



Transparency and trust

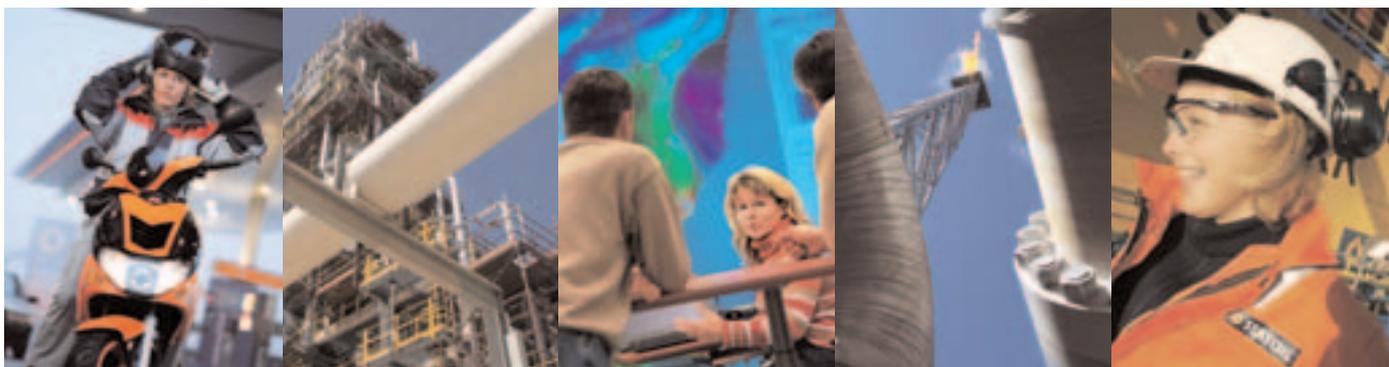
Statoil and sustainable development 2003

Statoil and sustainable development in 2003

Statoil is an integrated oil and gas company based in Norway. We are the largest operator on the Norwegian continental shelf (NCS), and pursue substantial international activities. With representation in 28 countries, we have 19 326 employees. As one of the world's biggest offshore oil and gas operators, we have been accustomed from the start to deal 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. We do this through increased awareness and commitment to improving our results along the triple bottom line so that they mutually reinforce each other. We will then be living up to our base values and combining strong financial results with a responsibility for society and the environment.





Our performance at a glance

| | 2003 | 2002 | 2001 |
|---|---------|---------|---------|
| Financials¹ | | | |
| Total revenue | 249 375 | 243 814 | 236 961 |
| Income before financial items, income taxes and minority interests | 48 916 | 43 102 | 56 154 |
| Net income | 16 554 | 16 846 | 17 245 |
| Capital expenditure | 23 198 | 16 756 | 12 838 |
| Return on average capital employed after tax | 18.7% | 14.9% | 19.9% |
| Operations | | | |
| Combined oil and gas production (thousand boe/d) | 1 080 | 1 074 | 1 007 |
| Proved oil and gas reserves (million boe) | 4 264 | 4 267 | 4 277 |
| Production cost (USD/bbl) | 3.2 | 3.0 | 2.8 |
| Finding and development cost (USD/bbl) (3-year average) | 5.9 | 6.2 | 9.1 |
| Reserve replacement rate (3-year average) | 0.95 | 0.78 | 0.68 |
| Environment² | | | |
| Oil spills (cubic metres) | 288 | 200 | 246 |
| Carbon dioxide emissions (million tonnes) | 10.0 | 8.9 | 9.2 |
| Nitrogen oxide emissions (tonnes) | 29 900 | 26 400 | 29 500 |
| Discharges of harmful chemicals (tonnes) | 367 | 411 | 360 |
| Energy consumption (TWh) | 47.0 | 42.1 | 44.2 |
| Waste recovery factor | 0.67 | 0.68 | 0.65 |
| Health and safety | | | |
| Total recordable injury frequency ³ | 6.0 | 6.0 | 6.7 |
| Serious incident frequency ³ | 3.2 | 3.8 | 4.1 |
| Sickness absence ⁴ | 3.5 | 3.4 | 3.4 |
| Fatalities ³ | 2 | 6 | 1 |
| Organisation | | | |
| Employee satisfaction ⁵ | 4.6 | 4.6 | 4.5 |
| Proportion of female managers ^{6*} | 23% | 23% | 15% |
| Union membership (per cent of workforce)* | 70 | 70 | N/A |
| R&D expenditure ⁷ | 1 004 | 736 | 633 |

¹ Key figures given in NOK million

² Data cover Statoil-operated activities. Definitions on pages 20–25.

³ Data cover Statoil employees and contractors. Definitions on pages 58–59.

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

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

⁶ New reporting system implemented

⁷ NOK million

* Estimate

These are key indicators of Statoil's performance. Several of them are included in managers' performance pay contracts. For a more extensive overview of reporting indicators, see our annual report and accounts for 2003.

Transparency

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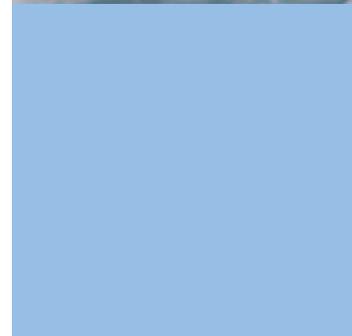
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Message from the chief executive



We will operate profitably, safely and in an ethically acceptable manner, while also taking account of the environment and showing social responsibility. This is the core of our commitment to sustainability at Statoil. Working in such a way will earn us trust.

This is the third year we have reported on our commitment to sustainable development. The sustainability report provides our most important tool for overall reporting on and follow-up of our objectives in this area.

How are we to meet our targets and create trust?

Openness is a central requirement. Only through open dialogue with our stakeholders can we obtain the reactions and feedback needed from the world at large to support our own learning and improvement. The Horton affair in 2003 reminds us of the potential for damage if we fail in our efforts to be open and observe our own ethical guidelines. The consequences accepted by Statoil show that this affair was taken very seriously, however, and I am convinced that trust in us will soon be restored.

We place great emphasis on building a strong health, safety and environmental culture. After many years of commitment to improving safety through the application of technology and procedures, our attention is shifting to a greater extent towards the way people behave. The safe behaviour programme we have launched covers no less than 18 000 of our own employees and contract personnel. In addition to safe behaviour, key goals in this drive are open dialogue and concern for each other.

Continuous and purposeful work has been pursued to meet environmental challenges. Our approach has been expertise-based, and the results are encouraging. We rank today as a world leader in reducing carbon dioxide emissions per unit produced, and our development and application of new environmental technology has won international recognition. In the summer of 2003, we began using the world's first two gas-fuelled supply ships. These cut nitrogen oxide emissions by about 90 per cent compared with diesel-powered vessels.

We aim to promote and observe human rights in all our activities. Ambitious internationalisation goals make this issue particularly important for us. We have experience of project developments and impact assessments, and have adopted good systems for union-management collaboration. Important steps were taken in 2003 to establish guidelines and measures better suited to our international ambitions, and this work will continue with undiminished vigour in 2004.

Our desire to contribute to sustainable development is founded on a moral obligation. Principles go hand-in-hand with commercial interests. Active adjustment of our business to the external challenges we face reduces risk, enhances our reputation and improves profitability. So we will be stepping up our efforts in every part of the triple bottom line, with trust as the goal – and with openness as a key tool.


Erling Øverland
Acting president and CEO

The interview: Peter Eigen - global corruption hunter

Transparency International (TI) was founded by Peter Eigen not much more than a decade ago as a non-governmental organisation (NGO) dedicated to fighting bribery and corruption on a global basis.

Its development has been impressive. Represented today in more than 100 countries, it sets the agenda for the fight against a social evil which the founder himself does not hesitate to characterise as both “destructive and deadly”.

Mr Eigen is happy to justify such strong words: “Large-scale corruption often relates to international transactions between suppliers in the rich world and poor countries tied to unnecessary and failed investments. These can cost billions of dollars, and lead to inappropriate resource use and heavier debt burdens which make it very difficult for the countries involved to break out of the brutal poverty cycle in which they are ensnared. That in turn leaves too few resources to meet the real needs of such countries for education and health, and for help to the poor and malnourished.

“This kind of perverted economic management leads to poverty and misery, hopelessness and desperation which can result in violence and ultimately in terrorism.”

Destructive

Now 65, Mr Eigen is a German citizen with long international experience. He was brought face-to-face with the destructive effects of international corruption while working for the World Bank. He quit that job to found TI in 1993. This NGO has its headquarters in a suitably modest office building in Berlin.

“Corruption is a millstone around the neck of humanity,” Mr Eigen declares. “It also hurts the honest companies which don’t want to be involved in such behaviour, and which lose contracts. And political corruption simply undermines the democratic process, trust in politicians and the integrity of political leaders. This type of corruption could ultimately be even more destructive than the purely commercial variety.”

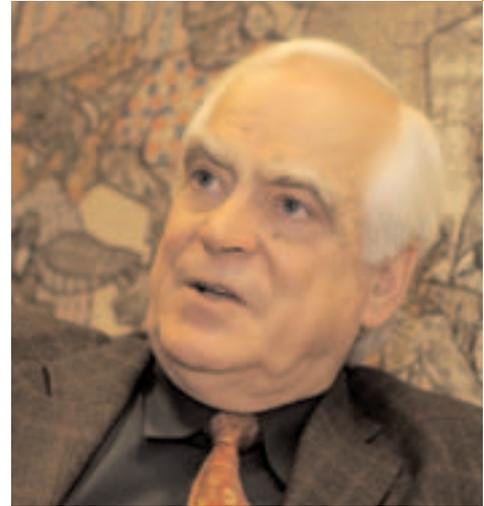
Progress

Mr Eigen is emphatic that progress is being made in the fight against corruption.

“Some would undoubtedly argue that there’s been no reduction since we started our work in 1993. But you then have to remember that the phenomenon now receives a very different level of media coverage than was the case only a few years ago. There’s much greater openness than before. That could encourage people to think corruption is far more widespread now. I don’t think that’s the case. Less of it is hidden from view now.”

Attitudes have definitely altered, he agrees. “There’s been such a massive change in thinking about corruption in the international community, represented by the private sector, national governments and international bodies, that we can talk of a completely different world.

“The World Bank, which was unwilling to get involved in the problems, is now one of the agencies which has made the strongest commitment to fighting them. While it previously suppressed unpleasant issues, the bank now ensures that they are publicised and brought to government attention.



“Corruption also hurts the honest companies which don’t want to be involved, and which lose contracts.”

Global corruption hunter



Global corruption hunter

“As recently as 1999, Germany permitted the giving of bribes in other countries. Companies could even deduct such payments from tax. This scandalous system was defended right to the top levels of government and industry.”

Significant

Mr Eigen notes that changes to criminal law and tax legislation in a number of countries have been highly significant for companies introducing ethical rules as well as systems and sanctions to ensure compliance with these regulations.

He also emphasises the importance of the anti-corruption conventions adopted by the UN and the Organisation for Economic Cooperation and Development. The latter’s anti-bribery convention has been signed by 35 countries, which are thereby committed to punishing companies who pay bribes to foreign public officials.

But Mr Eigen also stresses that penalisation is only one instrument for eliminating bribery and corruption.

“Most people fighting corruption believe that the answer lies in heavier punishments,” he notes. “In TI, we believe in establishing an extensive system of rules and bodies which make it much harder for corruption to flourish. We’re also convinced that it’s not enough to be confrontational, and that this must be matched by collaboration with the various players.”

Defensive

Asked about the honest companies who lose contracts against corrupt competitors, Mr Eigen says that they very often develop a defensive corruption strategy. Fearing that their rivals are giving bribes, they do the same themselves.

“To avoid that happening, TI has established what we call an integrity pact,” he explains. “This is a contract between companies which mutually undertake not to behave corruptly. About 60-70 such pacts have been concluded so far. Companies can also be required to sign them in order to participate in tendering rounds. They’re reinforced through the companies keeping tabs on each other, through monitoring by the international community and – I’m then thinking particularly of the work done by the voluntary organisations – through the creation of powerful opportunities for sanctions, including blacklisting.”

TI has identified the international oil and gas industry as especially subject to corruption, and Mr Eigen says that this is because the sums of money involved are extremely large.

“That in itself represents huge temptations for both sides. So I’m not at all surprised at the revelations in France’s Elf affair, which Eva Joly played a key role in exposing. Another point is that the oil and gas industry can’t choose where to invest. It can’t opt for an honest country, but has to go where the resources exist and must accept the leadership it finds in the relevant country. That makes it vulnerable.

“It’s my impression that this industry is working seriously and hard on the corruption issue. In many cases, they can tackle the problems by collaborating and concluding integrity pacts. Corrupt regimes in the host countries naturally don’t appreciate that. They’re keen to have the opportunity to salt money away.”

“In many cases, the oil companies can tackle the problems by collaborating.”

“Most people have a strong sentiment that corrupt behaviour is evil.”

Responsibility

He points out that the oil companies have a huge responsibility in a country like Angola, one of the nations in which petroleum production now gives the government ever higher revenues while living standards for the bulk of the population continue to decline.

“The key here is openness, so that the general public knows what the companies pay in the form of direct and indirect taxes and, particularly, signature bonuses. We’ve argued that oil companies should be legally required by the country in which they have their head office to ‘publish what they pay’. But pressure must also be put on the host countries, even though this can sometimes be a waste of time – like talking to a brick wall.”

Mr Eigen is convinced that lasting results can be achieved in the fight against corruption in countries with authoritarian regimes.

“We have authoritarian leaders who are less corrupt than some leaders of democratic countries. The relationship between democracy on the one hand and honesty and openness on the other is not so straightforward. But there is more predictability in a democracy and, in a longer perspective, corruption can undoubtedly be handled in a better way by a democratic society.”

Guidelines

“Companies such as Statoil should have very strict ethical guidelines,” Mr Eigen says. “You’ve got those. They should also have a system for practical follow-up, training and education at all levels to ensure that the guidelines become part of a living corporate culture and not just words on a piece of paper. In addition, there must be a system which makes it possible to enforce ethical rules – such as a hotline which employees can call or protection for personnel who choose to blow the whistle for reasons of conscience when their ethical concerns are ignored.”

Asked about the psychological effect of corruption on those who get drawn into it, he notes that most people have a strong sentiment that corrupt behaviour is evil.

“It’s sinful. Interestingly, all the major world religions condemn it. That makes it fairly troubling if you begin your professional life with this kind of value system and quickly find that your colleagues expect you to participate in corrupt activities. Unfortunately, few people can withstand such pressure in the long run if it gets repeated and repeated and if the company gives them no help.

“We also register very often that companies which have paid bribes are not particularly productive. This practice seems to undermine both enthusiasm and creativity.”

Healthy

“In that way, a healthy business climate like the one you have in Statoil can provide enormous protection for young people entering work,” Mr Eigen emphasises.

“The corporate culture can stimulate their enthusiasm and enhance their pride at belonging to an organisation which does not engage in bribery or make front-page headlines. And if the organisation has a corruption-related problem, they won’t opt to sweep it under the carpet but react swiftly to it. That’s something we expect of large companies.”

Global corruption hunter

Asked whether Statoil failed to set a particularly good example in the Horton affair which blew up last September, he says TI has always taken a positive view of the group.

“That also applies to the way you handled this particular issue, particularly when one recalls other cases in which chief executives remained in place throughout a criminal investigation. Statoil provides a positive example. Every big organisation will experience problems with bribery and corruption. The question is how you deal with such incidents.”

Transparency International

Transparency International (TI) was founded in 1993 as a non-governmental organisation dedicated to the fight against corruption both internationally and within nations.

TI has placed great emphasis on identifying collaborative solutions which involve national governments, international organisations, industry and voluntary bodies.

It works very purposefully and in practical ways to oppose the evil of corruption, with its national branches seeking to achieve necessary reforms to the way their country is governed. The main idea is not to devote resources to criminal proceedings but to develop effective preventive measures which make it difficult to be corrupt.

A corruption fighter's tool kit developed by TI contains practical advice, case histories and specific measures which have been adopted as part of the struggle in a number of countries.

The organisation puts great emphasis on information and openness in the fight against bribery and corruption. First published in 1995, its annual Corruption Perceptions Index (CPI) ranks more than 100 countries on the basis of how serious corruption is thought to be in each of them. This document is now regarded as the most important source on the subject.

It was supplemented in 1999 by the Bribe Payers Index (BPI), which identifies how ready companies from leading export countries are to pay bribes in importing nations.

The Global Corruption Report (GCR) has provided an annual analysis of this problem since 2001, with reports on regional trends as well as the latest available data and research on corrupt practices. Its 2004 edition will focus on political corruption world-wide. TI also issues a daily newsletter with the latest reports about corruption and the fight against it.

