how harmful discharges are to be reduced to zero during 2005 were submitted to the SFT in the summer of 2003. Received in the autumn of 2004, the authorities response to these proposals was largely positive. It requested more detailed explanations about the measures proposed for certain fields, together with possible consideration of alternative approaches.

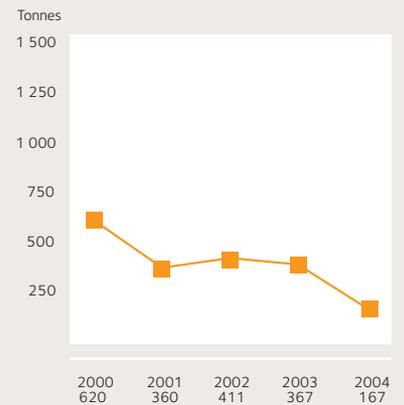
Brought up with the wellstream, produced water is separated from the oil and/or gas and treated before being returned to the reservoir or discharged to the sea. The volume of produced water normally increases as fields age. Water production in the Tampen area of the North Sea is now twice the size of the oil output.

## Substantial improvements

We worked in 2004 on implementing planned measures, and substantial improvements have already been achieved on several fields. The environmental risk is expected to decline by more than 80 per cent from 2000 to 2006, despite a 30 per cent increase in discharges of produced water over the same period. The quantity of residual oil in such discharged water is set to fall by almost 60 per cent, or about 1,000 tonnes per year.

We have developed, tested and adopted a number of technologies for injection and treatment of discharges, use of chemicals and operating methods for both drilling and production. Carried out in cooperation with suppliers, this multidisciplinary effort won our chief executive's HSE prize for 2004.

**DISCHARGES OF HARMFUL 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**

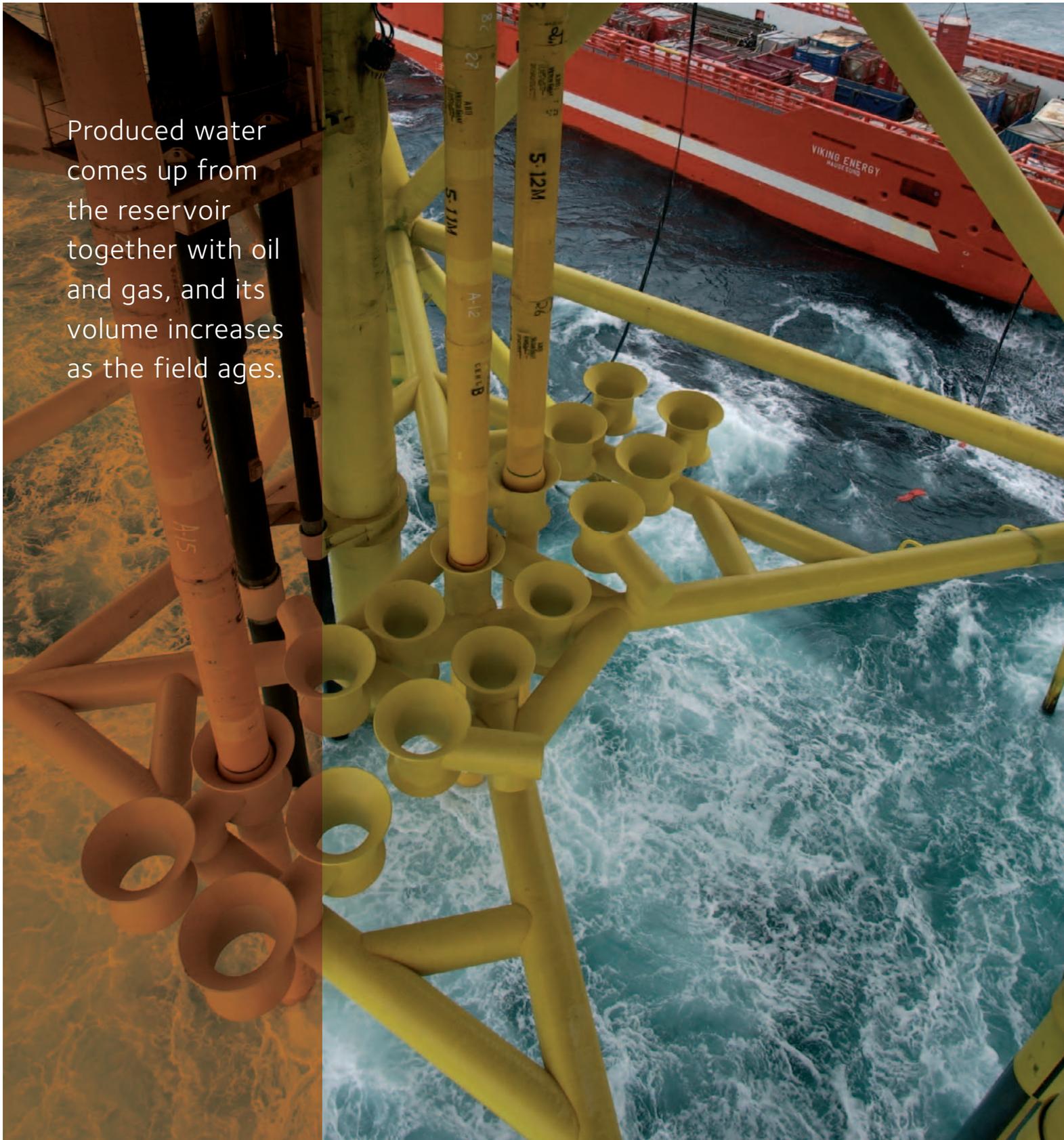


Definition: The total volume (in cubic metres) of unintentional oil spills to the natural environment from Statoil operations.

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 operations.

Reducing discharges to the sea

Produced water comes up from the reservoir together with oil and gas, and its volume increases as the field ages.



## Reducing discharges to the sea

Our first preference on new fields is to inject produced water, but other solutions could also be chosen if an overall assessment of environmental and safety aspects found them to be better. Some examples are provided here.

Injecting produced water together with seawater to provide pressure support for improved oil recovery is technically feasible and acceptable on our Heidrun platform in the Norwegian Sea. Such injection began in 2003, and has proved technically demanding. About 11,000 cubic metres of water are injected every day.

On Kvitebjørn in the North Sea, our approach is to inject produced water in the Utsira aquifer because the field does not need pressure support.

High reservoir pressure means it would not be acceptable for safety reasons to inject produced water on Kristin when this Norwegian Sea development comes on stream in 2005. Nor are other formations in the area suitable for such injection. Since the volume of produced water on Kristin will be small, and very few chemicals are being used, the best solution in an overall perspective will be thorough treatment before discharge to the sea.

### Drill cuttings and drilling fluids

When oil-based mud is used on the NCS, drilling waste is either injected into a well or taken to land for appropriate treatment. We reuse water-based mud on an extensive basis, which has cut the discharge of such drilling fluids by about a third.

In most cases, we have not found that the shipment of drilling waste from water-based mud to land would yield any overall environmental benefit except in particularly sensitive areas. Drilling off Lofoten and in the Barents Sea is subject to a general requirement for zero drilling waste discharges.

Handling and shipping large quantities of drill cuttings to land represent a substantial safety challenge, and have so far usually been regarded as unacceptable. We are accordingly working to develop new methods for safe handling of big volumes of cuttings on drilling rigs, and their transfer to supply ships.

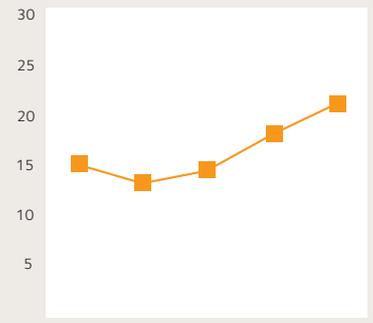
### Overall assessment

We believe that environmental risk assessments, which include environmental sensitivity, discharge volumes and the time perspective, take better care of the environment than the mere setting of concentration limits, for instance. This view is supported by the Norwegian authorities, and governments in several other European countries are positive to the development work under way in this area.

Measures 2004	Results 2004	Further action 2005
Seventy per cent of all oil loaded off-shore will be shipped in tankers with emission-reducing technology in 2005	The government's 45 per cent requirement for 2004 was met with a good margin	The official standard for 2005 has been raised to 75 per cent. Measures for meeting this target are identified
Zero discharges to the sea from oil and gas installations on the NCS by the end of 2005	A number of activities were implemented as planned, including qualifying and installing treatment technology and chemical substitution	Zero harmful discharges to the sea from oil and gas operations on the NCS by 31 December
Create a complete risk-based management tool for all discharges/emissions to the environment from our operations	This system was developed and adopted in much of the business	The system will be improved for drilling. Further development for discharges to the sea from land-based plants. Use in international activities will be studied
		Establish best practice for handling drilling waste in land operations

### WASTE (EXCL HAZARDOUS WASTE)

Thousand tonnes

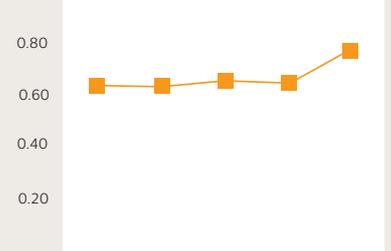


2000 2001 2002 2003 2004  
15.4 13.3 14.5 18.2 21.2

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

### WASTE RECOVERY FACTOR

1.00

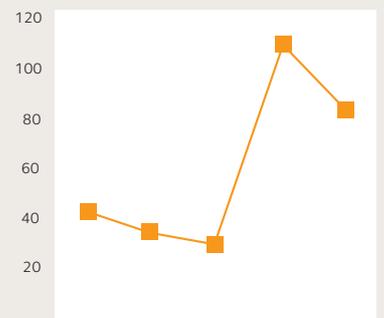


2000 2001 2002 2003 2004  
0.66 0.65 0.68 0.67 0.76

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

Thousand tonnes



2000 2001 2002 2003 2004  
42.1 35.1 29.2 114.8 83.9

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.

## Biological diversity



## Biological diversity

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.

Conserving biodiversity represents a key element in sustainable development. In our view, therefore, being able to demonstrate that we can operate in vulnerable ecosystems without lasting negative consequences for the environment is essential. Biodiversity occupies a central place in our environmental guidelines. We aim to conserve it by protecting natural habitats, avoiding the introduction of alien species and preventing impacts at the level of plant and animal populations.

We cooperate with others to conserve biodiversity. That includes participating in the Energy and Biodiversity Initiative (EBI) together with Conservation International, the Nature Conservancy, the Smithsonian Institution, the World Conservation Union, Fauna and Flora International, Shell, ChevronTexaco and BP.

Another of our involvements is a working party which aims to raise general awareness of biodiversity in the petroleum industry and to continue developing guidelines and tools to conserve it. As part of this collaboration, we helped to arrange several seminars on biodiversity in 2004 – including a regional programme for Latin America.

We are a partner in the Proteus programme run by the UN Environment Programme's World Conservation Monitoring Centre (WCMC). Its ambitious goal is to develop a system for sharing knowledge about biodiversity. That will ensure access to relevant and reliable information on the subject which can contribute to good solutions and thereby to sustainable development. The aim is a global biodiversity network – a system of databases founded on the WCMC's existing databases, system and network.

We support technological development for treating ballast water with the aim of reducing the threat that alien species could be introduced to an area when such water is discharged. In May 2004, we hosted a conference on the introduction of alien species in the maritime environment organised by the Norwegian Directorate for Nature Management.

The Mar-Eco project was supported with a fuel donation for a research expedition in 2004 which sought to map biodiversity along part of the mid-Atlantic ridge between Iceland and the Azores. In cooperation with Conservation International, we have carried out a pilot study of biodiversity in part of Venezuela's Orinoco delta. A separate project on sustainable fishing has also been launched in this area.

We will continue to collaborate with environmental organisations and other oil companies to promote the conservation of biodiversity and to develop common standards, guidelines and tools. In-house, we will maintain and strengthen efforts to conserve biodiversity. This aspect will be incorporated to a greater extent in our monitoring of the marine environment, including the mapping and surveillance activities due to be initiated in deepwater parts of the NCS. We will also persist with initiatives related to biodiversity in Venezuela, and launch studies in the far north and other areas in which we operate.

Measures 2004	Results 2004	Further action 2005
Continue to integrate biodiversity in our management system and governing documents	Greater integration was achieved. Revised and formalised governing document for integrated environmental and social impact analysis (ESIA)	
Implement specific activities relating to biodiversity in exploration and development projects	Activities were launched as planned, including an assessment of ballast water for Snøhvit	Biological diversity will be assessed in all relevant projects



**Name:** Nina Udnes Tronstad  
**Position:** Executive vice president for health, safety and the environment, Statoil

### Q: What are the biggest challenges presented by oil and gas production in the Barents Sea?

A: Zero harm, clean seas and co-existence with other industries are three key concepts for operations in the far north.

The authorities set strict environmental standards for oil companies working in the Barents Sea. For us, exploring safely and operating in accordance with these requirements is crucial. Zero discharges to the sea is a promise we intend to keep.

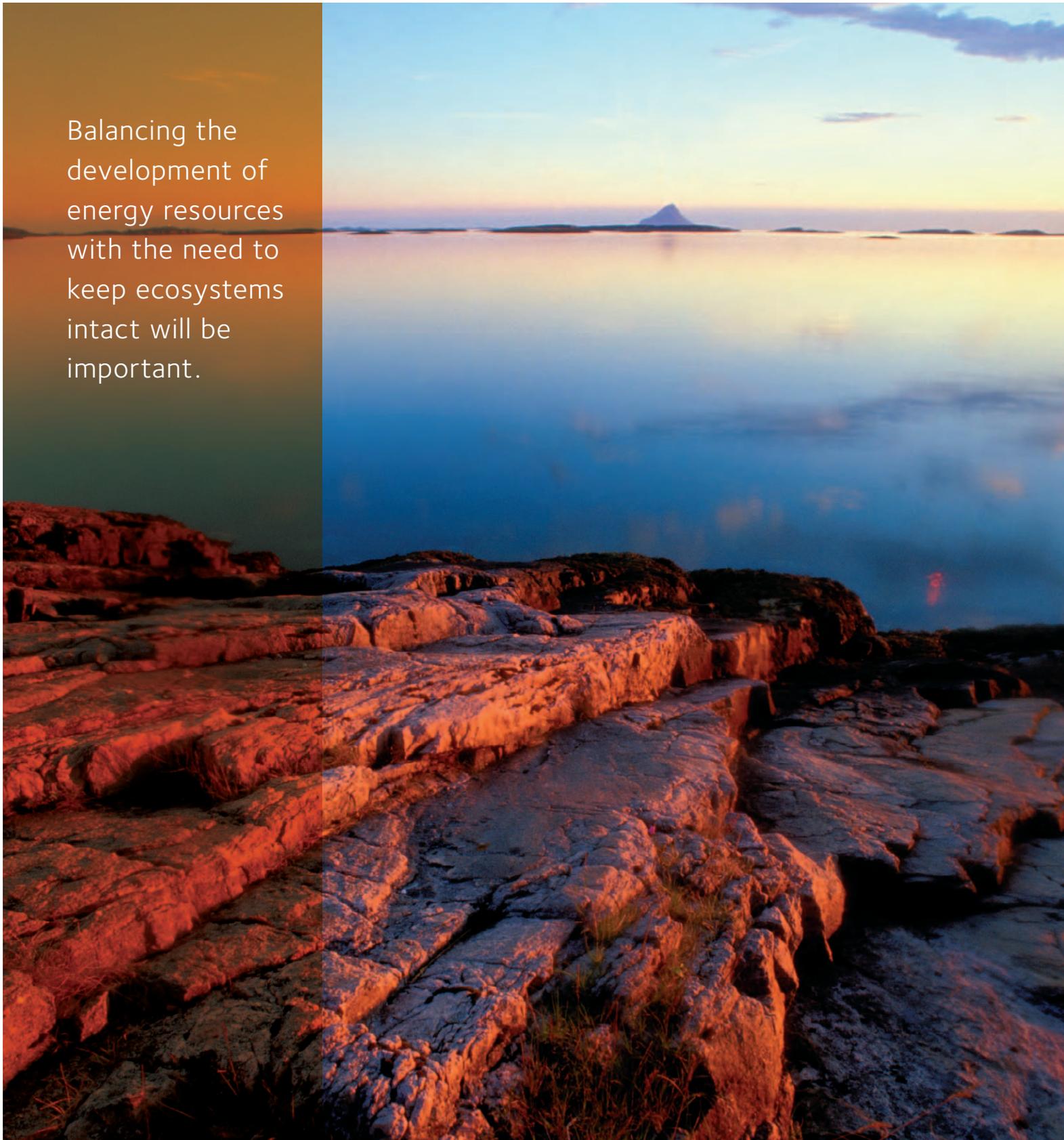
We hope to find more oil and gas in the Barents Sea which can support further development in the region and provide additional volumes for our Snøhvit facilities outside Hammerfest.