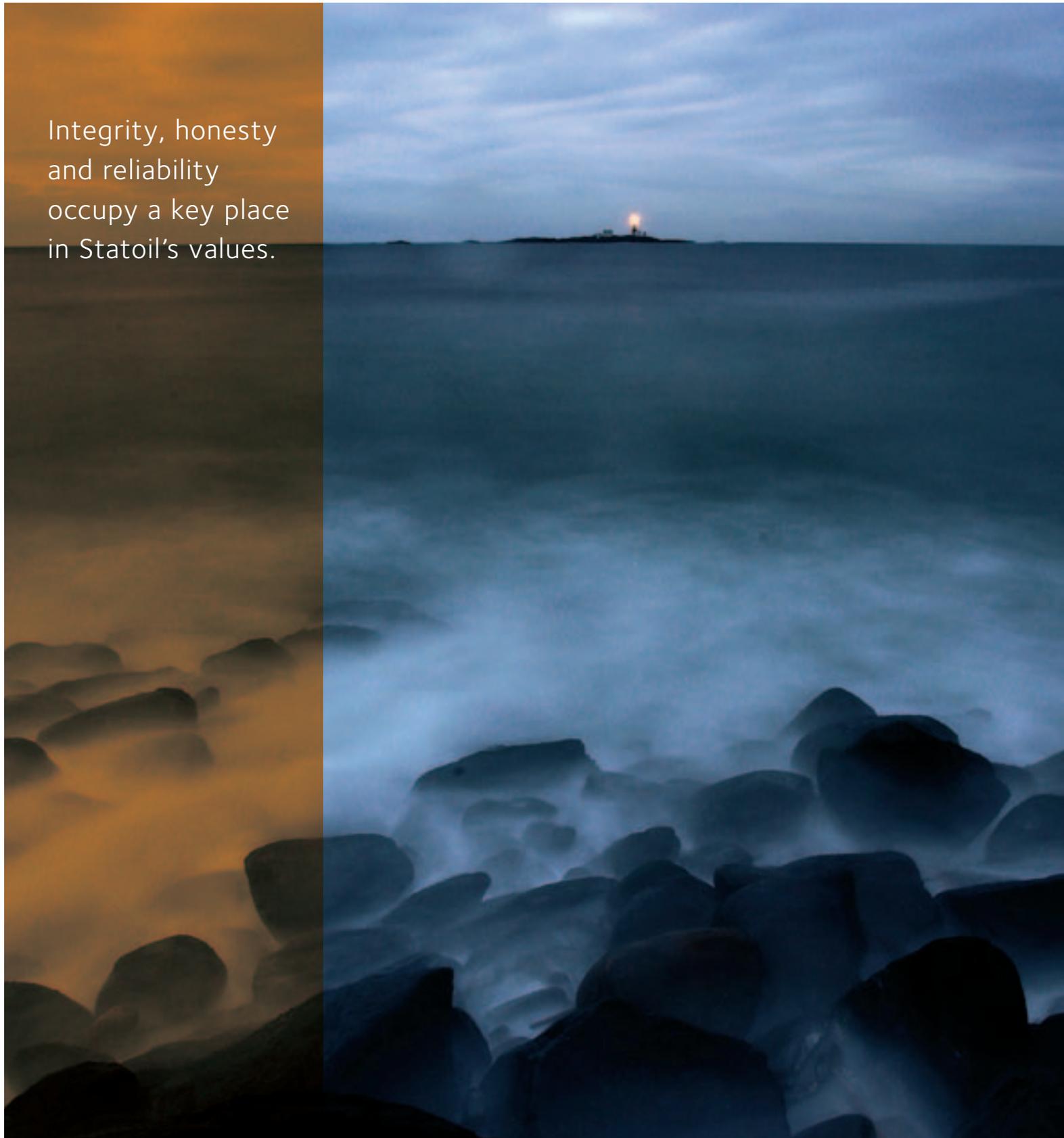
Statoil belongs to the organisation's Norwegian section, and will pay NOK 250 000 annually towards its running costs in 2002-04.

 www.transparency.org



Our values

Integrity, honesty
and reliability
occupy a key place
in Statoil's values.



Our values

Integrity, honesty and reliability lie at the core of Statoil's values and provide the basis for building a good culture and a good reputation. The latter is important for achieving our commercial ambitions. How we do business is as important as the commercial results we achieve. Our relationships with others – both in-house and externally – must be characterised by openness, and we expect our partners and suppliers to share these attitudes.

Our governing documents, including *Ethics in Statoil*, amplify the values set out in *We in Statoil* and the expectations we have of our own employees and of those with whom we cooperate.

Our reputation has taken a long time to build. It can be destroyed quickly, with negative financial consequences. As employees, we are responsible for contributing to and maintaining a good reputation for Statoil.

We will not compromise on our values for financial gain. Again, we expect our partners and suppliers to share this attitude. This makes big demands on us, particularly in view of our international ambitions.

Demanding tasks

We will demonstrate honesty, reliability and integrity in all aspects of our business. Behaving consistently on the basis of these values everywhere we pursue operations is demanding for both individuals and the organisation.

We do not always succeed as well as we might wish. However, it is important that we strive to achieve improvements rather than resting content with a minimum standard. In cases where we cannot apply our standards or defend decisions on ethical grounds, we must either withdraw from the activity or continue to search for acceptable solutions. Great variations in political, cultural, economic and social considerations are encountered between countries in which we have operations. We may find ourselves confronted with difficult decisions. It is then important that we openly discuss the relevant issues and consult staff functions and the line organisation to find acceptable solutions. Openness and participation are important for success.

How to succeed

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

- managers at all levels must communicate our values, and serve as role models by demonstrating a correspondence between word and deed
- clear and continuous communication of our values throughout the organisation to create a sense of ownership and common practice
- use the annual working environment and organisation survey (Amou) to measure and systematically follow up the observance of our values, and to ensure that the necessary improvement measures are implemented
- use assurance letters for managers in order to ensure that practice in our organisation conforms to corporate requirements
- integrate ethical and reputation-related risk analyses in all commercial decision-making processes
- further develop the ethical help desk and protect whistleblowers in accordance with Norwegian and US legislation
- our values and ethical guidelines will be key topics in introductory and management courses
- training programmes on ethics and social responsibility will be implemented throughout the organisation during 2004
- our values will be communicated and made clear to our partners and suppliers.

We in Statoil

Our values are described in *We in Statoil*. This document states: "we will conduct our business in an ethically acceptable, sustainable and socially responsible manner". These values are amplified in our ethical guidelines, which specify that all employees must promote integrity, honesty and reliability in all business activities.

Corporate governance

Good corporate governance is crucial for the ability to manage risk.



Corporate governance

Good corporate governance is essential in managing risk and creating value for Statoil's owners and the society to which we belong. Our fundamental objective is to create value for our owners through profitable operation and business development which contributes to sustainability. The contribution made by industry to sustainable development is significant for society, while also being in a company's own best interest. This strengthens its position in the labour, capital and product markets.

Our base guidelines and standards provide the framework for the business, and define how we create economic and social progress and protect the environment. We demonstrate social responsibility through the way we pursue our day-to-day activities, and exercise leadership and good judgement. Such responsibility includes environmental protection and a commitment to human rights – political, civil, economic, social and cultural.

Governance model

To reach our objectives, we need robust and efficient management systems. The interaction between the organisation, the management, the board and different 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 in discharging their job of monitoring both the management and the processes relating to strategic planning and risk management. Combined with our other management and control systems, this institutional structure is very important for creating economic, social and environmental value.

Good corporate governance secures our licence to operate from society.

The Horton agreement

Statoil's chair, chief executive and executive vice president for International Exploration & Production all resigned in September 2003 after it had emerged that a consultancy agreement relating to business development in Iran was not compatible with our ethical guidelines.

This Horton affair has prompted Norway's National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) to bring a preliminary charge against Statoil ASA of contravening the Norwegian law which makes it illegal to influence foreign public servants. Økokrim is investigating whether any criminal acts were committed in connection with the agreement.

We have also been notified that the US Securities & Exchange Commission is conducting an inquiry into the affair to clarify whether American securities law has been breached.

On our initiative, we have engaged an external legal adviser to conduct a comprehensive legal review of all aspects of the Horton agreement.

Awarded in 2002, this contract was worth USD 15.2 million over 11 years. It was cancelled in mid-September 2003, by when USD 5.2 million had been paid.



Name: Rolf Magne Larsen

Nationality: Norwegian

Occupation: Senior vice president, country analysis and social responsibility, Statoil

Q: How does Statoil work to ensure openness and transparency?

A: Being transparent is an important aspect of our social responsibility. But it's also a dilemma, because we must respect the confidentiality due to our partners.

We believe in combating corruption through dialogue, and we're also concerned that money flows should be transparent. Such issues are discussed in our ethics committee, an important part of the decision-making process and the basis for strengthening our expertise. Externally, we share our experience and views in various fora. We meet regularly with Norwegian interest organisations, and take a proactive approach to proposals from charitable and industry associations. Such collaboration is valuable for identifying challenges and solutions.

We contact the relevant authorities about our plans early on in order to find common solutions and avoid surprises. That makes developments in Nigeria and Azerbaijan a good sign. The political leadership supports cooperation with an oil industry which aims to fight corruption through greater openness and transparency.



Assurance letter

We introduced the assurance letter in 2003 as a supplementary reporting and management tool. During 2004, we will be seeking to improve this process on the basis of experience from last year's pilot project. The assurance letter in 2003 involved a personal exchange between managers and the chief executive. This was done to ensure that each manager could freely and openly report various conditions in the organisation to the chief executive.

Some conclusions can be drawn from the first round of assurance letters:

- greater attention will be paid to our values and business principles in future assurance letters
- greater use can be made of the assurance letter in improvement work through increased understanding of risk as well as better management and reporting
- to make the assurance letter more effective, we will integrate this process during 2004 into our general management and reporting system.

Participation in decision-making processes

Discussion about the requirements for good corporate governance often focuses on which systems can best ensure that a company's management is in adequate control of the business. Good corporate governance also requires our top management to exercise good judgement in all decisions taken.

Through the governance model, management will ensure that all parts of the business build on the company's core values and act in accordance with the established guidelines.

Our corporate governance system specifies clear frameworks and requirements for the way issues are handled, and for involvement and control in decision-making processes.

Although decision-making roles and guidelines may be in place, every system depends on the various roles being respected and on management at every level exercising personal discipline in observing the established rules.

It is crucial that the decisions taken build on the relevant competence within our ranks and on the base values we profess. The Horton affair in 2003 (see page 11) revealed that our top management had failed to exercise sufficiently good judgement. Nor was sufficient respect paid to roles in and guidelines for our decision-making process.

Managing our risks

The management and control systems we have established ensure good governance of the business. However, no formal system of control can prevent high-risk behaviour or potential damage to our group and/or the society of which it is part unless a shared understanding prevails throughout our organisation and management about the risks and challenges we face.

Emphasis is accordingly placed on continuous training and education as well as on evaluating and monitoring the way our governance principles and core values are implemented. To reinforce this commitment, we embarked on a new human resources programme for our managers in 2002 to ensure that attention is given to values, responsibilities and risk management.

We have signed up to the UN's Global Compact and the governance principles underlying this collaboration between the world organisation, industry and voluntary organisations. A new introductory programme addressing business ethics and social responsibility was under development in 2003, and will cover everyone working in our group.

Country risk

We developed a model in 2002 for assessing the impact of country risk factors. This tool aims to enhance our ability to assess and compare the significance of political risk factors across and between specific projects. It does not provide us with exact figures to describe the economic impact of these risks, but will permit a more systematic assessment of the ones we face. That ensures consistency in the consideration of our investment projects.

Our country risk assessments are carried out at both portfolio and project levels. At the latter level, a number of qualitative evaluations of political risk are made both before and after the commitment. In connection with work on the corporate strategy in 2003, we launched a project to establish a new model for establishing a balance between profitability and risk. This work is due to be completed during 2004.

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 carried out since 1986. This tool is used to map developments and assess our performance on organisational issues, management efficiency and satisfaction with the working environment. The survey is anonymous and no responses can be traced back to individual respondents.

Results from the survey conducted in the autumn of 2003 indicate that we have a good working environment and a robust organisation. Despite negative media coverage, the resignation of the chief executive and challenges in the international arena, the poll reveals progress in a number of areas – including safety, training, personal development and assessment of the respondent's immediate superior. The surveys for 2001-02 recorded progress in questions which measure job satisfaction and motivation. This trend was both confirmed and reinforced in the 2003 poll.

But the Horton affair (see separate section) has left its mark, with confidence in the corporate management showing a marked decline in the latest survey. While 81 per cent of respondents put their confidence in management as four or better on a scale of one-six in 2002, only 57 per cent did so in 2003.

Stakeholder dialogue

We are responsible for meeting the expectations not only of the owners but also of other stakeholders – including employees, the authorities, partners, suppliers, customers, non-governmental organisations (NGOs) and the general public.

Stakeholder dialogue is a traditional tool in the Norwegian business community. This tradition has clear benefits. In our case, this form of communication has developed to become highly important both at corporate level and in relation to individual projects.

We are seeking to carry this tradition with us as we expand our business internationally. Dialogue with stakeholders provides us with better understanding of how our activities are influenced by local societies, and how we in turn influence the communities in which we do business.

Such dialogue represents an efficient tool for identifying risks by providing access to vital information not readily available in other ways. Stakeholder dialogue affects the way we do our business.

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 first of these audits has been carried out with good results.



Cooperation with suppliers

Corporate governance also embraces management of the supply chain, since suppliers/contractors are involved in a substantial number of our operations. Collaboration with these suppliers is based on mutual respect. This means that we strive to be a good customer on the basis of openness, predictability and equal treatment. It also means that we expect our suppliers to observe our standards for health, safety and the environment (HSE) and business ethics.

HSE criteria have long been taken into account when selecting suppliers. We will be revising and improving our guidelines and selection criteria during 2004.

This does not mean that we always exclude suppliers who initially fail to meet our standards. A better approach is to help suppliers enhance their results for HSE, social responsibility and ethics through the work they do for us.

Business ethics

Statoil regards corruption as a barrier to all development, a threat to democratic values and an inhibitor of free and open competition. Corrupt practices are illegal, and any association with them also threatens a company's reputation and business.

We expect all our employees to strive for high ethical standards and to accept a personal and committed responsibility. Such an approach forms part of our corporate identity. We belong to the anti-corruption sub-committee of the International Association of Oil & Gas Producers (OGP), and to Transparency International.

Challenges

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



Business ethics

internationally. We must also protect our business against other types of criminal activity, such as physical threats and robbery.

We work in a number of areas:

- preparing clear ethical guidelines and standards
- pursuing preventive efforts through raising awareness and systematic education
- reporting incidents
- responding quickly by investigating and solving specific issues.

We suffered a setback in the ethical area in 2003 through the suspicions raised in connection with a consultancy agreement relating to Iran (see page 11). Regardless of the possible findings from the investigations into this affair, we will further strengthen our work on ethical awareness and behaviour in the group.

Other incidents which breach our guidelines were also experienced. Our service station business outside Scandinavia continues to grow with the addition of new outlets – particularly in the Baltic states and Poland. Unfortunately, our personnel and stations have suffered instances of physical threats, robbery and attempted robbery. We see tendencies towards sophisticated frauds by organised crime. In certain cases, we have also experienced dishonest behaviour by our own employees.

Rapid expansion and more operatorships of our own are the targets for the International Exploration & Production business area. Several of the nations in which we are seeking opportunities have undemocratic forms of government and weak public sectors. Having governance systems in the group which function well is particularly important in such countries.

We have continued work on ethics training in several areas of our group. A structured and systematic programme for such learning is being implemented for all employees in 2004. Over the year, we will be tailoring ethics training for special groups of employees. We provided training programmes on ethics and handling dilemmas for employees and managers in several countries during 2003, and started ethics training for our contractors. A programme covering suppliers has been implemented in Venezuela.

The collaboration launched in 2002 through the OGP's anti-corruption sub-committee has been maintained. We were given the main responsibility for preparing a booklet on reputational due diligence, and this work has been completed. In our own group, we have drawn on this work to compile in-house guidelines for adoption in 2004.

Conflicts of interest should be identified and prevented before they arise. In common with many other large companies, we have accordingly established detailed rules for reporting the interests held by our employees as owners, shareholders and directors of other companies. An improved computerised reporting methodology was adopted by our parent company in 2003. This solution can also replace local routines as our subsidiaries adopt the same computer system.

Targets

- Implement obligatory courses on ethics and social responsibility for all employees.
- Tailor ethics training for more specific categories of employee.
- Make the ethics help line permanent and establish local solutions in relevant subsidiaries.



Name: Svein Andersen
Nationality: Norwegian
Occupation: Senior vice president, corporate audit, Statoil

Q: How does Statoil work to secure openness and transparency?

A: Our corporate culture is basically founded on openness and trust. We have good corporate governance, an effective industrial democracy, a professional public affairs department and a set of staff functions which support the business.