Our aim is an open dialogue with the fishing industry and other commercial activities in order to identify joint solutions which are best for everyone. In that way, we can help to create long-term jobs and positive spin-offs for the community as a whole.

One example is that emergency response in the far north of Norway has been strengthened as a consequence of exploration for oil and gas. That means not least greater security for fishermen in these waters.

## Challenges in the far north

Balancing the development of energy resources with the need to keep ecosystems intact will be important.



## Challenges in the far north

Great opportunities exist for finding more oil and gas off northern Norway and Russia. At the same time, these waters are very rich in living natural resources – primarily fish, which provided the historical basis for living conditions and settlement. These assets are becoming increasingly valuable in a world with many overburdened ecosystems. Balancing a development of energy resources with the need to preserve ecosystems will therefore be important.

We believe that the far north can become a pioneering region for sustainable development, where culture and nature form the basis for economic activities pursued to strict environmental standards, and that this can be achieved through a collaboration between Norway and Russia. A feature of the far north of these countries is a substantial presence of indigenous peoples. We want a good dialogue with these population groups in relevant processes.

We have given weight to dialogue with other social interests on the basis of mutual knowledge and trust. This dialogue has been founded on a shared desire for sustainable development of the north Norwegian community, with the emphasis on parallel progress for the fishing sector and petroleum activities.

 [www.statoil.com/snohvit](http://www.statoil.com/snohvit)

### **Upturn with Snøhvit**

Our Snøhvit development has generated an economic upturn in the western part of Norway's far northern Finnmark county, and particularly around the port of Hammerfest. The local economy has been strengthened, and the region has secured jobs which must be filled by highly-qualified personnel. That will be positive for the future development of this area.

The offshore development solutions chosen for Snøhvit have largely been conceived in cooperation with the fishing organisations. This ensures that both subsea installations and pipelines can be actively overfished. Guiding principles for the activity are zero discharges of produced water under normal operation, zero emissions of drilling waste apart from the hole section for surface casing, overtrawlable subsea solutions and piping oil and gas to land where possible. These principles provide good protection of the environment and secure co-existence with the fishing industry.

We have been actively involved in the question of where ballast water from ships calling at the Hammerfest LNG gas liquefaction plant is to be discharged, and in developing new technology to prevent the introduction of alien species to the ecosystem.

### **Oil spill response**

Substantial volumes of crude oil are already being shipped by tanker from north-western Russia through the Barents Sea to markets in Europe and the USA. New operations in these waters will increase the burden on the ecosystem and the risk of accidents. We have accordingly given weight to improving emergency oil spill clean-up systems. Key elements include technology, good equipment, knowledge, training, and the use of local knowledge among suppliers and fishermen.

Technology development occupies a key place in our work related to a renewed commitment in the far north which will satisfy sustainability expectations. This technology programme will address such challenges as knowledge of biodiversity and ecosystems, and development and production solutions customised for the special conditions faced in areas with ice and permafrost. In that context, the choice of solutions for developing and operating installations, plants and transport systems will be important.

# Product stewardship



**Name:** Hans Petter Rasmussen  
**Position:** Fisherman and chair, Finnmark Union of Fishermen, northern Norway

**Q: What are the biggest challenges presented by oil and gas production in the Barents Sea?**

A: In our relations with the oil and gas industry, we fishermen have seen the environment as a challenge which has always concerned us all the time. Operators should manage to meet the demands of the government and the fishing industry for zero harmful discharges to the sea.

As fishermen, we want to maintain the reputation of the Barents Sea for cleanliness so that people can continue to be assured they are getting unpolluted food from these waters.

Another important challenge is possible territorial conflicts. Installations, pipeline routes and safety zones mustn't exclude us from important fishing grounds. But I think we'll manage to reach agreement. The fishermen's union has said that we must seek to co-exist with the oil and gas industry.

A third challenge relates to labour. We fishermen could face future problems in competing for personnel with the oil and gas sector. We both want to recruit young and able people to our industries.

We produce, market and sell a wide range of products developed from both fossil and renewable sources. Producing petroleum products requires energy, and generates discharges to the sea and emissions to the air. It is often the case that the cleaner an automotive fuel, the larger the energy input required to produce it.

Our ambition is to develop effective products which meet customer needs, and which minimise both resource consumption and environmental impact. Product quality must be constantly developed to keep abreast of innovations in such areas as engine technology.

## **Conventional motor fuels still important**

Conventional automotive fuels will continue to dominate for many years to come, and we are accordingly working to make petrol and diesel oil more environment-friendly. Removing sulphur from automotive fuels is important and, combined with modern engines and exhaust



## Product stewardship

treatment systems, will keep conventional technology environmentally competitive. Our Mongstad and Kalundborg refineries, in Norway and Denmark respectively, have invested heavily in order to be able to deliver petrol and diesel oil with a sulphur content as low as 10 parts per million (ppm). Our sales in the Norwegian, Danish and Swedish markets have been confined to these grades since 1 January 2005. For its part, the EU requires full implementation of low-sulphur automotive fuels by all member countries in 2009.

### Increased commitment to bioproducts

We are concerned to develop new products and alternative solutions. Automotive fuels based on biological materials represent an important area. We want to be a leader for using bioproducts in our markets. More than 90 per cent of the 95-octane petrol we sell in Sweden contains five per cent bioethanol. We also sell substantial quantities of E-85, a petrol grade containing 85 per cent bioethanol. At 31 December 2004, 23 of our Swedish stations sold E-85. Another 20 are due to follow in 2005. We also sell rape-oil-based diesel and biogas from waste as automotive fuels in Sweden.

Biofuels derived from local waste and those with a large environmental effect are particularly interesting. We have continued our commitment to oil derived from salmon waste. Selected major customers in Norway consumed more than four million litres of diesel which contained two per cent salmon oil. That reduced carbon dioxide emissions by 250 tonnes. We will be offering this biodiesel to more customers over time.

### Growing market for wood pellets

Our sales of wood pellets are steadily expanding. Representing renewable energy created from forest industry waste, this product provides an alternative to heating oil, natural gas and electricity. It is used in central or distant heating systems and by private homes. We now own five large pellet factories in Norway, Sweden and Denmark, with an annual production capacity of about 205,000 tonnes. That represented 13 per cent of total Scandinavian requirements in 2004.

During recent years, we have become increasingly involved in the marketing and sale of natural gas to customers in Scandinavia. We are committed to distributing natural gas through our own subsidiaries as well as through partly-owned companies and partnerships.

### Overall understanding

Detailed analyses are needed when making an overall assessment of environmental benefits, environmental burdens and resource use. We contribute through the Conservation of Clean Air and Water in Europe (Concawe) organisation to the conduct and continuous updating of surveys on energy consumption by and carbon dioxide emissions from automotive fuels, production processes and engine combinations. See [www.concawe.be](http://www.concawe.be). The data obtained provide a basis for selecting environmentally-appropriate solutions. We require lifecycle analyses to be carried out for new products and additives, and for new processes if their environmental characteristics are expected to be changed significantly.

Measures 2004	Results 2004	Further action 2005
Update our management system with a view to using lifecycle analysis (LCA) for our products	Requirement to use LCA was formalised in governing documents	Conduct LCAs for new products

## Increased reuse of redundant equipment

We earned NOK 48 million from the sale of unwanted materials in 2004, up by NOK 22 million from the year before.

Demand for reusable equipment has risen, which means that the degree of reuse has increased and thereby reduced the quantity being sent for recycling.

We are working to reduce waste and to separate it at source both offshore and on land. Our aim is to reuse as much surplus material and equipment as possible.

The goal is to be in the forefront for environmentally-appropriate management of surplus materials for reuse and recycling. Used tubular goods remain the principal product, and are used for piling and foundations. In addition, we sell everything from lifeboats and man-overboard boats to TV sets.

A large proportion of reused equipment is refurbished and recertified for the hire market. Leased equipment has been used for drilling projects on our Kristin and Norne fields and by ConocoPhillips, for modification projects on Heimdal by Hydro, and for shutting down Frigg by Total.

 [www.statoil.com/surplus](http://www.statoil.com/surplus)

# New energy



Our unit for new energy has been created to pursue new commercial opportunities related to sustainable development in selected areas. The most important of these are carbon dioxide management, hydrogen as an energy bearer, renewable energy and enhanced energy efficiency. That covers a broad range of solutions which can help to reduce carbon dioxide emissions. This commitment will be rooted in our values and build on expertise from the oil and gas business.

## Emission allowances

We are working to develop various projects which give us access to emission allowances/credits. These can in turn be used to meet our emission targets under the Kyoto protocol, or sold in an international market. See the box on page 34 for more details on emission trading and other mechanisms.

**Name:** Beate Kristiansen

**Position:** Leader for energy activities,  
Bellona environmental foundation

**Q:** How can professional cooperation be strengthened in order to reduce greenhouse gas emissions?

**A:** Norway is a wealthy country which lives by selling pollution. The most important thing we can do to reduce emissions is to ensure that carbon dioxide released from industry and power stations is captured on a large scale and then deposited in geological formations beneath the seabed.

This form of carbon management is the only acceptable measure which can help to stabilise greenhouse gas emissions in time.

To improve profitability, carbon dioxide can also be used in oil production. In many cases, more oil can be recovered and natural gas liberated by pumping down carbon dioxide instead of natural gas and water as today.

The collaboration between Bellona and Statoil should continue with the emphasis on ensuring the creation of predictable frame conditions to promote carbon capture among developers. With high technological expertise and closeness to the market, we have good opportunities for commercialising such solutions.

Converting the transport sector to hydrogen is absolutely essential. We'll initially have to produce pure hydrogen from natural gas with carbon capture.



## New energy

### Hydrogen as an energy bearer

Unlike traditional energy products, hydrogen is characterised by the fact that it can be produced from energy sources other than oil and gas. It also burns without emitting harmful greenhouse gases. The possibility of using hydrogen to relieve the world's environmental and energy supply problems has aroused great expectations.

We could become a major producer of hydrogen, but a long-term development of the whole value chain for this gas is needed in both technological and market terms. Our new energy unit is involved in a number of Norwegian and international projects to promote hydrogen as an energy bearer.

### Hydrogen projects

We participate in the HyNor project, which aims to establish hydrogen filling at one of our service stations in Stavanger. This scheme builds on the "hydrogen highway" programme, which will make it possible to drive hydrogen-fuelled cars between Stavanger and Oslo by 2008. A research project is also being pursued in Trondheim to develop carbon management for small-scale hydrogen production.

NaturalHy is an EU project involving most of the large gas companies, including us. The aim is to investigate how hydrogen-rich natural gas could help to increase the use of hydrogen in Europe with a minimum of changes to pipeline systems and other infrastructure for natural gas. This five-year scheme began in May 2004.

### Energy-efficient solutions

Combined heat and power (CHP) generation is an energy-efficient and environment-friendly solution for delivering electricity and heat to consumers. Such systems can efficiently utilise close to 90 per cent of the fuel energy, and thereby help to cut greenhouse gas emissions by comparison with traditional facilities.

Our new energy unit is involved in environment-friendly CHP generation through the ECPower and Energikilden subsidiaries. These companies develop CHP solutions based on diesel, natural gas and landfill gas. We are also assessing opportunities for CHP to generate steam and electricity at industrial plants.

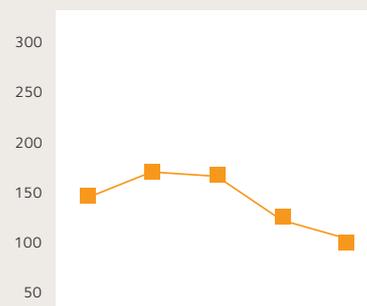
ECPower develops and sells systems delivering 10-20 kW of electricity for use in office buildings, hospitals and schools. During 2004, it tested a CHP solution fuelled by natural gas which is now being sold in Britain, Germany and Denmark.

Energikilden builds, owns and operates CHP facilities in Norway based on gas-fuelled engines burning landfill gas. It signed three contracts in 2004 covering a total power generating capacity of 2.2 MW. Comprising 50 per cent methane and 50 per cent carbon dioxide, landfill gas is defined as a renewable energy source. Since methane's greenhouse effect is 21 times greater than carbon dioxide, exploiting this gas for energy generation will reduce greenhouse gas emissions.

 [www.statoil.com/newenergy](http://www.statoil.com/newenergy)

### NON-METHANE VOLATILE ORGANIC COMPOUND (nmVOC) EMISSIONS

Thousand tonnes



Year	2000	2001	2002	2003	2004
Emissions (thousand tonnes)	145	169	160	133	100

Definition: Total emissions of nonmethane volatile organic compounds (nmVOC) from Statoil operations on the NCS, including offshore loading (in thousand tonnes).

### NITROGEN OXIDE (NO<sub>x</sub>) EMISSIONS

Thousand tonnes



Year	2000	2001	2002	2003	2004
Emissions (thousand tonnes)	30.3	29.5	26.4	29.9	31.1

Definition: Total emissions of nitrogen oxides from Statoil operations (in thousand tonnes).

## Research and development

Research is pursued in close collaboration with our suppliers and other research communities.



## Research and development

All our operations affect the environment. To help reach our target of zero harm to the environment, we pursue research activities in the following areas:

- developing knowledge about the impact of our activities and products on the environment
- developing tools for risk assessment
- technology development to reduce the risk of causing environmental harm
- development of automotive fuels
- renewable energy
- energy-efficient solutions.

Our research activities were worth NOK 1,027 million in 2004. Environmental standards and technology are integrated in all relevant research programmes, and this work is pursued in close cooperation with our contractors/suppliers and other scientific communities.

### Research activities

We have led work on creating the environmental impact factor (EIF) tool, which is now used by the industry and the authorities to support efforts to achieve zero discharges of produced water.

See the section on discharges to the sea for further details of the EIF.

To develop and verify these tools, we conduct extensive laboratory and field tests relating to the dispersal of discharged substances and their impact on marine organisms. Results from the annual environmental monitoring of the NCS are also utilised, and strong links have been developed between this surveillance and the use of environmental risk models.

The C-Tour treatment technology for produced water was extensively tested on our Statfjord field, and is now qualified for use on oil platforms. This system will be installed on all three of the Statfjord platforms. After being installed on Heidrun and Snorre A, the Epcor treatment technology is under consideration for Norne, Gullfaks and Tyrihans.

We are making substantial efforts to reduce the use of chemicals as well as to develop and adopt more environment-friendly variants. This work has yielded good results. At the same time, we are also developing materials, process designs and operating methods which use less chemicals for separating oil and gas or for inhibiting corrosion and hydrate or wax formation.

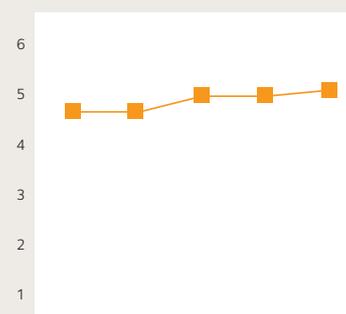
The vessels which load products at our land-based plants discharge substantial volumes of ballast water. Although monitoring of the sea near these facilities has not identified any introduction of harmful organisms, we are participating in the development of new technology for treating ballast water on ships.

Oil operations in the Barents Sea and other Arctic regions present additional challenges for such aspects as transport, emergency response to oil spills, and treatment of produced water and drilling waste. We are working to develop new technology in these areas, both in connection with drilling and in joint projects with other companies which also operate in Arctic regions.