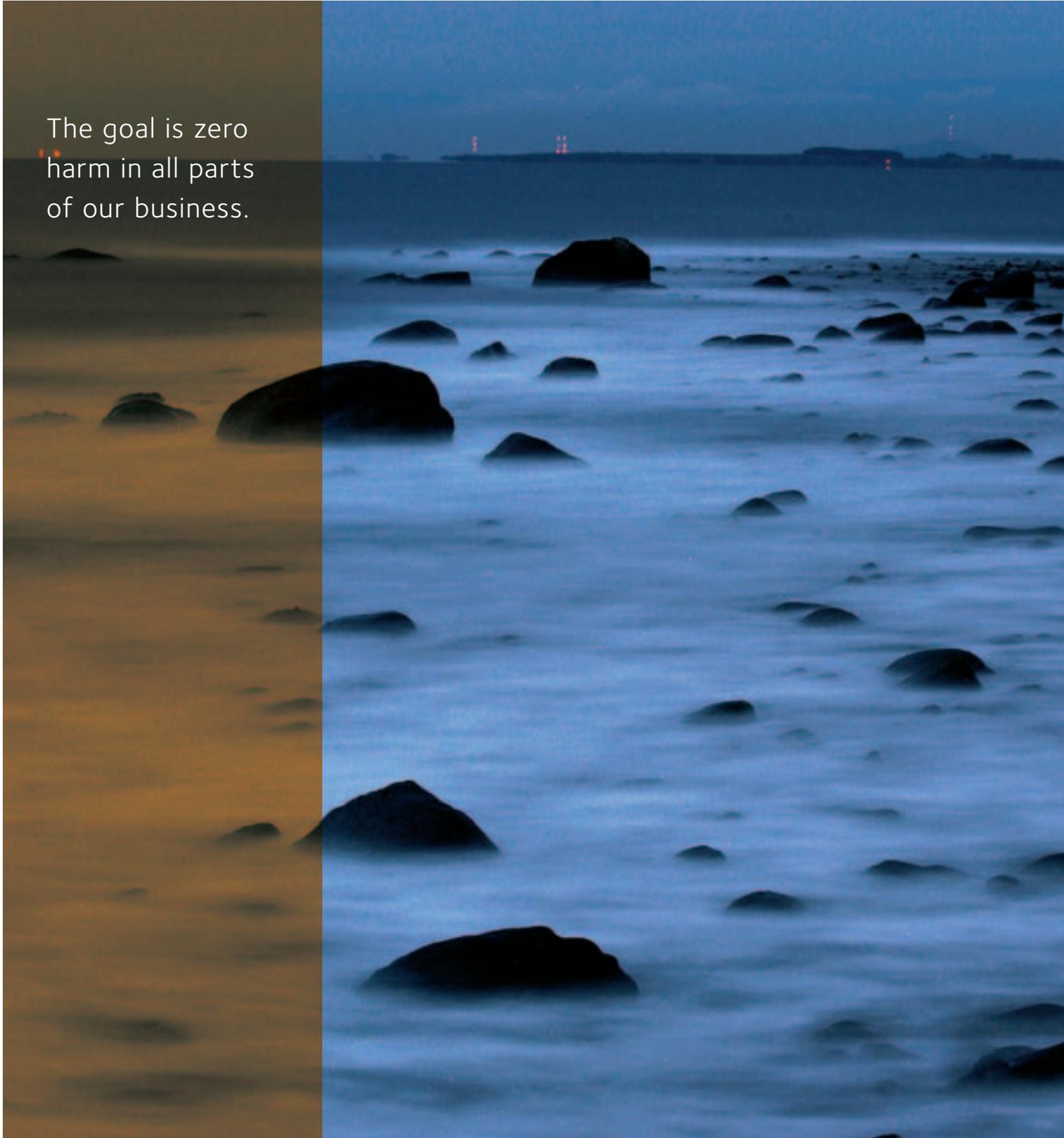
All this contributes to openness and transparency. So does our professional investor relations department, as we demonstrated by winning Norway's Stockman prize in 2003 for the quality of information provided to capital markets.

We've established an ethical help desk, which provides employees with a channel for raising not only ethical issues but also questions relating to openness and transparency. These two aspects have attracted greater attention in the wake of the Horton affair, and the corporate management now has ethics regularly on its agenda.

Our board appointed an audit sub-committee in the summer of 2003, which is intended to undertake more detailed assessments in selected areas.

Environmental performance

The goal is zero harm in all parts of our business.



Environmental performance

Statoil's various activities affect the environment, but our goal is to cause zero harm in all parts of our business. That applies both to emissions/discharges and to utilising natural resources which could affect biological diversity. We recognise that it is not possible to pursue our business without having an impact on the natural environment. This impact will depend on the characteristics of the area concerned, the type of activity, the choice of technology and operational standards.

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 used when activity has ceased, and preserve cultural monuments and landscapes of special value.

Substantial resources are contained in particularly valuable or vulnerable areas of the NCS. The Norwegian Sea off the Lofoten islands and parts of the Barents Sea provide important breeding and feeding grounds for a number of fish species, and their presence makes these waters particularly valuable. The oil and gas pipelines from Azerbaijan via Georgia to Turkey are also being laid through areas of unspoilt nature.

Our goal of causing zero harm makes heavy demands on the choice of technology and the way we conduct our operations. Knowledge of the relevant area and its ecosystem is a necessary requirement for selecting environmentally appropriate solutions.

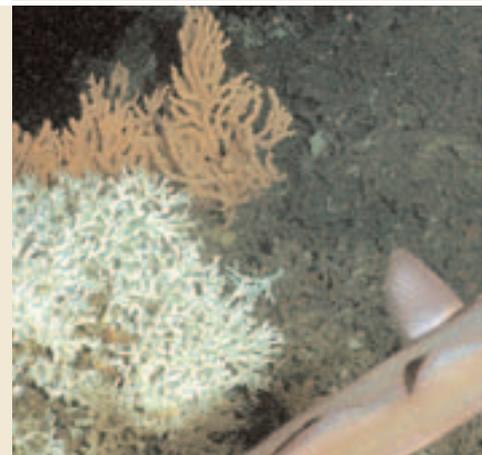
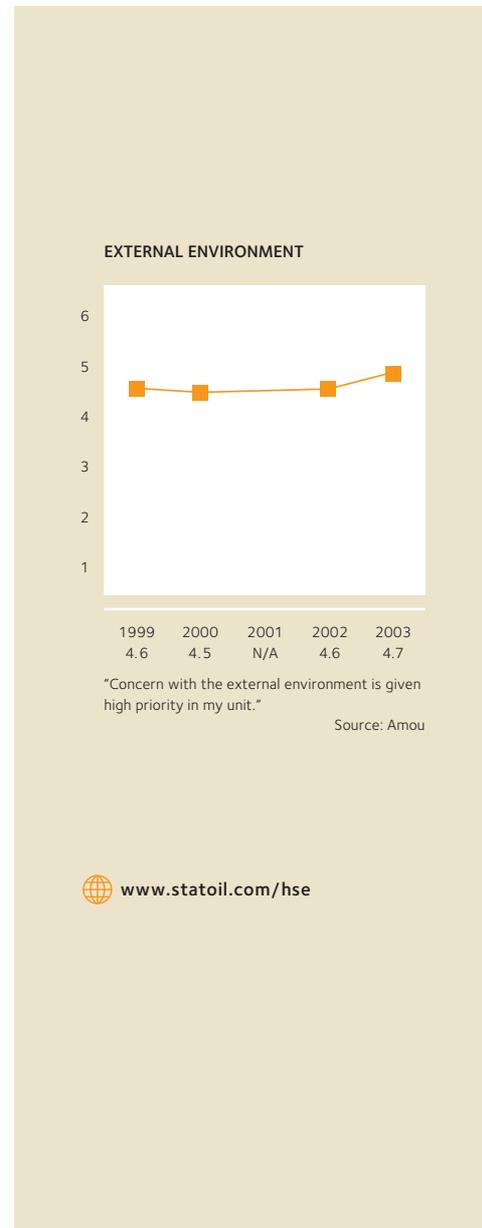
Openness over the choice we make and the environmental impact of our operations and products is crucial in securing acceptance for our activities from affected groups. The latter can include customers, the authorities, interest organisations, people living close to one of our facilities, or fishermen working in the waters where we pursue exploration for or production of oil and gas.

Environmental impact assessments provide a good basis for openness and understanding. Public consultation with affected groups helps us to choose the right solutions. Critical conditions identified in an impact assessment are followed up through monitoring of resource use and discharges/emissions once the facility is operational. Data from our land-based plants and offshore installations are shown in our annual report and accounts (see pages 47-50), and verified by an external auditor.

Coral reef research

Awareness that coral banks also exist in deep and northern waters, and can have great significance for marine life, has been growing globally in recent years. Such banks have been mapped on the NCS since 1982 in connection with our submarine pipeline projects and developments.

We have played a key role for many years in documenting the presence of these corals off Norway, and been a prime mover in publicising them. We were the first to have these formations filmed.



Climate

Climate change must be tackled through international collaboration.



Climate

Statoil believes that the global climate challenge is genuine, and that action is needed to reduce the release of greenhouse gases.

The third report from the UN Intergovernmental Panel on Climate Change in 2001 found strong evidence that most of the warming over the past 50 years is due to human activity. For the oil industry, the impact of producing and burning fossil fuels on the climate represents the big challenge.

Economic and social development engenders continued growth in energy demand. This expansion must be met by access to fossil fuels at an acceptable price. Renewable sources account for only a small part of the energy market. Global emissions of greenhouse gases are expected to rise significantly, not only through increased use of energy but also through deforestation and destruction of biotopes able to store carbon dioxide. In the long term, development and commercial application of new technology and renewable energy will be crucial for ensuring the necessary reductions in greenhouse gas emissions.

Climate change must be dealt with through international collaboration. We actively support the Kyoto protocol and believe that the mechanisms defined in the protocol should be adopted to achieve the most cost-effective emission reductions.

Our response to climate challenges is pursued through:

- measures which reduce emissions from our own plants, with no permanent flaring
- development of commercial opportunities for using carbon dioxide as pressure support to improve oil recovery, which leave the gas stored in sub-surface formations
- financing emission reductions in other countries, as specified by the Kyoto mechanisms and/or national and international regulations
- making preparations for emission trading
- investigating commercial opportunities and delivery of products which release relatively small quantities of greenhouse gas or which are based on non-fossil fuels.

Performance

We are among the companies with the lowest carbon dioxide emissions per unit of oil and gas produced. This has been achieved by developing and adopting new technical solutions which provide high energy efficiency and low greenhouse gas emissions.

Results achieved with carbon dioxide are calculated by comparing actual emissions with the volume which we would have released if special measures had not been taken.

Measures implemented during 1997-2003 at facilities we operate have curbed the growth in our greenhouse gas emissions by 1.03 million tonnes of carbon dioxide equivalent (cde).

Our facilities released 10 million tonnes of carbon dioxide in 2003, up from 8.9 million the year before. This increase primarily reflects the acquisition of field operatorships on the NCS and high output at land-based plants.

If special measures had not been taken, emissions from plants we operate would have been 1.03 million tonnes higher. In terms of our equity interests, the reduction comes to 352 000 tonnes of cde. At 31 December 2003, 23 per cent of the emission reduction we aim to reach by 2010 had been achieved.



Name: Frederic Hauge
Nationality: Norwegian
Occupation: Head, Bellona environmental organisation

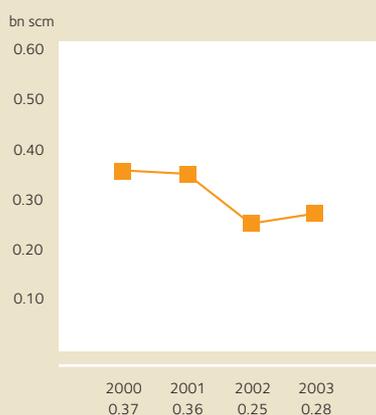
Q: How does Bellona communicate with Statoil? Do you get the information you ask for?

A: We've had a collaboration with Statoil since 1996, which is our arena for professional dialogue. We're dependent on cooperating with the oil companies to solve the greenhouse problem. Although we vehemently oppose oil drilling off northern Norway, we find that we're respected in Statoil. I really appreciate that.

We've found that different arenas in the group under the last two chief executives regard us as a think-tank and source of alternative expertise on many issues. We clarify facts and work closely together to find solutions to complex challenges such as carbon dioxide emissions.

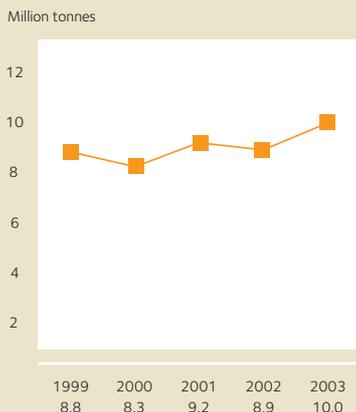
I would like to see Statoil being much more aggressive about future energy production based on hydrocarbon production without carbon dioxide emissions. We must seek, for instance, to move forward with carbon dioxide injection to improve oil recovery. The global climate issue can't be resolved without cooperation to develop exciting solutions for carbon dioxide deposition.

FLARING



Definition: Flare gas (bn scm) on the Norwegian continental shelf (Statoil operations).

CARBON DIOXIDE (CO₂) EMISSIONS



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

Carbon dioxide emissions embrace all sources such as turbines, boilers, engines, flares, drilling of exploration and production wells, well testing/workovers and residual emissions from the carbon dioxide separation plant for natural gas on Sleipner T. The distribution of products (by Statoil road tanker, ship or rail) to customers (households, companies, petrol stations and airports) is included. Support services such as helicopter traffic, supply and standby ships and shuttle tankers are excluded.

Carbon emissions cut

Together with the supplies industry, we have developed technology for separating oil and water in pipelines which substantially reduces carbon dioxide emissions compared with conventional methods. This solution was tested on the Sleipner fields in the North Sea during the autumn of 2003.

A review of our operations on land and offshore has been carried out to identify action required to meet the European Union's directive on integrated pollution prevention and control (IPPC) in relation to emissions to the air. A similar survey was undertaken to provide the basis for discussions between the industry organisations and the Norwegian authorities on the allocation of free quotas when emission trading is introduced. This review confirms that our facilities are very largely based on the best available technology (BAT) and practice, although some special plants cannot be compared directly with the IPPC/BAT.

We participate actively in a number of international fora working on the carbon dioxide challenge. These include the carbon capture project, a three-year multinational programme which will conclude during 2004. It is assessing and comparing available technologies for capturing and storing carbon dioxide. Our experts also participate in work on the special report being prepared by the Intergovernmental Panel on Climate Change. We provide the deputy chair for the technical committee of the Leadership Forum, an international collaboration established at the initiative of the USA.

Emission trading

Reducing emissions with the aid of the Kyoto mechanisms and emission trading occupies a key place in our collaboration with the International Emission Trading Association (Ieta) and the International Petroleum Industry Environmental Conservation Association (Ipieca). A corporate function for emission trading is being created, and should become operational in 2004. Through our USD 10 million investment in the World Bank's prototype carbon fund (PCF), we have interests in about 30 products which will yield substantial emission reductions.

The World Bank's gas flaring project has our support. This aims to achieve a global reduction in flaring and gas emissions from petroleum production, in part by ensuring better terms for private investment in improvement measures.

Target

Our target is to reduce annual greenhouse gas emissions by 1.5 million tonnes of carbon dioxide equivalent by 2010. The results achieved are calculated by comparing actual volumes released with the amounts we would otherwise have emitted if special measures had not taken.

European energy-saving award

We give weight to positive energy saving, and have worked actively since 1997 to reduce power consumption in our buildings. The focus has been on enhancing the expertise of our own property management staff, making more efficient use of lighting and heating, turning down heating at night, heat recovery and installing heat pumps.

These efforts have yielded good results. Total energy consumption in the 18 buildings covered by the project was cut by 16 gigawatt-hours per year or 19 per cent from 1997 to 2003. The measures adopted have also yielded a financial gain, with cost savings of about NOK 8 million in 2003.

We received an award in 2003 from the European Commission's GreenLight project for our work on new energy-saving lighting systems.

GreenLight aims to reduce electricity consumption in European commercial buildings by 30 per cent from the 2000 level.

Electricity consumption has been cut by about 80 per cent at Statoil's Trondheim research centre.



Tidal power

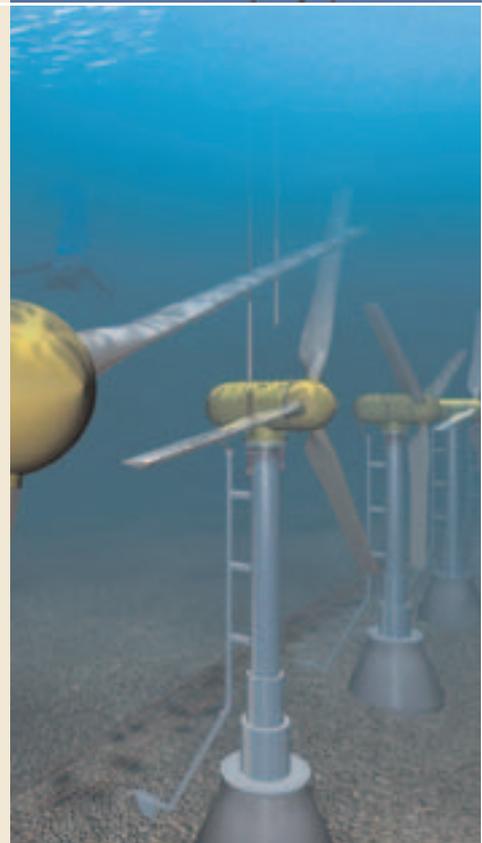
The world's first tidal power station opened in the Kval Sound south of Hammerfest in northern Norway on 13 November 2003. We hold a 46 per cent interest in its owner, Hammerfest Strøm, and have contributed actively to developing technology for generating renewable electricity from tidal currents.

This prototype facility delivers 300 kilowatts to Norway's electricity grid – enough to meet the power needs of roughly 30 Norwegian households. Tidal currents regularly reverse direction, and rotating the turbine blades around their own axis permits continuous and optimal power generation.

Taking the form of project management and underwater technology, our assistance provides a good example of the way expertise we have acquired in the oil and gas sector can be applied to renewable energy generation. The project is now in an optimisation and test phase, which will form the basis for possible development of a large commercial model.

See www.tidevannsenergi.com for more information on this project.

The underwater turbine park at the Kval Sound tidal power station in northern Norway.



Biological diversity

Preserving biological diversity is a key element in sustainable development.



Biological diversity

Biodiversity is nature itself – 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.

In our view, being able to demonstrate that we can operate in vulnerable ecosystems without lasting negative consequences for the environment is essential. Conserving biodiversity represents a key element in sustainable development. We will work with others to promote biodiversity conservation, and ensure that it is taken into account in our decisions.

Conserving diversity

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 populations. These are challenges we already encounter in our Norwegian operations, but they will also be demanding for our international business.

We participate 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. The EBI submitted its report, with a number of recommendations, to the World Parks Congress at Durban in South Africa during September 2003.