Other important areas for our environmental research are improved energy efficiency, technology to reduce nitrogen oxide emissions, carbon dioxide management, gas applications and hydrogen as an energy bearer.

We invest in the supplies industry and contribute to building up companies working with environmental technology. We have patented 369 different inventions which are currently active. Forty-nine patent applications were filed in 2004.

### ZERO MINDSET IN PRACTICE

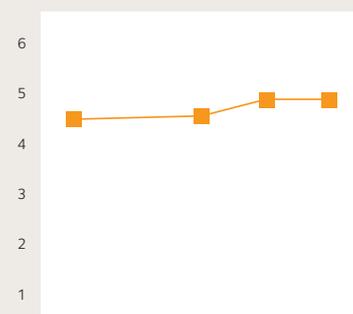


Year	Value
2000	4.8
2001	4.8
2002	5.0
2003	5.0
2004	5.1

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

Source: Amou

### EXTERNAL ENVIRONMENT



Year	Value
2000	4.5
2001	N/A
2002	4.6
2003	4.7
2004	4.7

"Concern with the external environment is given high priority in my unit."

Source: Amou

# Social performance



## Social performance

### Responsibility, challenges and action

Taking social responsibility means acquiring an understanding of the effects our activities have on people and communities, and allowing this to find expression in practical action to the best advantage of our group and the societies of which we are an integral part.

We accept social responsibility because that is a natural consequence of endorsing the principles for sustainable development. We share a responsibility for our common future, which cannot stop at the company door. By acting as a responsible player, we reduce risk, ensure predictable frame conditions and protect our reputation.

Purposeful efforts to give our social responsibility a specific content have been pursued for a number of years. Our long-term ambition has always been to entrench this responsibility in our business. We made important strides during 2004 by establishing more formal requirements for the way we conduct impact assessments and assess non-technical risks in our projects. In addition, we worked to identify the areas where we meet the biggest challenges and have the greatest opportunities to exert an influence. These are local spin-offs, transparency and human rights.

### Local spin-offs

Norway has succeeded in building up substantial expertise in the oil and gas business over the past 30 years, as well as a strong supplies industry. With our experience, we at Statoil can contribute to the build-up of expertise through various measures in countries in which we have operations. These include:

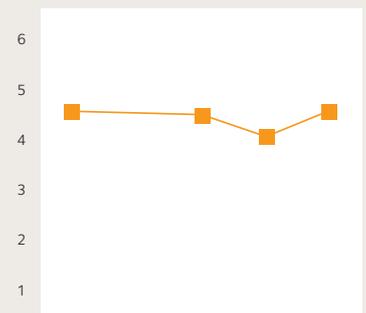
- recruiting and developing local employees
- procuring local goods and services
- enhancing the expertise of the local supplies industry
- transferring experience to local partners, such as governments, national oil companies and contractors/suppliers
- supporting educational schemes in the oil and gas sector
- contributing to the development of local and national energy plans
- cooperating with research institutes.

Which measures can realistically be applied will vary from country to country. Many producing nations lack the necessary basis for achieving rapid and positive development. In some countries, the fundamental frame conditions must first be improved. So we relate our efforts in this area very closely to our commitment to increased transparency and greater respect for human rights.

### Supporting transparency initiatives

The Global Compact, the UN's initiative for cooperation with industry, was formally expanded to 10 principles on 24 June 2004. We supported this addition, and have thereby undertaken to combat corruption in all its forms. In the autumn of 2004, we were invited to join a working party headed by the Global Compact secretariat which will propose how companies can implement the 10th principle in their operations.

### SOCIAL RESPONSIBILITY



2000	2001	2002	2003	2004
4.6	N/A	4.5	4.2	4.6

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

Source: Amou

## Social performance

We are also supporting other transparency initiatives. At the World Economic Forum's meeting at Davos in January 2005, chief executive Helge Lund signed the Partnering Against Corruption Initiative (PACI), which embraces companies in the construction, energy and mining sectors. We have thereby committed ourselves:

- to showing zero tolerance of corruption and bribery
- to developing/maintaining an effective programme for implementing this principle.

The PACI is based on Transparency International's business principles for countering bribery. It gives us an opportunity to learn from and influence other companies, and to improve our own ethics programme through benchmarking with others.

We are responsible for creating economic value through the best possible utilisation of oil and gas resources. Our host countries will receive a substantial proportion of this value creation. However, positive social developments depend on the way these assets are managed. By working for greater transparency on oil and gas revenues, we can make an important contribution to improving such management.

### **Expanded reporting**

As a result, we will make information about cash flows into and out of our group as accessible as possible. All our accounts are published in the Norwegian Register of Company Accounts, and the consolidated accounts are presented in our annual report. In addition, this and subsequent editions of our sustainability report will include key figures for a number of central producing countries. See the section on financial performance on page 24.

We want to influence our partners, governments and other companies to pursue the same degree of transparency. That is being done in part through our support for the Extractive Industries Transparency Initiative (EITI). This encourages openness by governments receiving revenues from the oil and gas industry, and not just by private companies. Further details on the EITI are provided in the financial performance section.

Transparency and good revenue management form part of our cooperation agreement with the UN Development Programme (UNDP), which commits us to support projects for encouraging better management of public resources.

### **Human rights**

We operate in a number of countries with challenges in the human rights area. Purposeful efforts are accordingly pursued to identify how we can take care of such rights in the best possible way.

Extensive dialogue is maintained with other companies and organisations on human rights issues. Through our membership of the Global Compact and its Nordic network, we can both

## Social performance

learn from and influence other companies. We have also joined the Business Leaders' Initiative on Human Rights (BLIHR). See the box on page 59. And we have a cooperation agreement with Amnesty International Norway. We are in dialogue with other organisations working on human rights, and these issues form a key element in our collaboration with the UNDP.

### Cannot act on own initiative

We are concerned to define the most effective action which we as a group can take to respect and promote human rights. Defining the limits of what we can and should do is important. The primary responsibility for protecting human rights rests with government. We cannot act on our own initiative to look after these rights outside our core business. We lack the necessary legitimacy. So we will not raise individual cases unless they concern our own employees. We believe that our contribution to long-term projects in cooperation with other players has greater significance for human rights in a country. We accordingly support training on and raising awareness about human rights for judges in Venezuela and Nigeria, and in the Azerbaijan school system.

### Need for local customisation

In 2004, we decided to establish local plans for social responsibility. The aim is first to ensure that our organisation is familiar with and aware of in-house guidelines, agreements, national laws and international regulations which provide the framework for our operations. We must then understand the influence our activities have on the societies in which we operate, and the risk this poses for us. This is done not only through our own analysis but also through dialogue with those affected. On that basis, we will establish specific plans for social responsibility. The goal is to put such plans in place during 2005 for our operations in Venezuela and Algeria. Experience from these pilot projects will be valuable for an on-going project to establish social responsibility plans customised for local challenges and requirements in all the countries in which we operate.

Measures 2004	Results 2004	Further action 2005
Specify frameworks for assessing the social impacts of our projects	Frameworks included in revised and formalised governing document for integrated environmental and social impact analysis (ESIA)	Develop indicators to measure social impacts as part of the impact assessment for Algeria
Develop a robust methodology for measuring the indirect economic effects of our presence	Impact assessments reviewed to identify best practice	Develop methodology through a pilot project
		Create country-specific strategies for social responsibility in two nations in which we pursue our international operations.



**Name:** Olav Kjørven

**Position:** State secretary (deputy minister), Ministry of Foreign Affairs, Oslo

### Q: How can companies and the authorities collaborate over sustainable development?

A: The interaction between companies and the government will determine whether sustainable development can be achieved. Globally, I believe the most important task is to fight poverty.

Government and industry in Norway cooperate to promote economic progress in developing countries, based on the principle of sustainable development. We have jointly explored opportunities for Norwegian companies to become involved, which is beginning to yield results in a number of countries. I believe that combining business activities with responsibility will give us a competitive advantage.

Cleaner production has proved to reduce impacts on health and the environment. At the same time, profitability has increased because resources are much better utilised.

I'd cite one example – a few years ago, Norway took an international initiative to cut gas flaring on oil installations and find ways of using gas as a resource in local households and industry. We established a good collaboration with a number of companies, not least Statoil. Many countries and companies have since joined in, and the results are starting to emerge.

# Dialogue and cooperation



## Dialogue and cooperation

Our stakeholders include employees, suppliers, customers, investors, government bodies, humanitarian and environmental organisations, politicians, partners and local communities. We want an open dialogue with these groups, in which we inform them about our business and receive feedback on the way our activities affect the community.

We continued to develop our contacts with various stakeholders in 2004. At group level, we concluded an agreement with the UNDP. Our cooperation with Transparency International was formalised through a letter of intent, and existing agreements with the Norwegian Red Cross, the Norwegian Refugee Council and Amnesty International Norway were continued. In addition to contributing to a closer dialogue with these organisations, we want such agreements to be used to enhance expertise about and awareness of issues associated with development, human rights and corruption.

The agreement with the UNDP runs for five years and commits us to making a contribution of USD 1 million to the UN programme's Thematic Trust Fund on Democratic Governance. The aim is to support the UNDP's work and contribute to better government in countries in which we do business. We have chosen to focus on three areas in particular: decentralisation and local government, access to the legal system, and transparency on and work directed at the corruption problem. Every year during the period of the agreement, we will identify one or two projects within these priority areas and follow them up through our national offices in cooperation with the UNDP. We want our corporate agreement to encourage greater dialogue with the UNDP not only at head office but also locally in countries in which we operate, so that we can contribute to increased cooperation between the various players on specific development issues. Due to begin in 2005, the two first projects to receive support under the UNDP agreement are in Brazil and Iran.

Through the International Petroleum Industry Environmental Conservation Association, we have commented on draft safeguard policies which the International Finance Corporation – the private-sector arm of the World Bank – intends to apply for projects it finances wholly or in part. The dialogue on this proposal will continue in 2005.

Dialogue with stakeholders is also pursued at project level. In connection with our Snøhvit development, we had discussions in 2004 with the Sami Natural Resources Association (SNF). As a result, we will support the development of combined fishing, farming and reindeer herding activities in areas populated by the Sami. This will help to create a new source of employment for Sami which also safeguards the environment. We are cooperating with the University of Tromsø and Finnmark University College to enhance expertise and ensure a good recruitment base in northern Norway.

Measures 2004	Results 2004	Further action 2005
Strengthen contacts with the UN and the World Bank system	Agreement concluded with the UNDP, comments provided on the World Bank's work with safeguard policies	
Log dialogue with stakeholders in a more systematic way	Cooperation with external stakeholders in the sustainability area was clarified and evaluated	

## Impact assessments

New in-house guidelines on impact assessments were adopted in 2004. Whereas such studies were previously required to focus primarily on environmental impacts, they now also encompass social conditions. Under the guidelines, we must clarify at an early stage what the impact of our presence will be on sociological and economic factors such as job creation, procurement of local goods and services, local cost levels, health provision and infrastructure.

These guidelines follow international best practice and have been developed in close consultation with the Association of Oil and Gas Producers and the International Petroleum Industry Environmental and Conservation Association. They will be specifically applied during 2005 in the impact assessment due to be conducted in connection with our activities in Algeria.

We have long experience of carrying out impact assessments for our operations in various regions and communities. Some countries, including Norway, have formal statutory requirements for the content of such studies. Our own guidelines have been developed in parallel with such legislation, and in accordance with it. In those cases where national legislation does not formally require an assessment, or the requirements are below the standards we set for ourselves, the study will be conducted in accordance with our own guidelines.

 [www.statoil.com/ia](http://www.statoil.com/ia)

## Treading carefully in the desert



## Treading carefully in the desert

“We must ensure that we don’t set unnecessary footprints in the desert, and the steps we do take should be made as carefully as possible,” says Caroline Webb. She is responsible for HSE in our global exploration cluster.

A huge challenge faces us at Hassi Mouina in south-western Algeria, where we have secured the operatorship for an area of the Sahara covering 23,000 square kilometres – half the size of Denmark. We have a significant exploration programme, with a minimum commitment which involves 400 kilometres of two-dimensional seismic surveys and two exploration wells. This work will be undertaken during the first exploration period, which runs for three years.

### Little explored

“There’s no oil and gas production in this part of the Sahara today, and the geology of the area is little explored,” explains Ragnar Fredsted, our licence manager for Hassi Mouina. “We’re becoming involved in exciting pioneer work for Algeria’s continued development as an oil and gas nation. It’s also a new experience for us. We haven’t conducted seismic surveying or drilling operations on land before.”

The base for advancing into this unknown and thinly-populated desert region will be the town of Timimoun, a charming oasis and Saharan gem which serves as the most important centre for an area with about 30,000 residents.

### Airport

Timimoun has its own airport as well as links with the two major road systems running north-south on the African continent. Beyond these central highways, the town and the many small oases lie only the endless desert sands.

“One of our biggest challenges will be controlling the movement of vehicles in the desert,” says Ms Webb. “Some areas have a hard, brittle surface which has taken hundreds, sometimes thousands of years to develop. Off-road driving destroys these areas and the tyre tracks remain visible for many decades. We want to avoid that kind of intrusion.”

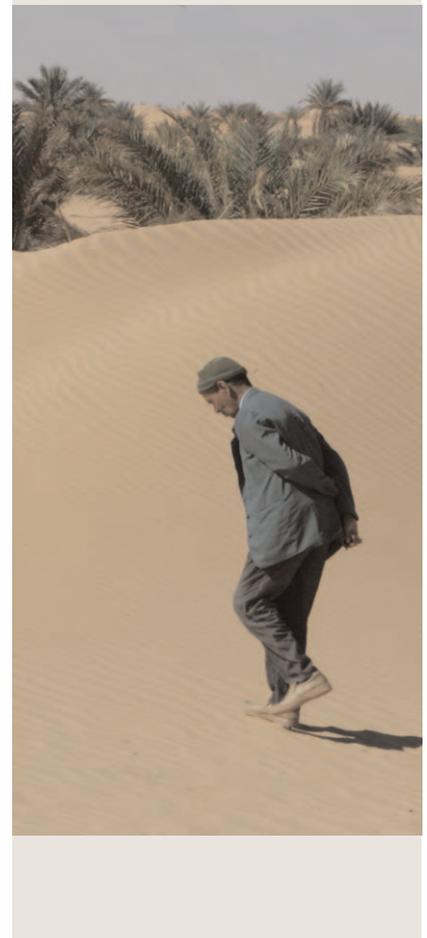
### Impact

Before seismic surveying and drilling begin, an extensive environmental and social impact assessment will be carried out for us by Environment Resources Management.

“Many people may be under the impression that little exists in a desert,” observes Ms Webb. “But conserving biological diversity is about not destroying habitats – even though the number of species is low. It’s important for us to operate here with a thorough understanding of our surroundings.”

The challenge is also to identify natural resources which can help to strengthen the economic base for desert dwellers who live under demanding conditions, and provide them with new opportunities. We are operator for Hassi Mouina, with a 75 per cent interest in this large block. Our partner, Algerian state oil company Sonatrach, holds the other 25 per cent.

“We applied for this acreage after evaluating the whole of Algeria,” reports Mr Fredsted. “In our view, it occupies an interesting place amongst the country’s remaining exploration opportunities. So Hassi Mouina was our top priority when we applied. We know we face an exciting and demanding exploration job in an area which is virtually without infrastructure. But entering a society like this with 21st-century oil and gas technology also carries an important obligation.”



# Social investment



## Social investment

Social investment can be described as projects or programmes which we support in order to contribute to social and economic development and to action on the environment. These schemes are not directly related to our core business, and do not embrace measures aimed at our own employees or contractors. They are additional to and supplement that part of our social responsibility which is exercised in direct association with our business activities. During 2004, we further developed and clarified our guidelines for conducting social investment projects.

Important principles are:

- **Priority areas**

In line with our overall strategies for social responsibility and for health, safety and the environment, we will give priority to measures which relate to local value creation, transparency and human rights, and contribute to building local capacity in the HSE area.

- **Partnerships**

Projects must be implemented in cooperation with voluntary and international aid organisations as well as with local and national government.

- **Help to self-help**

Projects must contribute to building up capacity, so that local communities are able to pursue their own development.

- **Dialogue**

Projects must be planned on the basis of consultation with the recipients, aid organisations, other companies and government.