More industry attention

We are also a member of an Ipieca/OGP working party on biodiversity which aims to heighten awareness of this issue in the petroleum industry in general. This group is also continuing to develop guidelines and tools for conserving biodiversity.

Another of our partnerships is the Proteus programme run by the UN Environment Programme's World Monitoring Centre (UNEP - WCMC). This ambitious five-year scheme aims to develop a decentralised system for managing knowledge about biodiversity. That will ensure access to relevant and reliable information on the subject, providing in turn a good basis for solutions which can contribute to sustainable development.

Services will be delivered through a global biodiversity network – a decentralised system of databases founded on the WCMC's existing databases, system and network. An extensive and authoritative knowledge base will be established and maintained through a world-wide network of different partners.

We will continue to collaborate with both environmental organisations and other oil companies to promote the conservation of biodiversity and to develop common standards, guidelines and tools. This work will be channelled through the EBI, the Ipieca/OGP and Proteus. In-house, we will continue to integrate biodiversity considerations in our governance system and governing documents. And we will initiate specific activities in exploration and development projects, as has already been done in the Plataforma Deltana licence off Venezuela.



Name: Alan Grant

Nationality: British

Occupation: Executive director,
International Association of Oil &
Gas Producers (OGP)

Q: What is the OGP doing to stimulate greater transparency in the industry?

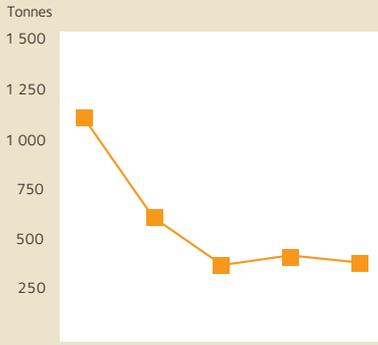
A: Speaking for producers of more than half the world's oil and over a third of its gas, the OGP has published an upstream position in favour of transparency. This is defined as "the clear public reporting of the size, nature and destination of payments made to governments or their agencies".

To achieve honest, legal and ethical behaviour in all industry activities, the statement affirms the OGP's commitment to working with multilateral institutions, regulatory bodies and other appropriate parties in their efforts to reduce corruption and maximise transparency.

But the OGP also maintains that such transparency should allow for protection of proprietary information and be within the laws of host countries as well as contractual obligations. It has been active in the international extractive industries transparency initiative launched at the Johannesburg Earth Summit in 2002, and has also helped with the extractive industries review initiated by the World Bank.

Limiting emissions and discharges

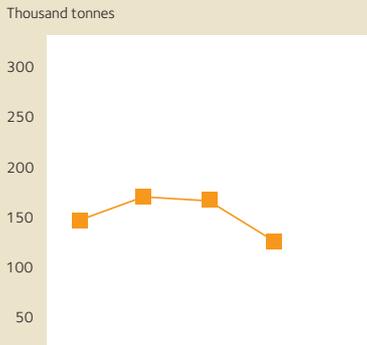
DISCHARGES OF QUESTIONABLE CHEMICALS



| 1999 | 2000 | 2001 | 2002 | 2003 |
|------|------|------|------|------|
| 1140 | 620 | 360 | 411 | 367 |

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

NON-METHANE VOLATILE ORGANIC COMPOUND (nmVOC) EMISSIONS



| 2000 | 2001 | 2002 | 2003 |
|------|------|------|------|
| 145 | 169 | 160 | 133 |

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

NITROGEN OXIDE (NO_x) EMISSIONS



| 1999 | 2000 | 2001 | 2002 | 2003 |
|------|------|------|------|------|
| 29.1 | 30.3 | 29.5 | 26.4 | 29.9 |

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

Statoil works to keep emissions to the air and discharges to water below the critical level for relevant ecosystems. We also face ever-stricter regulation.

We are currently working to meet the demands of the EU's IPPC directive, which requires best available techniques to be in place by 31 December 2007 for our existing installations on land and offshore.

The Norwegian authorities, in cooperation with the oil industry, have set a target of zero harmful discharges to sea from offshore installations by the end of 2005.

Under the Gothenburg protocol, Norway and other countries are committed to reducing emissions of volatile organic compounds (VOC), nitrogen oxides and sulphur oxides. The oil and gas industry must accept its share of these cuts. Environmental awareness is also rising in other areas of the world, accompanied by tighter regulation.

Our main response to these challenges is the development and implementation of new environment-friendly technology. We have also raised our operational standards in a number of areas. Continuous efforts are being made to improve regularity and reduce flaring even further, and thereby to cut emissions. No permanent production flaring is permitted on our installations and plants.

Performance

We are one of the best in the industry at limiting the amount of carbon dioxide, nitrogen oxides and sulphur oxides released to the air per volume produced. Our VOC emissions are relatively high because of the contribution from offshore loading of crude oil and condensate (light oil). Emissions from our land-based plants are also low per volume produced, but production growth means that the total amount released has not declined.

Reduced emissions from ships

To cut the amount of VOC released during offshore loading, as required by the Norwegian authorities, recovery plants became operational on seven shuttle tankers in 2003. A pilot unit has also been running since 1998. Contracts have been awarded for three additional facilities to be installed in 2004, with options for a further two to meet the next milestones for VOC reduction. A joint effort to reduce emissions is being made by 25 oil companies through Norway's VOC collaboration, with Statoil as operator.

Similar recovery units for oil storage were in operation throughout 2003 on our Åsgard A and Norne production ships, and a contract has been placed to install recovery equipment on the Åsgard C storage tanker in the summer of 2004. We have met the official Norwegian requirement that 40 per cent by volume of the oil loaded on the NCS be covered by emission-reducing technology.

Steps to reduce VOC emissions are also being taken at service stations. Systems for recovering these emissions via vapour return lines to road tankers have been installed at about 90 per cent of these forecourts. In addition, roughly 60 per cent of stations have vapour return systems.

Cutting nitrogen oxide emissions

In 2003, we became the first and only operator in the world to introduce supply ships fuelled by natural gas instead of diesel oil. The first was delivered in April, with a second following in August. Results so far indicate that expectations for reducing nitrogen oxide and carbon dioxide emissions have been met.

Limiting emissions and discharges

The amount of nitrogen oxides released has been cut by roughly 90 per cent compared with the supply ship average, while the reduction for carbon dioxide is about 30 per cent. Working environment considerations were also given priority in designing these two ships, and particularly good results have been achieved with noise reduction.

Targets

- Seventy per cent of all oil loaded on the NCS in 2005 will be carried by tankers fitted with emission-reducing technology.
- “Zero discharges” to the sea from oil and gas installations on the NCS by the end of 2005. This concept has been defined by the Norwegian authorities in White Paper 25 (2002-03).



Under scrutiny – Discharges to the sea



Discharges to the sea relate primarily to drilling and produced water. Taking water samples on the *Munin* production ship in the South China Sea.

Under scrutiny – Discharges to the sea

Discharges to the sea from our operations relate principally to drilling and produced water. Normal practice during drilling is to discharge the drill cuttings (rock) and the mud, which comprises a blend of seawater, weight materials – usually barytes – and certain other chemicals. Brought up in 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.

Our goal is that these discharges should cause no harm to the environment. We have extensively monitored the seabed around our installations for many years, and this work has been widened more recently 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 little or no impact. Extensive research has nevertheless established that both 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.

Important calculation tool developed

The impact of our fields varies, and depends on the vulnerability of the surrounding area, the number and length of the wells drilled, the amount of produced water discharged, and what it contains. To assess the environmental risk posed by such discharges, 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.

The Norwegian authorities require “zero harmful discharges” to the sea by 31 December 2005. This will have consequences for the disposal of various substances:

Environmentally-hazardous substances:

- No or minimised discharges of naturally-occurring environmental toxins ranked as priority 1 for chemicals hazardous to health and the environment.
- No discharges of chemical additives in the SFT’s “black” (basically prohibited for use or discharge) and “red” (high priority for phasing out through substitution) categories.

Other chemicals:

- No or minimised discharges which could lead to environmental harm of:
- oil (components which are not environmentally hazardous)
- substances in the SFT’s yellow and green categories
- drill cuttings
- other substances which could be harmful.

In June 2003, we submitted a binding plan to the Norwegian authorities on how these targets are to be reached. A reduction of more than 80 per cent in the environmental risks posed by discharging produced water on fields we operate is expected as a result of our planned measures, even though such discharges will rise by 30 per cent over the same period. The action being taken varies from injecting the water back below ground, via the use of various treatment technologies, to substitution or reduced use of chemicals. Relating the measures chosen to conditions at the specific installation or location ensures a very cost-effective reduction in the environmental burden. Nevertheless, their combined cost will run into many hundreds of millions of kroner.

As part of our efforts to achieve zero harmful discharges, we have developed and tested a number of treatment technologies, chemicals and operating methods for both drilling and production.

Under scrutiny – Discharges to the sea

Choosing the best solution for drilling waste and produced water will always involve a balance between many different considerations. Our first preference on new fields is to inject produced water, but other solutions could be chosen if an overall assessment of environmental and safety aspects finds 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. On Kvitebjørn in the North Sea, which comes on stream in 2004, our approach is to inject produced water in the Utsira aquifer because the field does not need pressure support and no extra energy will be required for injection.

However, high reservoir pressure means it would not be acceptable in safety terms to inject produced water on Kristin when this Norwegian Sea development comes on stream in 2005. And other formations in the area are not very 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.

When oil-based mud is used, drilling waste will either be injected in a well or taken to land for appropriate treatment. Reusing water-based mud has cut the discharge of these drilling fluids. We have not yet seen that shipment of drilling waste with water-based mud to land would yield any overall environmental benefit. For safety reasons, discharging such waste – which consists primarily of clean rock cuttings – is regarded as the best solution. However, we could find it necessary to ship this waste ashore in particularly vulnerable areas where nearby coral banks could become mud-coated or which are important for bottom-breeding fish.

International operations

We want to adopt the EIF, which has been developed in Norway, in our international operations as an integrated evaluation and optimisation tool for technical planning. Since the authorities in other countries are not usually familiar with an approach based on the EIF or the assessment of environmental risks, calculations based on this tool must be regarded for the present as an in-house procedure.

Our business outside Norway must be pursued in accordance with national and international regulations. This is a minimum requirement, which admits of no exceptions. Our own environmental targets often represent a supplement to these rules. We believe that an approach based on environmental risk assessment, which looks at environmental sensitivity, discharge volumes and the time perspective, takes 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.

The choice of technical solutions for specific fields in our international business will be based on EIF calculations. This will strengthen our professional position.

We also want to offer and promote the EIF methodology as a calculation tool to the authorities of the countries in which we have operations. Since the EIF has been developed in close cooperation with the Norwegian government, this type of initiative will be particularly appropriate in countries where broad contacts exist with the authorities and with national oil companies. Proposals along these lines have already been put to Venezuela's environmental authorities, evoking a very positive response and great interest. A similar initiative will be taken with Iran's NIOC state oil company.

Unit for new energy

Our new energy unit was established in 2002 to develop commercial solutions which result in sustainable energy production and increased use of clean energy bearers. This unit works with renewable energy, energy efficiency, carbon dioxide sequestration and hydrogen.

Energy-efficient solutions

Energy efficiency is an important element in the new energy unit's work. Through our ECPower subsidiary, we develop small-scale power/heating plants based on diesel oil or gas. These meet customer requirements for electricity and heating with the aid of an intelligent control system. Combined heat and power generation based on natural gas makes it possible to utilise more than 90 per cent of fuel energy. The small-scale plants are driven by a diesel engine, but a test programme was initiated in 2003 to commercialise a gas engine for this function. Delivering 10-20 kilowatts of electricity, these facilities are designed for use in office buildings, hospitals and schools.

In the longer term, such facilities will be able to utilise fuel cells as their driver. This commitment accordingly means a great deal for our ability to adapt to a forecast future in which fuel cells are a key technology and hydrogen an important energy bearer.

Carbon dioxide – from problem to opportunity

Large volumes of carbon dioxide are already being injected into a sub-surface formation on our Sleipner East field. Similar injection solutions are being adopted for our Snøhvit development in the Barents Sea and Algeria's In Salah gas field. All these projects involve separation of a high carbon dioxide content from natural gas.

 www.statoil.com/co2animation

Investing in a carbon injection project for purely climate considerations involves a difficult decision, because such schemes can cost billions of kroner each. We have studied whether carbon dioxide can be converted from an expensive problem into a useful resource. Our conclusion is that the most important application will be as an injection gas to improve oil recovery from old reservoirs on the NCS and elsewhere. This would allow us to combine better resource utilisation with greenhouse gas reduction.

Hydrogen as an energy bearer

Storing energy in the form of hydrogen rather than petrol or diesel oil, for instance, potentially offers substantial environmental gains. Hydrogen can be obtained from many sources, including the sun, wind, waves, bioenergy and petroleum. Ninety per cent of the world's hydrogen derives today from fossil fuels. If this output is to provide an environmental gain, a solution must be found for the carbon dioxide emitted.

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

Green energy

We are developing a wood pellet business to produce "green" heat in Denmark, Norway and Sweden. A company has been established in Norway to develop combined generation of green heat and electricity from landfill gas containing 40-50 per cent methane. We are also looking at getting involved in generating electricity from wind, tides and geothermal heat.

Product stewardship



Refuelling a helicopter at Stavanger's Sola airport. Statoil aims to develop efficient products which ensure the lowest possible consumption of resources and environmental impact.

Product stewardship

We produce, market and sell a wide range of products, such as crude oil, natural gas, automotive fuels, heating oils, methanol, wood pellets, central heating systems, bioprotein, chemicals, lubricants and electricity.

We aim to develop effective oil and gas products which meet consumer needs, and which minimise both resource consumption and environmental impact. New knowledge is constantly being obtained about the effects of our products, and their quality must be constantly developed to keep them abreast of innovations in such areas as engine technology.

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. Industry specifications and regulatory authorities define minimum standards for the product properties of fuels and heating oils. These requirements are common to the industry, since the various brands must be interchangeable.

Future for conventional fuels

We take the view that conventional automotive fuels will continue to dominate for the next 10–20 years, and prioritise work on improving the environmental properties of petrol and diesel oil. Removing sulphur is the most important step in the short term. Combined with modern engines and exhaust treatment systems, that will keep these fuels environmentally competitive for many years to come. We also pursue new products and alternative solutions, with biofuels representing an important area of interest.

The Mongstad refinery near Bergen, which we own together with Shell, has invested just under NOK 1 billion in a desulphurisation plant. That makes it possible to reduce the sulphur content in petrol to 10 parts per million (ppm). This facility became operational in the first quarter of 2003, well before new EU standards come into force on 1 January 2005. Our Kalundborg refinery in Denmark has invested in equipment to produce low-sulphur diesel oil which meets the same EU requirements. It has also installed systems for producing diesel to Sweden's environment class I standard, which will be sold in the Swedish market.

EU wants more biofuel

We sell both biopetrol and biodiesel in Sweden. A large proportion of the petrol we sell in this market contains five per cent bio-ethanol, a technical spirit normally produced by fermenting biomass. Large quantities of diesel with a biological additive based on rape oil are also sold in Sweden. The EU wants consumption of biological automotive fuels to rise, partly to reduce greenhouse gas emissions. A target of two per cent biofuel by 2005 has been set, rising to about five per cent within a few years.

We have experience of producing bioproducts in our markets, and want to be a leader in this area. Biofuels derived from local waste and those with a large environmental effect are particularly interesting. A requirement is that such products must be free of excise duty, since they cost considerably more to produce than conventional petrol and diesel.

Salmon oil in diesel

Oil derived from salmon waste is well suited for blending with diesel in a concentration of roughly two–five per cent. Life-cycle analyses we have carried out with this product indicate that adding five per cent by volume to diesel gives a 4.5 per cent carbon dioxide gain compared with conventional diesel. We are collaborating with salmon oil manufacturers, and have completed a successful test of the product. Introducing diesel with added salmon oil on a large scale is now being considered.



Name: Leif Frode Onarheim

Nationality: Norwegian

Occupation: Parliamentary representative, member of the energy and environment committee

Q: Where should companies provide greater transparency?

A: Even greater attention will be paid in future to companies' social responsibility. That will involve calls for greater openness. This is a question of ethical attitudes, the guidelines governing how the company works in international markets and eliminating discrimination on the grounds of gender, ethnic origin or age.

Greater pressure will also be applied for openness about the total remuneration of directors and management. Environmental standards are already stringent, but information on possible harm to marine life or changes to currents will be central for petroleum operations in particular. The reopening of the Barents Sea and the possible future opening of areas off Lofoten will make big demands on the industry's ability to be transparent and adapt to environmental standards.

But transparency should not be taken so far that companies lose comparative advantages based on their own technology, market knowledge, customer relations and so forth. Steps must be taken to ensure that commercially sensitive information which has to be provided to the authorities does not leak out.

Product stewardship

We have launched a new and more environment-friendly heating oil in Norway, Denmark and Sweden. As well as 90 per cent less sulphur than conventional products, this contains beneficial additives which keep furnaces clean throughout the year. The result is lower consumption and reduced emissions of harmful substances to the air.

Detailed analyses are needed when making an overall assessment of environmental benefits, environmental burdens and resource use. Through active participation in the Conservation of Clean Air and Water in Europe (Concawe) organisation, we have contributed to an extensive “well-to-wheels” study of automotive fuels, production processes and engine combinations which could be relevant for the European transport sector in 2020 in terms of energy consumption and carbon dioxide emissions. The aim of this study was to establish a basis for assessing alternatives, which in turn provides a good foundation for debate and environmentally-appropriate solutions.