## Carbon fund with a social profile

We decided in June 2004 to invest USD 2.5 million in the World Bank's Community Development Carbon Fund (CDCF). This gives us equity interests in a number of small environment projects which have been approved under the clean development mechanism (CDM) in the Kyoto protocol. See the climate section on page 33.

Established in 2003, the CDCF invests in small-scale CDM projects which reduce greenhouse gas emissions in developing countries while also providing social benefits for the local community. The main aims of the fund are to stimulate the development of environmental projects in poor countries, help to create a market for emission allowances, and secure capital for sustainable development. The fund has a special focus on developing projects in Africa, and at least 25 per cent of its capital must be devoted to the poorest countries. Examples of projects include biogas, waste recycling and water pumps.

Investors in the CDCF will receive emission credits in tonnes of carbon dioxide. These can be used by their own facilities which need carbon allowances or traded in the market. The credits are qualified for use in the EU and Norway from 2005. The CDCF has a total capital of USD 128.6 million.



## Social investment

We expanded our social investment projects in Nigeria and Venezuela during 2004. A process initiated in Algeria will allow us to define a programme during the first half of 2005 for social investments based on our activities in that country. In Russia, we have resolved to support a programme being run by the Norwegian and Russian Red Cross to raise awareness of HIV/Aids. Collaboration projects have been launched in Brazil and Iran under the corporate agreement we concluded with the UN Development Programme in 2004.

Our budget for social investments in 2004 was USD 6.5 million, which is due to rise to USD 8 million during 2005 in line with our goal of increasing such spending as our business activities expand. The investment programme is approved as part of our planning and budgetary process. Not everything can be planned, however, and we are concerned to respond swiftly when a humanitarian crisis occurs. We made a special donation of NOK 11.5 million to our partner, the Norwegian Red Cross, in connection with the Indian Ocean tsunami disaster.

Measures 2004	Results 2004	Further action 2005
Increasing focus on social investment in line with the expansion of our international operations	Social investment grew by 10 per cent from 2003	Further expansion planned

## Training Sharia judges in Nigeria

We have supported projects relating to human rights in Nigeria for the past three years. These are run by local Nigerian voluntary organisations.

The Legal Defence and Assistance Project is training Sharia judges with the help of funding from us. Founded in 1966, this organisation aims to broaden knowledge of Nigeria law, human rights and good governance. The training is intended to increase the knowledge of Sharia judges and change their attitudes on cases which involve human rights. In addition, the organisation wants to improve the integration of human rights assessments in the Islamic Sharia law system.

A total of 127 judges from seven northern states which have all introduced Sharia law participated in the training programme during 2004, bringing the total who have completed it to 450. That represents 19 per cent all Sharia judges in Nigeria.

Lasting two days, each seminar covers the following issues:

- basic principles of human rights
- law relating to women
- just interrogation principles, and how these can best be integrated in the administration of Sharia law
- training legal procedure and administration

# Human rights in Venezuela



We joined the Business Leaders' Initiative on Human Rights (BLIHR) in 2004 as the representative for the energy sector. This initiative embraces 10 international companies from various industries which have undertaken to find practical methods of observing the Universal Declaration of Human Rights. They also share relevant experience. The aim is for lessons from work in the BLIHR to be reflected in business plans and management systems at member companies.

Draft guidelines on the way large enterprises should handle various aspects of human rights work have been drawn up by the UN. Through testing these proposals in selected operations, the BLIHR members are hoping to make specific contributions to the debate on the business community and human rights.

We have selected our activities in Venezuela for this project. The matrix provides a schematic presentation of the way we follow up human rights in that country.

Other members of the BLIHR collaboration include ABB, Hewlett-Packard, Novo Nordisk, Gap and The Body Shop International.

 [www.blihr.org](http://www.blihr.org)

# The human rights matrix

Source: BLIHR 2, Report 2: Work in Progress, London, December 2004.

A R E A			Right to security of persons		Rights of workers				
	General obligations	Right to equal opportunity and non-discriminatory treatment	Right to security of persons	Security arrangements	Forced or compulsory labour	Children's rights	Safe and healthy workplace	Adequate remuneration	Freedom of association/collective bargaining
E S S E N T I A L	Statoil's human resources policy, where human rights are recognised as a core value	Human resources policy, stipulating the rights of employees	Personal accident insurance for all employees	Security briefing for all employees	Full compliance with Venezuelan law	Full compliance with Venezuelan law	Safety working groups in place, involving employees and contract personnel	Regulated pay system in place	Trade unions are consulted on all business decisions affecting employees
	Ensuring compliance with Venezuelan and international law for business practices and human rights	Membership of forums working to promote diversity and a better gender balance	Health insurance for all employees	Corporate policy on the use of security personnel has been implemented	Human resources policy in line with relevant International Labour Organisation (ILO) conventions		Internal competition and prize to reward best practice in safety	Share saving plan available for all employees	Cooperation with trade unions representing employees
		Specially-adapted training programmes and tasks for vulnerable groups of employees	Ethics help line available for all employees around the clock						
E X P E C T E D	Cooperation with human rights organisations, such as Amnesty International, UNDP, UNAids and the Red Cross	Sponsorship of projects to incorporate women in local business and industry	Training in HSE issues and best practice for all contract personnel	Defensive driving course for all contract drivers	All contract personnel are to receive training in workers' rights	All contract personnel are to receive training in workers' rights	Corporate standards applied in the supply chain. Training of contract personnel in HSE, human rights and ethics	Systematic follow-up of contractual obligations with all suppliers to ensure compliance with Venezuelan law and Statoil requirements	Workers' rights are protected by the labour law. Systematic verification to assure compliance
		Sponsorship of a training programme to integrate disabled people in economic activities							
		Sponsorship of a programme to promote tolerance and non-discrimination of indigenous peoples		Contract drivers have medical insurance coverage, food coupons and productivity bonus, and are ensured protection under relevant labour legislation					
D E S I R A B L E	Programmes to promote non-discrimination implemented in Venezuela	Sponsorship of a community radio training programme on the rights of people with HIV/Aids				Training programme in human rights, including children's rights, for Venezuelan judges	Sponsorship of HIV/Aids awareness and treatment programmes		
	Programmes to protect indigenous peoples implemented in Venezuela	Sponsorship of a seminar on the Venezuelan law on violence against women (for 600 people at the Supreme Court)				Sponsorship of a seminar on the Convention of Children's Rights, with participants from the Supreme Court, Amnesty International, UNDP, the Norwegian embassy and Statoil	Sponsorship of a national HIV/Aids campaign		
		Sponsorship of a bilingual educational programme for indigenous teachers to promote their culture					Sponsorship of an improvement programme for health centres in the states of Sucre and Delta Amacuro		
		Sponsorship of the publication of 3,000 books for indigenous Warao Indian teachers, documenting their ancestral traditions, religion, art, music and legal system					Community safety education programmes under planning with the Venezuelan Red Cross		

# Statoil in Venezuela

Respect for national sovereignty and human rights			Obligations with regard to consumer protection	Obligations with regard to environmental protection	General provisions of implementation		
Respect for national governance practices	Bribery	Contribution to realisation of human rights			Internal rules of operation	Monitoring	Compensation
Cooperation with national institutions to ensure compliance with Venezuelan law	Training for all employees in Venezuelan law and Statoil's guidelines - raising awareness with regard to grey zones	Human rights are recognised as a core value in Statoil's human resources policy	Under consideration - Statoil does not sell direct to end users in Venezuela	At corporate level, Statoil supports voluntary principles on gas flaring	Public reporting at corporate level in line with Global Reporting Initiative (GRI) standards for operations in Venezuela	Internal audits, covering social and environmental factors	All employees have a formal contract of employment which regulates compensation, if required
	Ethics training for employees			Close follow-up of environmental risk through impact assessments	Corporate guidelines for risk analysis and due diligence, including human rights		
	Ethics help line - available for all employees around the clock						
Participation in public debate on good governance, including combating corruption	Training in ethics and workers' rights for contract personnel, provided by Amnesty International	Local strategy for social responsibility, incorporating human rights	Under consideration - Statoil does not sell direct to end users in Venezuela	Supplier development programme under planning	Obligatory safety and survival training for contract personnel working offshore	Assessment of industrial relations and reputation when selecting suppliers	Internal audits to ensure compliance with both Norwegian and Venezuelan legislation in this area
	Ethics and human rights training for employees			Systematic follow-up to ensure compliance with environmental law			
					All contract personnel working offshore have undergone safety training and instruction in Statoil's HSE policy and requirements		
Support for institutional strengthening through a human rights training programme for Venezuelan judges							
Judges participating in the human rights training are to assist with the development of projects to improve the administration of justice		Community investment strategy and specific projects focusing on human rights - in place since 1999					
Sponsorship of a seminar on international humanitarian law for judges							
Sponsorship of a seminar for state-owned companies on human rights and business and industry							

# Governing structures

## **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 has eight shareholder-elected and four worker-elected members. It 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 with 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. Another duty is to appoint the chief executive and establish formal powers of attorney between board and chief executive.