Bigger commitment to natural gas

During recent years, we have become increasingly involved in marketing natural gas to customers in Scandinavia through part ownership in a number of distribution companies as a supplement to our oil products. The superior environmental properties of natural gas compared with oil help to reduce the overall impact of energy consumption.

Work is also under way on a chain for distributing liquefied natural gas which will primarily replace heating oil in a number of selected areas. A commitment of this kind could benefit the local environment through a substantial reduction in nitrogen oxide emissions. For example, a 90 per cent cut in such emissions could be achieved if Norway’s coastal shipping fleet were to replace oil with natural gas.

In Denmark, we recently established a company to sell natural gas to end users. Our commitment in Sweden is channelled through part-ownership of the national transmission company.

Target

Our management system will be updated during 2004 with regard to life cycle assessments (LCA) for our products. This has been postponed from 2003, which explains why today’s practice of carrying out such analyses for new products is still not incorporated as a requirement in our governing documents. The methodology we observed for LCA is described in the ISO 14040 standard.

Big player in wood pellets

Our involvement with wood pellets began in 1997, and sales are steadily increasing. This renewable energy product is manufactured from forest industry waste and provides an alternative to oil, natural gas or electricity in central or district heating systems as well as in appropriate furnaces for private homes.

Acquiring the Danish EcoNordic bioenergy company in 2003 made us Denmark’s largest pellet player under the name Statoil BioEnergy A/S.

| Wood pellet sales (tonnes) | 2000 | 2001 | 2002 | 2003 |
|----------------------------|--------|--------|--------|---------|
| | 21 000 | 42 000 | 81 000 | 139 100 |

Reusing surplus equipment

Statoil focuses on minimising waste and on separating waste and recyclable materials at source both offshore and on land. We seek to reuse as much surplus material and equipment as possible. Sales of such products earned NOK 30 million in 2003. They included two cranes from the Veslefrikk installations and a flexible flowline from Glitne.

Our aim is to be a leader in disposing of surplus materials for reuse and recycling, and these are offered for sale in various markets. All available documentation is included with equipment. Customers can inspect possible purchases in advance, and have full access to relevant reports and supporting information. Environmental reports issued for major decommissioning projects ensure traceability of all components.

 www.statoil.com/surplus



Research and development

Statoil's research activities were worth about NOK 1 billion in 2003. We cooperate closely with our suppliers and other research communities. A benchmarking of leading international oil companies in 2003 by Independent Project Analysis Inc showed that we most frequently adopt new technology to develop solutions which can permit profitable developments.

In our technological strategy, we have identified environmental technology as important for meeting our commercial challenges.

Our environment-related research commitment comprises:

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

We 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 on the NCS.

Extensive laboratory and field tests are conducted to study the dispersal of discharged substances and their impact on marine organisms. Particular attention has been paid in recent years to the harm which might be caused by naturally-occurring components and chemicals, and to the relationship between dispersed oil and dissolved hydrocarbons. The EIF is now being extended so that it also covers drilling discharges, acute spills and emissions to the air. Our aim is to create a complete risk-based management tool for all discharges/emissions to the environment from our operations.

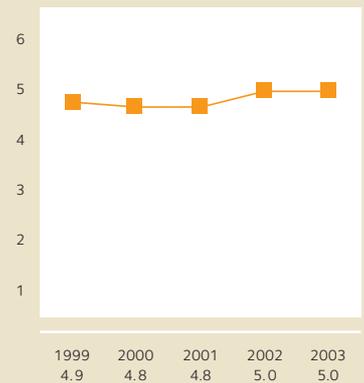
A new technology called CTour for cleaning produced water before discharge has been developed. This and other new treatment technologies were tested in 2003. After trials on our Statfjord B platform in the North Sea during 2002-03, CTour will be installed on Statfjord. It is expected to help reduce the oil content in produced water by 80 per cent while also removing many of the dissolved hydrocarbons. Through our Offtech Invest AS investment company, we have acquired shareholdings in suppliers and sought to build up companies working on environmental technology.

We have implemented a system for dealing with drilling fluids and waste, and are working on methods for recycling and reusing drilling waste. After two years of development, biological breakdown with the aid of earthworms has been verified as possible under Norwegian climatic conditions. Another option is to use drill cuttings as an additive to asphalt for pipeline coating. Plans call for this technology to be tried out during the development of Ormen Lange in the Norwegian Sea

The prototype of a compact water separator was installed in 2001 on our Glitne field to remove water from oil. After two years of operation, this technology has proved to leave just 0.3 per cent of residual water in the oil. This is better than refinery requirements. Other important areas for our environmental research include improving energy efficiency, carbon dioxide sequestration and hydrogen as an energy carrier.

We have patented 415 different inventions which are currently active. Thirty-six patent applications were filed in 2003.

ZERO MINDSET IN PRACTICE



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

Source: Amou

 www.statoil.com/ctour-technology

Economic performance

Value creation for
shareholders,
society and other
stakeholders



Economic performance

Statoil's operations have an economic impact on many different groups. The most important of these are:

- shareholders and employees
- governments and inhabitants of the countries in which we operate
- customers
- suppliers/contractors
- local communities where we have operations.

How far the economic effects of our business can be measured and identified varies, partly because of the differing extent to which these operations are directly reflected by the financial figures in our accounts. We work constantly to improve systems for measuring and assessing the impact of our activities.

Standardised methods are needed to measure indirect effects, since these can be important and difficult to document. We do not know, for instance, what the position would have been for those involved if a transaction, action or activity had not taken place. The lack of figures for or reporting of various effects must not be taken to mean that we consider them to be insignificant.

Our business is pursued in national and international competition, where our shareholders, host countries, customers and suppliers can choose between several companies. We must accordingly demonstrate that we deserve to achieve positions. The fact that we are preferred for the various transactions, are able to grow, and can deliver profits indicates that the economic impact for various stakeholders is positive.

The energy products we produce are key input factors in modern society, and contribute to greater mobility and prosperity in a broad sense. Although investment, energy supplies and jobs are necessary for improved prosperity and quality of life, economic growth does not mean that all the criteria for such improvements have been met. Issues of distribution and pollution also occupy a key place in such assessments.

Value creation for our owners

We achieved an income before financial items, other items, tax and minority interests of NOK 48.9 billion in 2003, as against NOK 43.1 billion the year before.

To measure our financial performance, we calculate the return on average capital employed after tax on the basis of a set of normalised factors. The normalised return for 2003 came to 12.4 per cent, which compares favourably with our main competitors. Important factors influencing results include oil and product prices as well as currency fluctuations. The normalised return shows an improvement of 1.6 percentage points from 2002. We have set a normalised return of 12 per cent on average capital employed after tax as our target for 2004.

We pay a high dividend by comparison with our competitors. For 2003, the board will propose to the annual general meeting that a dividend of NOK 2.95 be paid per share for 2003. This corresponds to 3.9 per cent of the share value at 31 December 2003.

Our investment rose from NOK 20.1 billion in 2002 to NOK 24.1 billion. More than half of this spending went on NCS projects. We sold our Navion ASA shipping subsidiary to Teekay Shipping Corporation in April 2003.



Name: Louise Hough
Nationality: British
Occupation: Managing director equities, UBS, London

Q. Where can Statoil improve its openness and transparency?

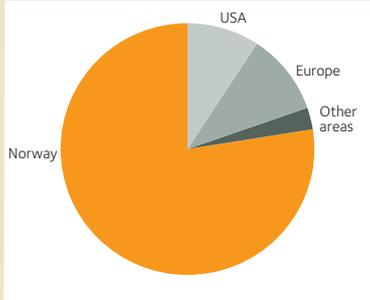
A. Investors have always been willing to give a higher rating to companies they understand best. They have become even more wary of companies with opaque financial accounts and managements which do not communicate regularly and openly with investors.

Statoil appointed investor relations staff when it was listed in June 2001, and has dedicated much senior management time to communicating with the market. This has helped to give it a high profile with investors, and is a key reason why its shares have outperformed the European oil sector by 44 per cent since the listing.

But investors and analysts are always looking for more detail about the make-up of profits from each business area. The trading activity, in particular, is not well understood and is therefore (implicitly if not explicitly) accorded a lower multiple. Profits from such operations are usually thought to be "low quality" – volatile and unpredictable. More explanation here would be welcome.

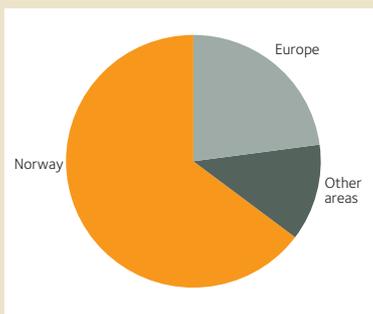
Economic performance

EARNINGS BY CUSTOMER LOCATION



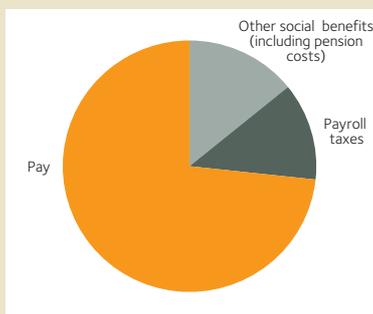
2003
Total: NOK 249 375 million

ACCUMULATED INVESTMENT BY GEOGRAPHIC AREA



2003
Total: NOK 161 805 million

VALUE CREATION FOR EMPLOYEES



2003
Total payroll costs in Statoil ASA:
NOK 9 897 million.

Economic impact

The income generated from petroleum resources has an enormous development potential. However, many nations have failed to benefit as they should or could from the utilisation of their oil and gas reserves. This is often called the "paradox of plenty", where the potential benefits of oil riches are squandered by bad governance – inefficient investment, waste and corruption.

By running our business in a responsible manner, efficiently and at a profit, we can help give people in our host communities a better life. One of our most important contributions can be measured by our economic impact in such areas as employment, procurement of goods and services, transfer of technology and expertise, and tax revenues. These spin-offs have multiplier effects and help to generate local growth and development. We are also engaged in a number of social projects.

In Norway, our macroeconomic impact can be traced at a national level. Taxes paid by Statoil ASA, our parent company, totalled NOK 33.4 billion in 2003. This is the main component in our contribution to Norwegian social welfare. As our investment in other nations yields production and earnings, so tax payments to these countries will increase. Taxes payable in countries outside Norway totalled just under NOK 800 million in 2003.

We had 19 326 employees at 31 December 2003, including 7 491 people – or 39 per cent – working outside Norway. According to an analysis for the period 2003-2015 conducted by Statistics Norway (SSB) in 2003, establishing one new job in the oil industry will generate an average of 2.2 new jobs outside that sector.

Publish what you pay

The extractive industries transparency initiative (EITI) launched at the Earth Summit in Johannesburg during 2002 has attracted great attention internationally. It involves a collaboration between the oil and gas industry and its host countries on openness and transparency in financial transactions. We attended the first EITI meeting in London during June 2003, and have supported the initiative.

Signature bonuses are common in many oil-producing countries. A payment is made up front to the host country for the right to develop a block commercially before work begins. This system is a widely recognised and legally accepted way for an oil company to secure exploration rights. It is also important to note that paying a signature bonus for a licence does not necessarily imply future revenues for the company from oil production in the same licence.

We paid a signature bonus of USD 5 million in September 2003 to secure a 25 per cent interest in block 324 off Nigeria. A signature bonus of USD 32 million was paid when we secured the operatorship of block 4 in the Plataforma Deltana area off Venezuela in 2003.

Under scrutiny – Snøhvit creates northern optimism

The Snøhvit development being pursued by Statoil outside Hammerfest has generated an economic upturn for northern Norway. According to our contract database for this project at 31 December 2003, competitive local and regional companies have secured contracts worth NOK 1.1 billion since work began in July 2002 – almost twice the figure originally expected.

The impact assessment for Snøhvit's land-based gas liquefaction plant originally put the probable total for such contracts at NOK 600 million. That low figure reflected a view that many of the goods and services required are so specialised that they could not be provided from western Finnmark county, where Hammerfest lies. Such cautious predictions have been emphatically contradicted.

"We're not surprised to find that north Norwegian industry is competitive, but the result is much more positive than we'd expected," says Arvid Jensen.

As chair of the regional Snøhvit Industry Association (SNF), he sees no reason why this good performance should stop there.

"Before the project is completed, we want local and regional companies to secure an even larger slice of orders. Our aim is to end up with contracts worth NOK 1.5–2 billion."

Through a supplier development programme, databases and a good network of contacts, the SNF has served as a facilitator for north Norwegian industry. But Mr Jensen gives all the credit to the companies themselves.

"Each company has deserved the contracts it's won. We have a competent industrial base in northern Norway, and we're close to the project. The SNF has helped to facilitate contacts through good collaboration with Statoil and other oil companies, and with the Norwegian main contractors."

Northern Norway has been characterised over the past 15–20 years by stagnation and decline in population and economic activity. The start of the Snøhvit development coincided with a new crisis in the important fishing industry.

"That was a bad blow for economic progress," admits Mr Jensen. "So Snøhvit has unquestionably reversed the downward spiral. The region is making progress again. That's gratifying."

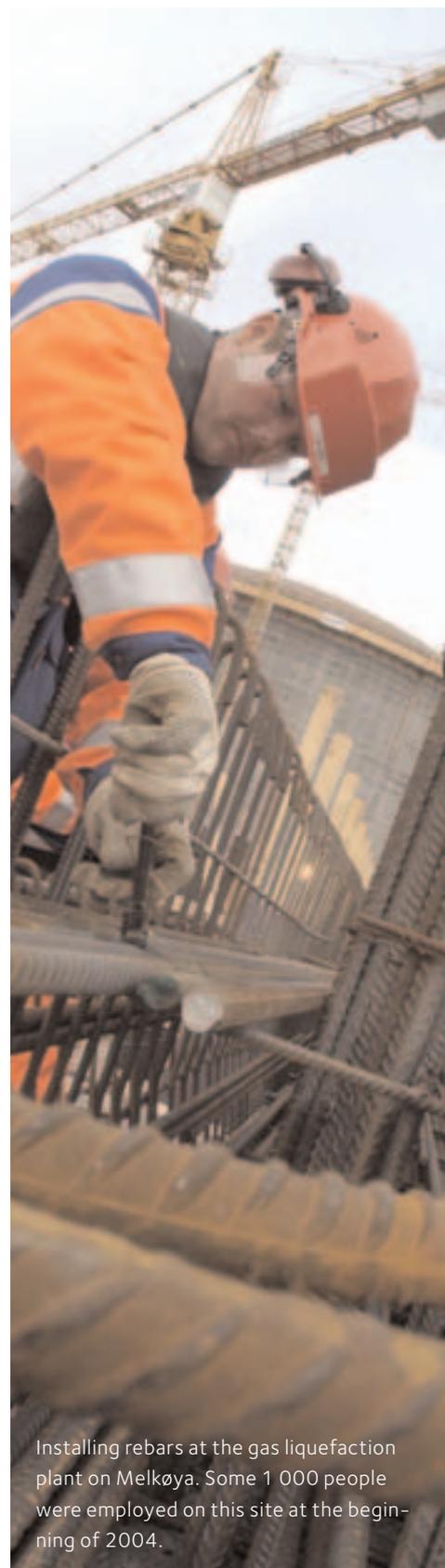
He notes that the optimism is spilling over into other sectors of the economy and creating new activity outside the Snøhvit project.

"We're currently building homes and commercial properties worth NOK 2 billion in Hammerfest. The strong growth impulses also mean that private individuals are refurbishing houses and investing."

The most important consideration for Mr Jensen now is to maintain continuity in the economic upturn even after development work has ended.

"Opening new areas of the Barents Sea for oil exploration is therefore very gratifying, and could help to extend this positive development for the region."

 www.statoil.com/snohvit



Installing rebars at the gas liquefaction plant on Melkøya. Some 1 000 people were employed on this site at the beginning of 2004.

Social performance

Statoil is represented in 28 countries. Serious breaches of human rights occur in a number of these nations.



Social performance

The internationalisation of Statoil's operations presents us with major new challenges. We are represented in 28 countries. Serious violations of human rights – political, civil, economic, social and cultural – occur in a number of these nations. In many of them, a large part of the population lives in poverty and deprivation.

Against that background, this chapter will focus attention on the social challenges facing us. Through pilot projects in the social arena and the development of a more unified strategy for exercising our social responsibility, we have made a good start on solving some of our tasks as a player in vulnerable communities. We have a better understanding today of the challenges facing us, and we contribute in a number of relevant areas to the societies in which we operate. But the tasks are massive, and we have been unable to establish an overall strategy for social responsibility in all the countries in which we pursue activities. This represents a continuous improvement effort, and we can only make progress in many areas through greater cooperation with others.

Our contribution to social development occurs both through our interaction with the society around us and through the development of our own employees and the role they can play.

Fighting poverty

The fight against poverty comes high on the international agenda. Work to promote social and economic development has been given a more specific framework by the UN's millennium goals. See www.un.org/millenniumgoals. Industry's role in this work will mean a great deal. Every company must expect the poverty issue to be important for the way many stakeholders assess it in coming years.

Just as environmental and development issues hang together, so classic human rights issues – such as political and social rights – are closely related to the establishment of good governance and the pursuit of social and economic progress. The fight against poverty impinges on all these areas.

Role of companies

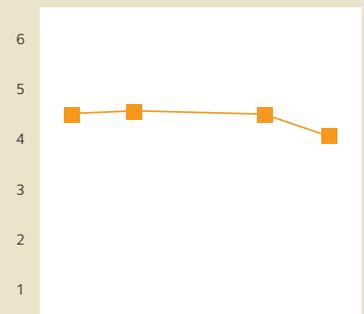
Efforts by companies to help combat poverty relate primarily to the way they run their business and their impact on the community. They are also challenged to show an active involvement beyond their ordinary business operations.

We must be able to demonstrate that Statoil's activities have positive economic and social spin-offs for the communities in which we operate. This requires us to have methodologies for measuring the impact of our presence. We have not come far enough in this area, and need to collaborate across companies and research communities to develop robust methodologies which also enjoy a high level of legitimacy. Some of these issues are discussed in the chapter on economic performance on page 34.

Our business depends on close cooperation with partners and suppliers. For our contribution to sustainable development to be credible, we must also make demands on these collaborators.

Companies are also expected to get involved in development projects through social investments which benefit poor people directly. Such ventures must be sustainable and form part of

SOCIAL RESPONSIBILITY



| 1999 | 2000 | 2001 | 2002 | 2003 |
|------|------|------|------|------|
| 4.5 | 4.6 | N/A | 4.5 | 4.2 |

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

Source: Amou

Social performance



Name: Gavin Hayman
Nationality: British
Occupation: Lead campaigner,
Global Witness

Q: Why should industry adopt maximum openness and transparency?

A: Basically because it's in your own business interest. Statoil should promote transparency to create a more just and equitable setting in which it can thrive.

Oil companies operating in countries such as Nigeria and Angola are associated in many people's minds with bankrolling authoritarian regimes, corruption and other evils. If there's a change of government or any kind of civil instability, oil company operations can be hit.

A company should say to such governments: "We'd like to work with you to our mutual advantage. To do that, we need to have a social licence to operate, and to promote openness and the disclosure of certain information to civil society". It then needs to work with other economic players in that country to promote a joined-up approach to transparency.

So companies which are transparent in their dealings with different governments help to create development that will enhance long-term stability and their own long-term economic interests.

more generalised development strategies for each local community and country. Our policy and practice in this area are described on page 48.

Fighting corruption

Corruption is regarded today as one of the most important foes in the fight against poverty. For that reason, companies also face demands for greater transparency in their financial transactions.

Particular attention is being devoted to these questions in countries with a high level of corruption and widespread poverty. In such nations, business ethics become directly linked with social and economic rights. We want to contribute actively to the fight against corruption and poverty by increasing the transparency of our investments and activities.

In our experience, we can also be and are present in countries where corruption is a major problem without participating in corrupt practices ourselves.

Developments in this area have been swift in recent years. Anti-corruption work tops the agenda at both the International Monetary Fund (IMF) and the World Bank. These institutions are breathing down the necks of corrupt regimes, and the authorities in most countries need to demonstrate cooperation with companies which take these issues seriously. Companies can turn a solid HSE image and a good reputation for transparency in financial transactions to their competitive advantage.

In countries where corruption is widespread, it can be difficult to ensure that local suppliers and partners can deliver as promised without a risk that they will engage in corrupt practices. The simple solution for safeguarding one's reputation might be to utilise well-known international partners. But contributing to local development is also an ethical responsibility. Statoil must work for increased local content in our business while playing an active part in the fight against corruption.

Helping to develop democracy

Foreign companies are expected to contribute to democratic developments and good governance. That must be accomplished through their own business practice and through dialogue with the authorities, partners, human rights organisations, the UN and other relevant players. Because this area borders on the political arena, it is necessary to clarify what does and does not fall within a company's legitimate sphere of action.

Doing business in zones of conflict

Conflict and poverty are closely associated. If we opt to enter a conflict zone to pursue business activities, we are expected to carry out impact assessments to assure ourselves that this will not contribute to raising the temperature but rather help to prevent and dampen confrontation. We have participated in the UN's Global Compact to identify the role and responsibility of companies in this area.

Fighting HIV/Aids

Dealing with HIV/Aids is one of the principal challenges facing several of the countries in which we operate. This disease has both immediate and long-term consequences for the fight against poverty. Companies are expected to have guidelines which safeguard the rights of employees and their family members who become infected, and which help to prevent the spread of the disease. Our guidelines are described on page 51.

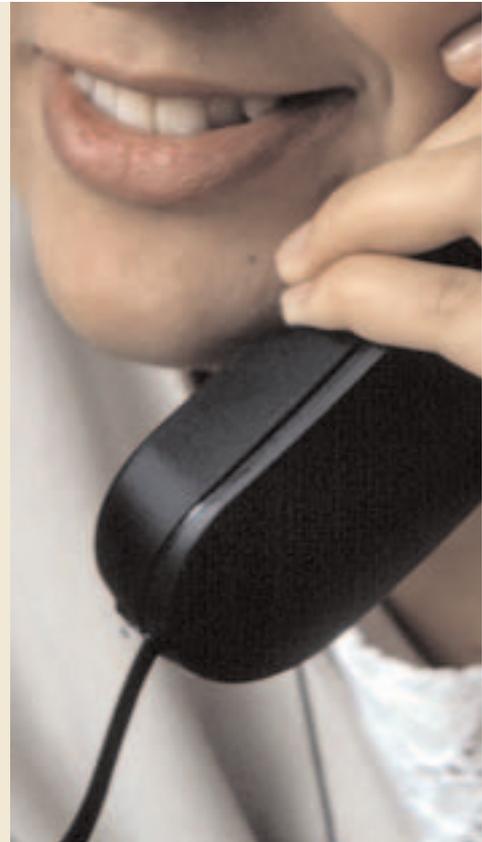
Ethical help desk

The decision to establish an ethical help desk in Statoil for a trial period was taken in the autumn of 2002, and this facility became operational on 1 November of that year. About 100 enquiries were received during the first 11 months – mostly by internal e-mail and the rest via telephone, telefax and personal communication. Employees can take contact anonymously.

Issues raised with and considered by the help desk vary greatly and cover a wide range. But one subject has dominated – how Statoil employees should deal with gifts and rewards. Practice varies between different parts of the organisation, and the help desk has shown that the group needs clearer and more uniform rules in this area.

Other topics raised include misuse of the group's computer system and e-mails from Nigeria and South Africa urging recipients to participate in dubious financial transactions or gambling. In addition come unclear corporate attitudes on concern for others and behaving ethically, conflicts of interest, factors relating to contract awards, holdings and directorships in other companies, and personal and personnel conflicts.

Statoil will be retaining its ethical help desk, and will consider whether selected subsidiaries should establish their own decentralised arrangements.



Benchmarking sustainability

We maintained our positions on the Dow Jones Sustainability Index World (DJSI) and the FTSE4Good index during 2003. In addition, we have been included in the Goldman Sachs Energy, Environmental and Social Index from February 2004 and ranked third among the world's oil companies after BP and Shell.

FTSE4Good made our continued inclusion conditional on establishing guidelines for dealing with the rights of indigenous people affected by our operations. After submitting these, we have received positive feedback from the index and a confirmation that we meet its human rights criteria.

We were put under review by the DJSI following the Horton affair. As a result, our scores were reduced in such areas as corporate governance and codes of conduct/compliance/corruption/bribery.

However, we increased our scores in other areas, most notably for stakeholder engagement and labour practice indicators. As a result, we were rated "best of industry" in all three clusters – economic, environmental and social – and our ranking improved from 2002.



Stakeholder dialogue and cooperation

Statoil's stakeholders are drawn from all sectors of the societies affected by our operations. They include employees, suppliers, customers, investors, government agencies, humanitarian and environmental NGOs, politicians, partners and local communities. Cooperation with these interests occurs at several levels of our organisation.

Dialogue with stakeholders opens opportunities to respond to objections and suggestions by adapting our operations. Some examples of our stakeholder dialogue are provided below.

Environmentalists and the Norwegian authorities

We relate to a number of different stakeholders in Norway. Created to bring together top management and Norwegian environmental organisations, our environment forum held one meeting in 2003. We also have a regular dialogue with Norway's fisheries organisations to define a programme for future sustainable oil and gas operations in the Norwegian and Barents Seas.

Top management also held stakeholder discussions with environmental, humanitarian and human rights NGOs in London during January 2003 and with humanitarian and human rights NGOs in Oslo the following November.

We are also in regular contact with the standing committee on energy and the environment in the Storting (parliament), and with members of the Storting representing constituencies in which we have operations. Dialogue was pursued with local, regional and central government in 2003 about projects and exploration operations in the Norwegian and Barents Seas.

Another important element in our communication with political stakeholders are contacts between local managers and relevant county and local politicians.

Impact assessments

We regard communicating and clarifying the environmental and social implications of a project at an early stage in its development as important. This approach is enshrined in our corporate environmental policies and our governing documents.

Projects are studied and documented through impact assessments. This process involves informing important players and all affected parties, and giving them the opportunity to express their views. Public consultation on each project and development plan, with the associated impact assessment, occupies an important place in our efforts to ensure that environmental and social considerations are taken into account through dialogue with everyone concerned.

A conscious commitment to building up our own expertise with impact assessments has been praised by the authorities.

On behalf of other operators on the NCS, we have headed the preparation of regional impact assessments. Two of these have been produced so far, for the Norwegian Sea and the North Sea as a whole.

Being a good neighbour

We give weight to maintaining a good dialogue with the neighbours of our land-based plants and the relevant local authorities. Through regular meetings and other channels, information is provided about the development of these facilities, their environmental performance and any incidents which might affect the environment.

Stakeholder dialogue and cooperation

Information routines have also been established to brief neighbours in the event of major operational disruptions. And our support for local sports teams and cultural activities helps to benefit the surrounding community.

Customers and suppliers

Regular surveys are conducted with our retail and gas customers. We also stage regular meetings to inform the supplies industry about our plans, allowing these companies to prepare for tendering processes at an early stage. Every other year, we participate in a supplier survey which compares us with their other customers.

The various industry associations provide a key arena for exchanging ideas. We see them as an important channel for boosting industrial understanding about what sustainable operation of an oil company involves.

A central organisation in this context is the Association of Oil and Gas Producers (OGP), where we currently chair the management committee. We are a member of the climate group and working party on social responsibility established by the International Petroleum Industry Environmental Conservation Association (Ipieca). Similarly, we participate in the Global Compact and play an active role in its Nordic network.

Targets

- We will strengthen contacts with the UN and the World Bank system in 2004.
- We will log stakeholder dialogues in a more systematic way during 2004.



Norway is a major fishing nation. So good and regular contacts between Statoil and the country's fishing organisations are very important.

Human rights in 2003



Washing clothes in
a Venezuelan river.

Human rights in 2003

Statoil is committed to observing and promoting human rights in our activities. We demonstrate our attitudes and values through the way we conduct our business.

An open dialogue is pursued over human rights issues in our projects. Through discussions with stakeholders, we seek to identify relevant problems as early as possible in order to take them into account in our planning and implementation.

Challenges

Ensuring that human rights are taken into account in the planning and execution of specific projects is a demanding business.

We have experience with projects and with conducting extensive social impact assessments both during and after a project. Guidelines and methodologies have been established for such analyses, but these are tailored to Norwegian conditions where the assessment framework is established by statute.

The challenges facing us in international operations also differ from those we meet in Norway. Early in our internationalisation phase, we developed corporate guidelines for human rights on the basis of our *We in Statoil* statement of values and through our agreement with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM). We will be establishing a new framework in 2004 for assessing the social impact of our projects.

Armed security personnel

Challenges are still faced when we have to combine the need for armed security in certain areas with observance of the requirements to which we are subject, not least under the Voluntary Principles on Security and Human Rights.

We prefer not to engage armed security personnel. However, armed personnel are a necessity at some locations owing to the nature of local threats. Any action taken on behalf of Statoil for security reasons must be based on non-violent and peaceful methods. Force may only be used when no other option is available, and in line with the requirements of our security governance policy.

In 2003, we only had armed security personnel at a few of our service stations in Russia and at our Lagos office in Nigeria. Our security resource governance policy also specifies the minimum training requirements for security personnel, which include refresher training once a year. The army is responsible for external security at the facilities used in our new Algerian operations. This represents a different type of challenge from those we have faced so far.

Projects and human rights

We became commercial operator in 2003 for the South Caucasus Pipeline (SCP), a gas transport system being laid parallel to the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. The agreements covering the BTC/SCP projects have been made public – a first for a major international oil and gas project. This openness laid the basis for a broad national and international debate on the development.

Commentators from civil society expressed concern about how far the agreements between the BTC consortium and the three host countries of Azerbaijan, Georgia and Turkey would affect the ability of the latter to observe their international human rights obligations. It was claimed that the governments could face compensation claims under the deals if the implementation and enforcement of international human rights conventions increased costs for the companies above the agreed level.



Name: Beate Slydal
Nationality: Norwegian
Occupation: Political adviser, Amnesty International Norway

Q: How has greater openness in the oil business influenced work for human rights?

A: If you look at the set of tools available for getting companies to respect and promote human rights, pure confrontation and pure dialogue are two extremes. Since dialogue requires openness, it's important in our discussions with the companies.

Greater openness among international oil and gas companies lays the basis for a freer dialogue with human rights organisations. Both immediately and in the long-term, companies have everything to gain from full transparency in their activities. That applies not least in today's society, where many kinds of players monitor company behaviour. If things are consciously concealed, it's only a matter of time before they boomerang.

Involving as many supporters as possible is crucial in our human rights work. Oil and gas companies are important players because of their presence in many countries with serious human rights abuses. They can provide good backing through their local, regional and national networks.

Human rights in 2003

The consortium members denied that such an interpretation of the agreements had ever been considered. But they also acknowledged that the text could be interpreted in that way. To remove all doubt, they accordingly concluded a supplementary agreement, the BTC human rights undertaking. This states that the companies will never under any circumstances claim compensation for costs arising from the implementation of international conventions or standards for HSE and human rights. Standards applied by the BTC in these areas are dynamic and will follow international developments.

It was also made clear that clauses on procedures for settling disputes do not apply to individuals who want to sue the companies for breaches of HSE or human rights standards in the host countries. This undertaking was developed in dialogue with Amnesty International and other NGOs. In addition, a Citizen's Guide has been published in Turkish, Azeri, Georgian and English to make it easier for the local population and other interest groups to understand the complex agreements governing the project.



Rights of indigenous peoples

One target we set for 2003 in the 2002 sustainability report was to develop guidelines on the rights of indigenous peoples affected by our operations. These have now been produced, and aim to clarify how we will deal with issues relating to such peoples. They accord with the underlying principles in convention 169 on indigenous and tribal peoples adopted by the International Labour Organisation in 1989.

In our guidelines, we acknowledge that self-identification as an indigenous people is the fundamental criterion for determining which population groups are covered. Furthermore, we will respect the importance of social, cultural, religious and spiritual values and practices to the indigenous peoples affected by our operations. Similarly, we undertake that our activities will respect their special relationship with lands and territories, and particularly the collective aspects of that relationship.

Our Venezuelan subsidiary has been actively involved in a three-way dialogue between the oil industry, the Ministry of Energy and Mines, and Conive, the national organisation for indigenous peoples.

We took part in a three-day working session in October 2003 which aimed to increase knowledge of the new Venezuelan legislation on indigenous peoples. During 2004, we will be participating in two similar sessions on the legal framework for the hydrocarbon sector and on public consultation processes respectively.

An impact assessment we initiated in 2003 will look more closely at social, economic, political and cultural factors relating to the Plataforma Deltana project. This is located in a region which scores low for socio-economic development indicators and is also the home of the Warao Indians.

Human rights in 2003

Training programme

The human rights training programme developed for our employees in cooperation with Amnesty International's Norwegian branch was incorporated during 2003 in the optional section of our IT step 2 training package.

During the year, about 4 000 people accessed the programme. The goal of adopting it as part of our management training has not been met.

Targets

- We will establish a framework in 2004 for assessing the social impact of our projects. This will be accomplished through a set of guidelines for operator duties in countries where such frameworks do not accord with international best practice.

Support for language conservation

A first-ever grammar book for Akaha, spoken by the Akassa people in Nigeria, has been produced with financial assistance from Statoil. Created by Friday I Amain, project manager for the Akassa Development Foundation, this work will probably help to save the language from disappearing.

"Akaha has been handed down orally," explains Mr Amain. "We've never previously had written sources to help in teaching the language."

Statoil is helping to fund the Akassa Community Development Project, covering 180 000 people who live in the Niger delta where it meets the Atlantic at Nigeria's southernmost point. Although great oil wealth is produced from the sea on their doorstep, the Akassa are very poor.

The assistance project has been conducted on the "help for self-help" principle, with particular emphasis given to health, education and the environment. It has now moved into a new phase, with the locals running the Akassa Development Foundation through self-managed groups.

"Statoil has helped us to build up our capacity and resources so that we can maintain sustainable development," says Mr Amain. "We've reached many targets, but this is a continuous process."