Social responsibility is regarded as an important strategic concern by the board, which will focus in 2005 on social responsibility and the social investment portfolio in countries which present special challenges.

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.

## **Chief executive officer (CEO) and the corporate executive committee**

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

## **Corporate risk committee**

The corporate risk committee is responsible for supervising risk management in the group, and recommends measures for managing exposure and risk. It is chaired by the chief financial officer.

## **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. In 2004, a total of 74 audits were carried out within the areas of governance and control, HSE, ethics and human rights.

## **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.

 [www.statoil.com/governance](http://www.statoil.com/governance)

Governing structures



# GRI index

	GRI index	Page in report	Global reporting initiative	Reporting elements
<b>Vision and strategy</b>				
1.1	7-11		Statement of Statoil's sustainability vision and strategy	
1.2	3-5		Statement from the CEO	
<b>Organisational profile</b>				
2.1	Cover		Name of reporting organisation	
2.2	Cover		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		Scale of the reporting organisation	
2.9	N/A		List of stakeholders, key attributes of each, and relationship to reporting organisation	
<b>Report scope</b>				
2.10	N/A		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	
<b>Report profile</b>				
2.17	65		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	66		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	
<b>Structure and governance</b>				
3.1	9, 62		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	9-11, 62		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	62		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	
<b>Stakeholder engagement</b>				
3.9	N/A*		Basis for identification and selection of major stakeholders	
3.10	10, 53		Approaches to stakeholder consultation	
3.11	10, 53		Type of information generated by stakeholder consultations	
3.12	10, 53		Use of information resulting from stakeholder engagements	
<b>Overarching policies and management systems</b>				
3.13	10-11, 53		Explanation of how the precautionary principle is addressed	
3.14	Many		Endorsed voluntary economic, environmental and social charters and initiatives	
3.15	4, 14, 15, 26, 53, 58		Principal memberships in industry/business associations and interest organisations	
3.16	9-10, 33-34, 49-51		Policies and/or systems for impact management	
3.17	10-11, 25-29, 33-34, 49-51		Approach to managing indirect economic, environmental and social impacts	
3.18	62		Major decisions regarding the location of, or changes in, operations	
3.19	3, 7, 50, 61, 62		Programmes and procedures pertaining to economic, environmental and social performance	
3.20	2, 10		Certification pertaining to economic, environmental and social management systems	

\* Information about this can be found in Statoil's annual report and accounts for 2004. N/A = Not available

GRI index	Page in report	Global reporting initiative – aspects addressed in this report
<b>Economic performance indicators</b>		
EC1-2	27-28	Customers
EC3, 11	10, 25, 28	Suppliers
EC4	N/A	Suppliers
EC5	25, 28	Employees
EC6-7	25	Providers of capital
EC8	28	Public sector
EC9, 12	N/A	Public sector
EC10	58	Public sector
EC13	25-31	Indirect economic impacts
<b>Environmental performance indicators</b>		
EN1-2	N/A*	Materials
EN3-4, 18-19	N/A	Energy
EN17	44-45	Energy
EN5, 20-22	N/A	Water
EN6-7, 25, 27, 29	39	Biodiversity
EN23, 24, 26, 28	N/A	Biodiversity
EN8, 10-13, 31	33-37	Emissions, effluents and waste
EN9, 30, 32	N/A	Emissions, effluents and waste
EN33	10	Suppliers
EN14	42-43	Products and services
EN15	N/A	Products and services
EN16	2	Compliance
EN34	41	Transport
EN35	N/A*	Overall
<b>Social performance indicators</b>		
LA1	Cover, 28	Employment
LA2, 12	N/A	Employment
LA3-4, 13	9-10, 14-15	Labour/management relations
LA5-8, 14-15	14, 19-23	Health and safety
LA9, 16-17	17, 19, 21-22	Training and education
LA10-11	14-15	Diversity and opportunity
HR1-2, 8	3, 49-51	Strategy and management
HR3	N/A	Strategy and management
HR4	14	Non-discrimination
HR5	14	Freedom of association and collective bargaining
HR6	14	Child labour
HR7	14	Forced and compulsory labour
HR9-10	N/A	Disciplinary practices
HR11	N/A	Security practices
HR12-14	41, 58, 60	Indigenous rights
SO1, 4	2, 49-53, 60-61	Community
SO2	13, 50	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	42-43	Products and services
PR9-10	N/A	Advertising
PR3	N/A	Respect for privacy

## 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](http://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.

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### Human rights

Principle 1: Support and respect for the protection of international human rights.  
Pages 50-51, 56, 59

Principle 2: Refusal to participate in or condone human rights abuses.  
Pages 50-51

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### Labour

Principle 3: Support for freedom of association and recognition of the right to collective bargaining.  
Pages 9, 11, 14

Principle 4: Abolition of compulsory labour.  
Page 14

Principle 5: Abolition of child labour.  
Page 14

Principle 6: Elimination of discrimination in employment and occupation.  
Page 14

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### Environment

Principle 7: Implementation of a precautionary and effective programme on environmental issues.  
Pages 10-11, 32-33, 53

Principle 8: Initiatives which demonstrate environmental responsibility.  
Pages 32-46

Principle 9: Promotion of the diffusion of environment-friendly technologies.  
Pages 32-46

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### Anti-corruption

Principle 10: Promotion and adoption of initiatives to counter all forms of corruption, including extortion and bribery.  
Pages 12-14, 49-50, 55

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# Report from Ernst & Young AS

## Assurance report with limited assurance level

### To the stakeholders of Statoil ASA

#### Scope of engagement

We have been engaged by the corporate executive committee of Statoil to do an independent review of Statoil and sustainable development 2004 (the Report).

Our review was performed in accordance with the requirements for a limited assurance engagement in ISAE 3000 (approved December 2003), "Assurance engagements other than audits or reviews of historical financial information". The work to obtain limited assurance does not focus on the comprehensive gathering of evidence. Our assurance work related to the health, safety and environment (HSE) data presented in the annual report and accounts for 2004 (on pages 42-48), on the other hand, has focused on obtaining reasonable assurance by sufficient supporting evidence. As the external auditors of Statoil ASA, we have also audited the company's annual financial statements.

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

#### Reporting criteria

In this review, 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 sufficient to review the Report.

#### Work

Our review involved the following activities:

- interviews with a selection of Statoil's senior executives and personnel, 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
- verification of HSE data as stated in our HSE assurance report, dated 9 March 2005:
  - site visits to 10 reporting 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 assist in collecting the figures for the HSE accounting
  - testing a selection of data to verify that figures from the various reporting entities have been correctly incorporated in the HSE accounts, and overall analyses of the figures compared with earlier reporting periods
  - testing a selection of data to verify that the HSE figures presented are based on defined and consistent methods for measuring, analysing and quantifying 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. Verification of the interviews included within the Report has not been part of our engagement. We have, however, checked that the interviewees have given their approval to the interview text.

#### Conclusions

We have no reason to assume that the information in the Report does not comply with the most important requirements of the stakeholders with regard to reliability and sufficiency.

Stavanger, 9 March 2005

ERNST & YOUNG AS



Jostein Johannessen

State authorised public accountant

We welcome your feedback.  
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**Design:**  
Statoil

**Pre-press and printing:**  
Prinfo Kai Hansen and Ålgård Offset

**Photos:**

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Øyvind Hagen:	pages 36, 48, 57, 59, 63
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