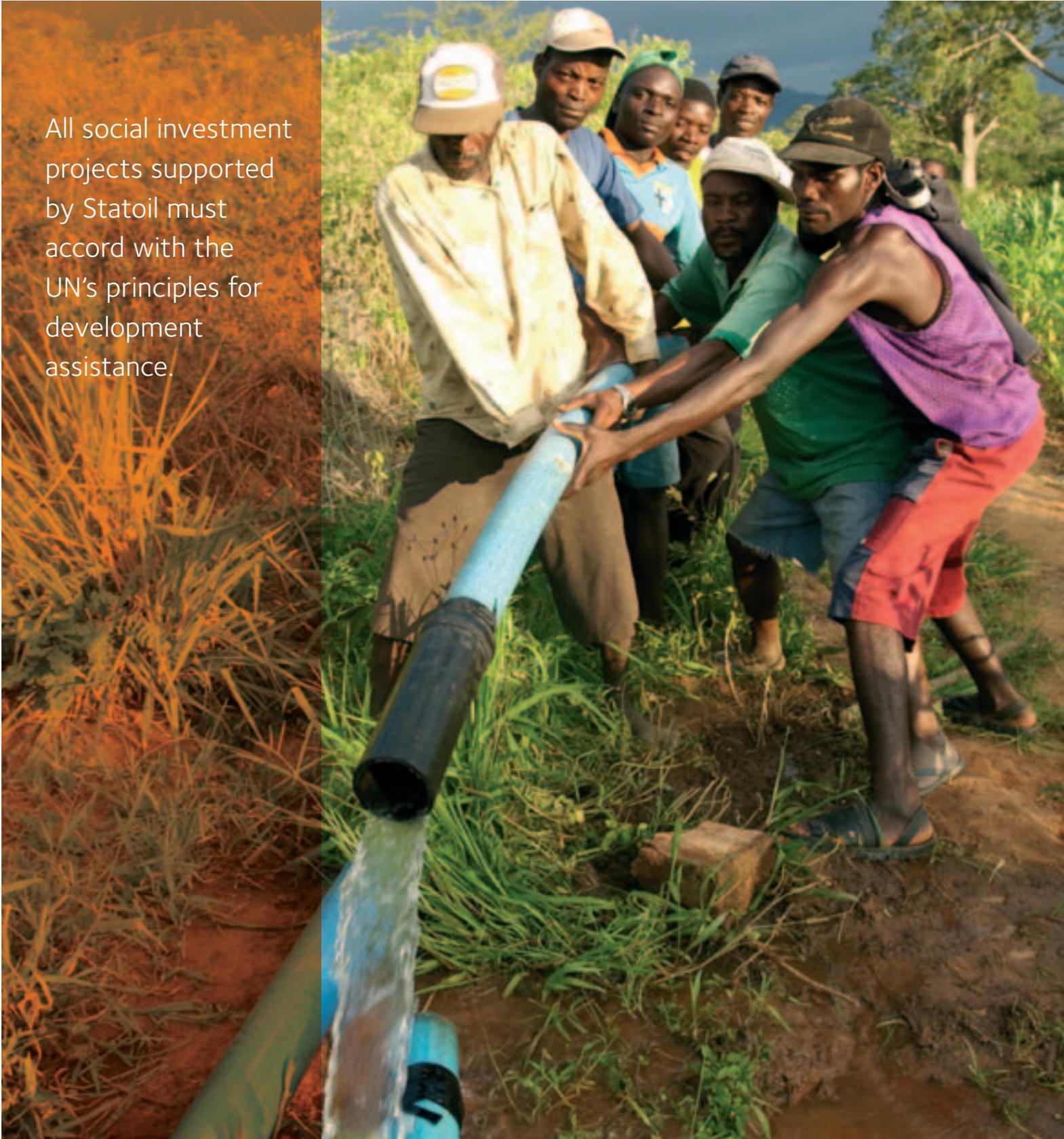
He wants his community to develop without losing its culture and traditions. A former career in teaching encouraged his desire to write and publish a textbook for Akaha – which is a dialect of Ijaw, the most widely-spoken language in the region. His book also relates the history and culture of the Akassa, local traditions and social functions.

Friday I Amain has written the first grammar book for the language of the Akassa.



Social investment

All social investment projects supported by Statoil must accord with the UN's principles for development assistance.



Social investment

Social investment contributes to capacity building and sustainable development in the countries in which we explore for oil and gas. These projects include support for human rights activities as well as health and educational schemes. They enhance our insight into and understanding of distinctive features of the relevant country. That in turn improves our ability to manage risk and operate in demanding political and economic conditions. And social investment helps to strengthen our reputation, both locally and internationally.

Estimates from February 2004 indicate that we spent about USD 6 million on social investment projects relating to our international upstream business in 2003. These funds were devoted to objects chosen partly by us and partly through partner-operated activities.

In line with UN principles

All social investment projects we support must accord with UN principles for development assistance. For a scheme to qualify as sustainable, it must be locally rooted and fit with national development plans.

Our guidelines for social investment require projects to be pursued in cooperation with NGOs or international organisations which have the expertise and ability needed to conduct development and human rights work at national or local level. We continued our collaboration in 2003 with the Norwegian Refugee Council, the UN High Commissioner for Refugees (UNHCR), Amnesty International and the Norwegian Red Cross.

In addition, local agreements were established with a number of human rights or voluntary aid organisations and parts of the UN system in order to implement social investment projects where we have operations. Some of the other social projects in which we are involved are outlined below.

Bigger involvement in Angola

Our social investment in Angola increased from USD 290 000 in 2002 to USD 740 000, reflecting the start to earnings from our involvement in oil production and the end of the civil war. One consequence is that we upped our support to the Norwegian People's Relief Association for mine clearance by USD 240 000. And we are providing funds for projects on health-HIV/Aids and on education and health run by the Red Cross and the UNHCR respectively.

We are continuing our collaboration in Nigeria with Pro Natura and the Akassa Development Foundation over developing a local community in the Niger delta. For other social investment projects, see under human rights on page 45.

460 000 was devoted to our social investment projects in Azerbaijan during 2003. These included the continuation of cooperation with the Norwegian Refugee Council, the Red Cross and the UNHCR. USD 708 302 was also spent through the licences in which we have interests.

Through our involvement in the BTC and SCP pipeline developments, we devoted USD 855 000 and USD 513 000 to social investment schemes being pursued by operator BP in Georgia and Turkey respectively.

Venezuela

Since 1999, we have been supporting a human rights programme run by the UN Development Programme (UNDP), Amnesty International and Escuela Judicial, an educational establishment linked to Venezuela's Supreme Court. This project aims to increase awareness of human rights in the country's judicial system, and is now in its third phase.



Name: Jonas Gahr Støre
Nationality: Norwegian
Occupation: General secretary,
Norwegian Red Cross

Q: What absolute requirements does the Red Cross set for a cooperation agreement?

A: Cooperation agreements with industry put us in a better position to help people in need. Our mandate is to identify, prevent and relieve suffering. We believe we can do a better job in reaching that target by establishing partnerships of the kind we have with Statoil.

As in all agreements, this builds on mutual benefit. For our part, such deals must not be concluded at the expense of or compromise our basic values.

Our partners can't claim our support for actions they take outside the scope of the agreement. Nor should such deals deprive either party of the right to criticise each other if necessary. So far, our experience of collaborating with Statoil has been good.

Social investment



Once the project has ended, it will form part of the induction programme for all new Venezuelan judges. We regard this scheme as a demonstration of the way a long-term and purposeful commitment yields lasting results.

We want to continue to work with the UNDP, and signed a broader cooperation agreement for the next three years with the agency's Venezuelan organisation in February 2004. The desire for a wider and more formalised collaboration builds on the good experience gained with the judicial training project. Our cooperation with the UNDP in this country will be extended with a focus on human resources, democratic government and human rights, HIV/Aids, and energy and the environment.

This partnership gives us an opportunity to continue developing our social responsibility in Venezuela. It also provides valuable knowledge about the country's social and economic conditions which will make us better equipped to contribute positively to national development and to manage risk in our business.

Two of the countries in which we work were hit by earthquake disasters in 2003. We contributed to emergency assistance in Algeria during May and Iran in December through the Norwegian Red Cross.

Target

- During 2004, we will increase our focus on social investment in line with the expansion in our international activities.

Name: Anne Bjerkelund Selvig
Nationality: Norwegian
Occupation: Head of personnel planning, Statoil

Q: Where does openness and transparency represent a challenge within the company?

A: Norwegian culture is basically very open. We are the same in Statoil, both in-house and externally. That's a value in itself which we're keen to preserve.

The challenge is that openness and transparency involve a balancing act. On the one hand, we want to be open and transparent because that enhances trust and credibility. We share knowledge and values, and thereby build our competitiveness and collective corporate identity.

On the other hand, we become vulnerable if the trust involved in being open and transparent is misused. Fortunately, we have experienced very few cases of such abuse.

I think that reflects a strong sense of collective identity and loyalty to the company, which can be documented through our annual working environment surveys. And our willingness to be open and transparent through in-house dialogue makes a powerful contribution to this sense of identity.



An information campaign against HIV/Aids in Lithuania includes posters on buses.

Fighting HIV/Aids

Information and knowledge are essential for people to protect themselves against HIV/Aids and reduce the risk of spreading the infection. This recognition forms the basis for Statoil's guidelines on supporting the fight against this disease, which were adopted in 2002. We emphasise reaching out to the community through cooperation with others and support for organisations in possession of appropriate expertise on preventive health and aid programmes in relevant countries.

We encounter HIV/Aids at two different levels:

- through the challenges associated with preventive information work, and cases of employees who become infected
- at our service stations, where discoveries of hypodermic needles and other drug-user equipment pose the risk that staff could fall victim to blood-borne infections.

The example of Nigeria

We have established guidelines for work on HIV/Aids in Nigeria. These aim to ensure that employees have the necessary information about the cause of the disease, its consequences and how to protect themselves and others.

Personnel are advised to volunteer for periodic HIV testing in clinics which maintain high professional standards. No employee is compelled to take such tests, even when first recruited.

Using condoms protects against the sexual transfer of HIV and other venereal diseases. Employees at Statoil Nigeria are accordingly provided with free condoms in its toilets and at clinics used by the company.

Non-discriminatory

No discrimination must be suffered by employees infected with HIV/Aids. They receive medical treatment, care, support and counselling. Managers have been thoroughly schooled about the disease to ensure that the company's guidelines are observed. An information booklet on these rules has been distributed to employees.

Information meetings on HIV/Aids and measures to protect against it are held twice a year for employees and their families. The company hopes that this can help to prevent the disease from spreading, and the meetings have been well received. Openness on issues relating to the disease and a secure job contribute to a better quality of life for those infected and their families.

Syringes and the threat of infection

We interface with the world and the general public at our service stations. In recent years, many syringes and other drug-user equipment have been found at these outlets. That exposes our staff to the risk of contracting blood-borne infections such as HIV/Aids if they prick themselves while handling rubbish, cleaning or doing other work around the station.

We registered six accidents of this kind in 2001, four in 2002 and one in 2003. During these years, measures have been adopted and routines introduced to avoid such incidents. Training in first aid must be provided at all workplaces where employees could risk coming into contact with blood or other bodily fluids, with particular emphasis on how personnel can avoid exposing themselves to blood-borne infections.

Labour relations

Statoil is committed to dialogue and cooperation with its workforce.



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 secure our licence to operate. We also take the view that a good age distribution, a variety of cultural backgrounds and a reasonable balance between men and women create a better working environment and are positive for the organisation's ability to develop.

Guidelines

This set of core labour standards is embedded in our internal guidelines and based on the international conventions to which we adhere:

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

These standards are defined by the International Labour Organisation (ILO) as fundamental human rights of workers. They are included in the UN's Global Compact, which has been endorsed by Statoil.

Against that background, we have established corporate standards which form the basis for developing local policies and practices at our subsidiaries in the context of local labour markets, legislation and living costs.

Challenges

We need to make sure that our commitment to high labour and social standards is not diluted as we expand our operations outside Norway and move into countries where labour rights are violated and social standards are low.

In our view, the corporate guidelines we have established and their proper observance will safeguard the rights of our employees wherever we operate.

Performance

Good collaboration requires an open dialogue with our employees. Works councils established both in organisational entities and regionally contribute to such discussion. Our European works council embraces employee representatives from all our principal businesses in Europe. The agreement which forms the basis for this collaboration was extended in 2002.

These bodies consider issues which employees might wish to raise while allowing management to provide information on the business. The way our local works councils function varies to some extent between countries owing to different legislation on and traditions of employer-employee relations.

We also carry out an annual working environment and organisation survey (Amou) among all employees. This poll shows that we continue to score highly for job satisfaction, motivation and commitment at work.

The assurance letter system for managers was adopted in 2002 and is now being improved and extended. It requires key managers to describe the challenges faced in their own area of responsibility, with a focus on how human rights and core labour standards are observed.



Name: Marit Bakke
Nationality: Norwegian
Occupation: Reservoir engineer and worker director, Statoil

Q: Why is greater openness important for Statoil?

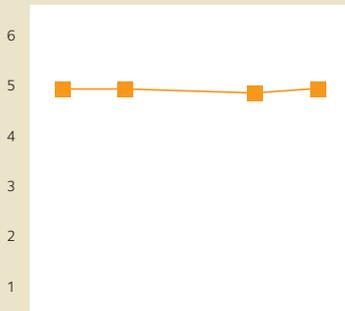
A: More openness is important in clarifying what we in Statoil stand for, both to us employees and to the world at large. It removes uncertainty among the workforce, and removes scope for speculation among those who view us from the outside. A lot has happened recently, internationally and nationally, to weaken trust in and respect for industry in general. Openness can improve our reputation.

Q: What is the biggest barrier to greater openness and transparency?

A: Communication itself is often difficult. Experience shows that misunderstandings easily arise. Much time and energy are thereby devoted to clarifying what one actually meant to say, and the outcome can be that what was intended to be a positive message can create an impression of disorganisation. That weakens credibility. Correspondence between words and deeds, and the perception of this, is always important. You'll be judged by your actions, not your good intentions.

Labour relations

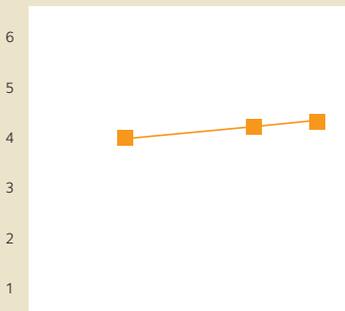
ETHICS IN PRACTICE



1999 2000 2001 2002 2003
4.9 4.9 N/A 4.8 4.9

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

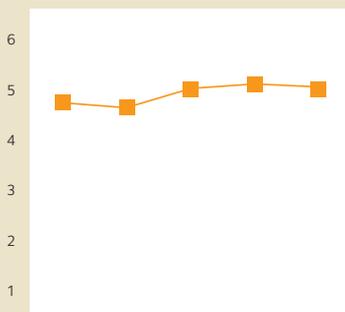
CAREER OPPORTUNITIES



2000 2001 2002 2003
4.0 N/A 4.2 4.3

"Men and women have equal career opportunities in Statoil"
Source: Amou

JOB SATISFACTION



1999 2000 2001 2002 2003
4.9 4.8 5.1 5.2 5.1

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

Dialogue on labour standards

We also want to pursue dialogue with external stakeholders on issues relating to working conditions and other labour standards. One example is the information-sharing agreement we have had since 1998 with the ICEM, an international trade union federation with 20 million members in 110 countries. The agreement between ICEM and Statoil was renewed in 2001 and again in 2003 for another two-year period.

Contacts with the ICEM in 2003 were primarily devoted to issues relating to our work on sustainability, training for union delegates and joint information about the content of such agreements for third parties.

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

During 2003, we defined the content of, and implemented, a training programme on labour standards for externally-recruited managers. We are also completing work on a governing document which will outline our standards and guidelines for labour relations in mergers and acquisitions.

Women in Statoil

Women account for more than 30 per cent of our current workforce. Our target is that women should occupy at least 20 per cent of all leading posts in every part of the group by 2005. We will also seek a balanced age distribution in our workforce, and develop an organisation which reflects and utilises the cultural diversity of the countries in which we have operations.

On an overall basis, our 2005 target of women occupying 20 per cent of managerial posts was reached in 2003. However, a number of entities still have some way to go.

Female workforce in 2003

| | |
|---|-----|
| Women in the corporate workforce | 32% |
| Women in corporate managerial positions | 23% |
| Women in corporate managerial positions below the age of 45 | 33% |
| Women in corporate managerial positions above the age of 45 | 13% |
| Women among the top 230 corporate executives | 19% |
| Women among new parent company apprentices in 2003 | 30% |

Although Statoil is a young group, established in 1972, we have a growing number of older and experienced employees. Thirteen per cent of personnel in our parent company are aged 55 and above. Utilising the knowledge and expertise of these people is highly important, and we need to ensure a planned transfer of their competence to younger personnel. We must also make sure that challenging work is available to senior executives who no longer wish to remain in a top job.

Targets

- Prepare group-wide guidelines on recruitment.
- Maintaining the proportion of women in managerial positions above 20 per cent.
- Achieving 20 per cent women in managerial positions in all our entities.
- Increasing the proportion of local staff in managerial positions in our international operations.
- Ensuring that our workforce reflects the ethnic and cultural diversity of the countries in which we have operations.

Knowledge and skills

Our ambition is to recruit, develop and retain skilled and motivated employees. Meeting this goal is crucial to our success.

We want to develop expertise through challenging assignments combined with extensive use of complementary learning programmes. We encourage employees to deploy their professional expertise and skills in line with our business needs and their own interests and skills.

Challenges

The financial and operational targets set for 2007 will make us one of the fastest-expanding companies in our industry, and create a growing requirement for expertise in a number of disciplines.

Our employees increasingly need to understand the conduct of international business, our value chain, international exploration activities, project development, and the management of supply chains for building and operating petroleum production, transport and processing facilities. In particular, measures are required to implement collaboration between Statoil and other national oil companies, and to build up a business-oriented culture with special emphasis on the challenges relating to ethics and HSE.

Statoil School

The Statoil School of Business and Technology has been established with 17 decentralised educational units. This is not a school in the traditional sense, but more an arena for learning and expertise enhancement. It helps to strengthen us as a learning organisation, where changes in our commercial challenges determine the expertise we require.

Our expertise development activity comprises roughly 900 different programmes. These totalled 75 000 student days in 2003, including 8 000 in the form of e-learning. That does not include the IT step 2 programme, which employees pursue in their free time, or individual participation in external courses and seminars not offered through the Statoil School.

The latter is well suited to implementing educational measures across the group. Major schemes in 2003 included the IT step 2, the management development programme and the safe behaviour programme for offshore safety.

Requirements for managers

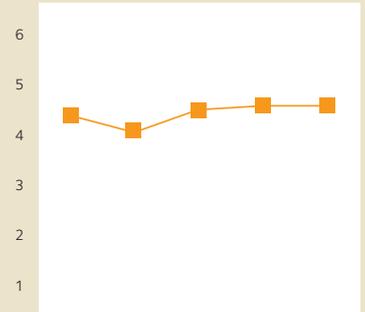
Our values find expression in the requirements for skills and expected behaviour we make of our managers. These form a major element in our management training programmes.

Feedback from superiors, colleagues and subordinates provides another way of securing a consistent evaluation of managers. These assessments are compared with results achieved when rotation of managers is required and when new managers are to be appointed.

Our top management programme occupies a key place among executive training activities. Held once a year, this involves roughly 30 of our top management teams with 200-300 members.

An introductory programme has been developed which all externally-recruited managers and other key personnel must take soon after joining Statoil. Our values, attitudes and behaviour for HSE, social responsibility and ethics are among the elements in this course.

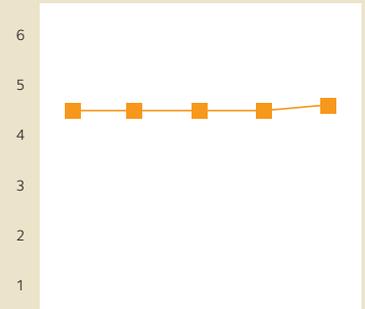
ENJOY YOUR JOB



1999 2000 2001 2002 2003
4.4 4.2 4.5 4.6 4.6

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

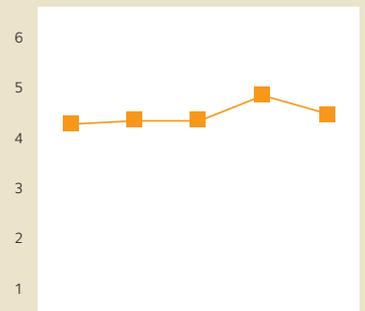
KNOWLEDGE AND SKILLS



1999 2000 2001 2002 2003
4.5 4.5 4.5 4.5 4.6

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

STATOIL'S AMBITIONS



1999 2000 2001 2002 2003
4.3 4.4 4.4 4.7 4.5

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

Able technologists are crucial for our operations. So stimulating interest at an early age through challenging play is a big advantage.



Knowledge and skills

New apprentices in 2003

Training of skilled workers is maintained at a high and stable level, and we recruit 100-120 apprentices every year. A total of 111 were taken on in 2003. Active efforts to enhance competence in Norwegian crane and lifting operations have resulted in the inclusion of this trade in our apprentice programme. Experience has been good, and the training plan was officially approved in 2003.

We won the Rosing prize for good application of information technology from the Norwegian Computer Society in 2003. This award made particular reference to work on a geosimulator which permits virtual excursions through a landscape in order to become better acquainted with it. Introduced in 2003, a new web-based learning portal accessible to all employees has helped to make training measures more effective through standardisation and reuse. It has also contributed to a significant clear-out of parallel and overlapping programmes.

The portal provides information about the various educational units in the Statoil School and the expertise development programmes available. Employees can sign up for new and traditional courses, order programmes based on CD-Roms, and start and take web-based courses. The system registers courses completed and updates the individual's CV automatically.

Targets

- Continuing the Statoil School to ensure a shared corporate culture with the emphasis on ethics and social responsibility, while the business areas work on specific training measures to meet their needs. Continuing and further developing the management programmes.
- Enhancing business understanding along our value chains by extending education programmes in collaboration with higher education institutions.
- Improving the effectiveness of our expertise development programmes by benchmarking the Statoil School with similar measures in other organisations.

Big response to the IT step

We began offering a training programme combined with a home computer solution as early as 1997 in order to enhance the expertise of our employees, particularly with IT systems. Called the IT step, this package was very well received by the workforce.

When the original computer hardware became outmoded, we initiated a new round in 2002. This involved a new internet-based training programme and updated computer equipment for personnel in the Statoil ASA parent company and some of our subsidiaries. Participants were required to complete a defined course package during 2003. Some modules were obligatory, but most were optional. The response has been very good, with 96 per cent of the relevant employees taking part. Ninety per cent completed the programme by 31 December 2003. Surveys show that the courses are perceived as very useful, both for the individual employee and for Statoil.

Much use is made of the hardware, and 93 per cent of participants use a PC in their normal work. The average time spent using computer tools at work and home rose from 3.8 hours in 1997 to 5.4 hours in 2003. Eighty per cent of respondents feel just as much of an obligation to complete courses taken in their free time as they do for training at work. And 89 per cent believe that we should retain a training programme which can be pursued at home. That is also our intention.



Name: Mette Bjørgen

Nationality: Norwegian

Occupation: Corporate trainee

Q: How did you experience Statoil and openness in the Horton affair?

A: It was a little strange to sit on the inside and get most of the significant reports about the affair from outside. Inadequate information by the company undoubtedly reflected the nature of the case, the way the details changed from day to day, and the fact that the affair was and still is under investigation.

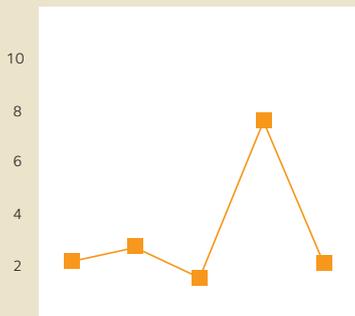
Nor was the public affairs department informed. But I expect us to receive a proper explanation of the affair when the results of the investigation appear.

I've experienced great openness among colleagues about the Horton business. It was undoubtedly a shock to most of us. People have discussed various reasons for why it happened, and I've felt that people shared a need to talk together.

It's now important to look ahead. Employees must be motivated both to feel proprietorial towards our international commitment, and to adopt our ethical guidelines so that they're not just empty buzz words.

Health and safety

FATAL ACCIDENT RATE



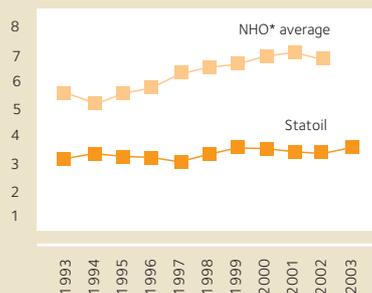
Definition: The number of fatalities per 100 million hours worked (Statoil employees and contractors).

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.

Our goal is zero harm to people. This means that we strive to create a safe place to work both for our employees and for contractor personnel, where accidents and occupational illness are avoided. We believe that high standards for health and the working environment have a positive influence on the behaviour and attitudes of each employee, resulting in improved efficiency and good operational regularity. That in turn has a positive effect on overall value creation by our group. The principle we apply is that all parts of our business will be characterised by the same attitudes to HSE.

External review of HSE work

We suffered several fatal accidents and other incidents with a high potential for injury in 2002. That prompted us to review our corporate HSE efforts during 2003, with the main focus on safety. This work was carried out by DuPont Safety Resources, which submitted specific improvement proposals in a report during the first quarter of 2003. About 600 people drawn from our own employees, including the corporate management, and from partners and contractors were interviewed, and all parts of the business were assessed.

DuPont's report painted a clear picture of the present status of HSE management in our group, and made a number of recommendations for lasting improvements. These cover such aspects as the responsibility and duties of line management, standards and procedures, training and communication.

Purposeful work on assessing measures derived from DuPont's recommendations was pursued during 2003.

Safe behaviour programme

Our corporate management resolved in 2001 to train all managers with operational responsibilities in using the open safety dialogue tool. This has since been adopted on a systematic basis, creating the need for a training package for all relevant personnel. Our Exploration & Production Norway (UPN) business area has accordingly developed the safe behaviour programme, which is being implemented throughout its organisation.

The desire for a strong HSE culture and to secure the full benefit of the open safety dialogue underlies this substantial effort. Representing a determined drive to achieve lasting safety improvements in our operations, it seeks to make the working day more secure so that everyone can return home without having suffered harm.

Everyone working for us on the NCS, both our own employees and contractor personnel, is covered by the programme. Its most important component is a series of two-day meetings being held from 2003 to 2006, with some 18 000 people expected to take part.

Safety systems at plants

In addition to working on our safety culture, we will continue to ensure that high technical standards and physical safety systems are built into our plants and installations. Systematic surveys of technical safety systems allow us to verify their condition in relation to defined performance standards. Where this status is regarded as unsatisfactory, corrective action will be taken.

Performance

Two people died during 2003 whilst in our service. This represents a decline from six fatalities the year before. Both the fatal accidents were suffered by contactors. One happened on the NCS, the other in Iran. They emphasise the need to continue collaborating with our contractors to improve safety for everyone who works for us.

These fatalities have been independently investigated in order to establish their underlying causes and to recommend action which can prevent similar accidents from occurring in the future.

Our total recordable injury frequency in 2003 was 6.0, unchanged from 2002, while the lost-time injury and serious incident frequencies improved. This is a positive development, which reinforces our conviction that HSE performance can be improved by diligent and systematic work.

Targets

- The zero mindset will remain the focus of attention in our safety work. In 2004, we accordingly aim to avoid fatal accidents or major incidents which threaten life, health, the environment and material assets.
- We also aim to achieve a significant improvement in the total recordable injury and serious incident frequencies.

Open safety dialogue wins chief executive's HSE prize

The 2003 chief executive's prize for HSE was awarded to the team behind the open safety dialogue, an important communication tool for improving the level of safety in Statoil. A total of 123 nominations were received for this award.

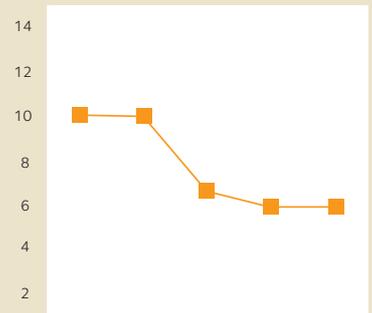
Presented annually since 1997, the prize was established to encourage an increased commitment in the HSE area.

The purpose of the open safety dialogue is to create more visible leadership and better communication on safety between employees and managers. It is conducted at the workplace between manager and subordinate. Risks involved in a job and possible measures to prevent injury are discussed.

Some 3 500 managers, primarily within UPN, have so far been trained in the use of this tool. UPN's aim is that each employee and their manager should have two safety dialogues per year.

The jury for the chief executive's HSE prize found that this tool is backed by extensive and systematic work, and has been well received in the organisation. Valuable experience has been harvested, which can be transferred to other parts of Statoil's business and which has laid a very good basis for continued work to enhance safety.

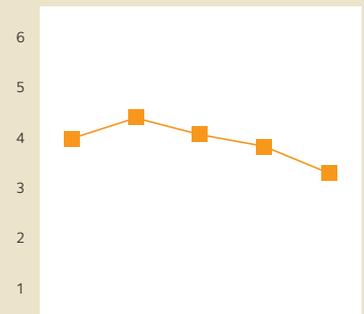
TOTAL RECORDABLE INJURY FREQUENCY



| 1999 | 2000 | 2001 | 2002 | 2003 |
|------|------|------|------|------|
| 10.3 | 10.1 | 6.7 | 6.0 | 6.0 |

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

SERIOUS INCIDENT FREQUENCY



| 1999 | 2000 | 2001 | 2002 | 2003 |
|------|------|------|------|------|
| 4.0 | 4.3 | 4.1 | 3.8 | 3.2 |

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.

A more inclusive workplace

An agreement with Norway's national insurance service in July 2002 committed Statoil to work for a more inclusive workplace. Since then, a total of eight agreements covering the whole parent company have been signed. These deals are intended to reduce sickness absence, increase participation by disabled people in the workforce and raise the real retirement age. One consequence of these targets is that all our entities are required to follow up employees on sick leave. Customised work will be offered to all personnel affected by a disability. And the normal working day must be organised to ensure that as many people as possible retire at the agreed age.

Instruments

The basis for the inclusive workplace approach is that being at work is good for a person's health, and that health problems and difficulties in coping with a job can be solved in the workplace. Initiating support measures quickly is also important so that personnel at risk of falling sick can have their work customised in order to avoid being absent. A support meeting must be held with the employee concerned, and followed up with practical measures. Particular use is made of this system offshore. A total of 122 employees needed such support in 2003.

Getting people on long-term sick leave back to work is a target. We invite everyone who has been away ill for four-six weeks to a network meeting – possibly accompanied by a union official or colleague – with their manager as well as representatives from the human resources department and the company medical service. A total of 419 people took part in meetings of this kind in 2003.

Evaluation and performance

Sickness absence in Statoil came to 3.5 per cent for 2003, compared with 3.4 per cent the year before. This is well below the 6.9 per cent average for Norway. That part of Statoil covered by the inclusive workplace agreement could report a decline in sickness absence from 4.1 per cent in 2002 to 3.5 per cent, primarily through a reduction in long-term sick leave.

Although trends in sickness absence statistics must be interpreted with care, we rank among the Norwegian companies which have done well with the inclusive workplace initiative and have secured results in terms of both qualitative improvements and reduced sickness absence. We regard a well-functioning system for preventing and following up sickness absence as crucial for the employees concerned. This also represents a competitive advantage and demonstrates social responsibility in practice.

Our efforts to create a more inclusive workplace are yielding results.

This is partly because our commitment to an inclusive workplace forms an integrated part of everyday work. Fixed routines and systematic approaches have been described and are observed. This is important in creating predictability and security at work, and not least in ensuring that something specific happens. It has also helped to ensure that an issue previously regarded by many as difficult and disputatious is now described as meaningful and interesting.

Networking on individual cases also helps to improve the use of our central resources. Participants learn from each other and enhance their expertise while ensuring that each case is viewed from several angles and does not get stuck in one groove.

Target

As an inclusive workplace company, we will organise the normal working day to ensure that as many of our employees as possible can reach the agreed retirement age.

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 2004 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 seven 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 2003, a total of 71 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/governing

GRI index

| GRI index | Page in report | Global reporting initiative | Reporting elements |
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| Vision and strategy | | | |
| 1.1 | 9 | Statement of Statoil's sustainability vision and strategy | |
| 1.2 | 2 | Statement from the CEO | |
| Organisational profile | | | |
| 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 | |
| Report scope | | | |
| 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 | |
| Report profile | | | |
| 2.17 | 62-63 | 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 | 64 | 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 | |
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| 3.3 | N/A | Process for determining the expertise board members need to guide the strategic direction | |
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| 3.5 | N/A | Executive remuneration for achievement of non-financial goals | |
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| 3.7 | Many | Codes of conduct/policies relevant to sustainable performance | |
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| Stakeholder engagement | | | |
| 3.9 | N/A | Basis for identification and selection of major stakeholders | |
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* Information about this can be found in Statoil's annual report and accounts for 2003

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| 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

Report from Ernst & Young AS

To the corporate executive committee of Statoil ASA

We have been asked to review "Statoil and sustainable development 2003" (the Report) in order to substantiate its contents. Statoil's management is responsible for selecting the information and collecting the data for presentation therein, and has prepared the Report. Statoil's previous sustainability report was published in June 2003.

We are the auditor for Statoil ASA's financial statements, and as such are obliged to comply with independence requirements in accordance with auditing standards generally accepted in Norway and the United States. We have reviewed Statoil's annual health, safety and environmental (HSE) data since 1995.

Approach

There are currently no statutory requirements relating to the preparation, publication or independent review of corporate sustainability reports. We have therefore used a customised review process, which fits the scope of work outlined by Statoil's management. As a consequence, our review is limited to the aspects stated below:

Basis of our review

Our review involved the following activities:

- interviews with a selection of Statoil's senior managers and personnel, to gain an understanding of their approach to managing the social, ethical and HSE issues covered in the Report.
- obtaining and reviewing evidence to support the assertions and claims made in the Report.
- review of HSE data as stated in our HSE verification report dated 3 March 2003:
 - review of Statoil's central HSE accounting and reporting systems and site visits at eight reporting entities to gain an understanding of HSE management and how HSE data are registered.
 - 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.
- assessment, based on issues raised in the media, of whether the overall information is presented in an appropriate manner.

Our review has not included assessing the implementation of policies, other than the HSE policies. Verification of the interviews included in the Report has not been part of our review. We have, however, checked that the interviewees have given their approval to the interview text.

Conclusions

Based on our review, as described above, we conclude that:

- assertions and claims made in the Report are supported by evidence obtained during our review.
- Statoil has established a well-functioning management system for HSE. The HSE data included in the Report deals with matters which are important from a Statoil perspective. The reviewed HSE data is based on defined and consistent methods for measuring, analysing and quantifying data.
- the Report covers a selection of issues during the reporting period. Decisions regarding the inclusion of such material and the degree to which the Report contents address key stakeholder concerns are based on Statoil's judgement.
- Statoil has not yet established a complete and structured process for setting and tracking progress against targets for social responsibility (with the exception of HSE). Most of the targets mentioned in Statoil's sustainability report dated June 2003 have been progressed. However, not all targets have been accomplished – this applies, for instance, to targets related to human rights training for managers (page 47 in the Report) and the social investment guidelines, which were established in 2002, and have not yet been formally adopted as a group-wide policy. In addition, there are certain qualitative targets that are not clearly defined, and hence it is difficult to evaluate their accomplishment.

Stavanger, 3 March 2004
ERNST & YOUNG AS


Gustav Eriksen
State authorised public accountant


Jostein Johannessen
State authorised public accountant

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