

Dividends we paid in periods prior to 2002 reflected our status as wholly owned by the Norwegian State and should not be considered indicative of our future dividend policy.

Since we will only pay dividends in Norwegian kroner, exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs after the ADR depositary converts cash dividends into US dollars.

## **Risk Factors**

### **Risks Related to Our Business**

*A substantial or extended decline in oil or natural gas prices would have a material adverse effect on us.*

Historically, prices for oil and natural gas have fluctuated widely in response to changes in many factors. We do not and will not have control over the factors affecting prices for oil and natural gas. These factors include:

- global and regional economic and political developments in resource-producing regions, particularly in the Middle East;
- global and regional supply and demand;
- the ability of the Organization of Petroleum Exporting Countries (OPEC) and other producing nations to influence global production levels and prices;
- prices of alternative fuels which affect our realized prices under our long-term gas sales contracts;
- Norwegian and foreign governmental regulations and actions;
- global economic conditions;
- price and availability of new technology; and
- weather conditions.

It is impossible to predict future oil and natural gas price movements with certainty. Declines in oil and natural gas prices will adversely affect our business, results of operations and financial condition, liquidity and our ability to finance planned capital expenditures. For an analysis of the impact on income before financial items, taxes and minority interest from changes in oil and gas prices, see Item 5-Operating and Financial Review and Prospects-Operating Results-Factors Affecting Our Results of Operations. Lower oil and natural gas prices also may reduce the amount of oil and natural gas that we can produce economically or reduce the economic viability of projects planned or in development.

*Exploratory drilling involves numerous risks, including the risk that we will encounter no commercially productive oil or natural gas reservoirs, which could materially adversely affect our results.*

We are exploring in various geographic areas, including new resource provinces such as the Norwegian Sea, the Barents Sea and deepwater offshore Angola, where environmental conditions are challenging and costs can be high. We are also considering exploration activities in additional international areas where costs may be high. In addition, our use of advanced technologies requires greater pre-drilling expenditures than traditional drilling strategies. The cost of drilling, completing and operating wells is often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay, or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. For example, we have entered into long-term leases on drilling rigs which are not required for the originally intended operations and we cannot be certain that these rigs will be re-employed or at what rate they will be re-employed. Our overall drilling activity or drilling activity within a particular project area may be unsuccessful.

Such failure will have a material adverse effect on our results of operations and financial condition.

*If we fail to acquire or find and develop additional reserves, our reserves and production will decline materially from their current levels.*

The majority of our proved reserves are on the Norwegian Continental Shelf (NCS), a maturing resource province. Except to the extent we conduct successful exploration and development activities or acquire properties containing proved reserves, or both, our proved reserves will decline as reserves are produced. In addition, the volume of production from oil and natural gas properties generally declines as reserves are depleted. For example, two of our major fields, Statfjord and Gullfaks, are dependent on satellite fields to maintain production, and, unless efforts to improve the development of satellite fields are successful, production will gradually decline. Our future production is highly dependent upon our success in finding or acquiring and developing additional reserves. If we are unsuccessful, we may not meet our long-term ambitions for growth in production, and our future total proved reserves and production will decline and adversely affect our results of operations and financial condition.

*We encounter competition from other oil and natural gas companies in all areas of our operations, including the acquisition of licenses, exploratory prospects and producing properties.*

The oil and gas industry is extremely competitive, especially with regard to exploration for, and exploitation and development of new sources of oil and natural gas.

Some of our competitors are much larger, well-established companies with substantially greater resources, and in many instances they have been engaged in the oil and gas business for much longer than we have. These larger companies are developing strong market power through a combination of different factors, including:

- diversification and reduction of risk;
- financial strength necessary for capital-intensive developments;
- exploitation of benefits of integration;
- exploitation of economies of scale in technology and organization;
- exploitation of advantages of expertise, industrial infrastructure and reserves; and
- strengthening of positions as global players.

These companies may be able to pay more for exploratory prospects and productive oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects, including operatorships and licenses, than our financial or human resources permit. For more information on the competitive environment, see Item 4-Information on the Company-Business Overview.

*As we face a variety of challenges in executing our strategic objective of successfully exploiting growth opportunities available to us, the growth of our business may be compromised if we are unable to execute on our strategy and our financial and production targets may be revised as a result of acquisitions made in accordance with our strategy.*

An important element of our strategy is to continue to pursue attractive growth opportunities available to us, both in enhancing our asset portfolio and expanding into new markets. The opportunities that we are actively pursuing may involve acquisitions of businesses or properties that complement or expand our existing portfolio. Our ability to implement this strategy successfully will depend upon a variety of factors, including our ability to:

- identify acceptable opportunities;
- negotiate favorable terms;
- develop the performance of new market opportunities or acquired properties or businesses promptly and profitably;

- integrate acquired properties or businesses into our operations; and
- arrange financing, if necessary.

As we pursue business opportunities in new and existing markets, we anticipate that significant investments and costs will be related to the development of such opportunities. We may incur or assume unanticipated liabilities, losses or costs associated with assets or businesses acquired. Any failure by us to pursue and execute new business opportunities successfully could result in financial losses, and could inhibit growth.

If we are successful in the pursuit of our strategy and the making of such acquisitions, and no assurances can be given that we will be, our ability to achieve our financial, capital expenditure and production targets may be materially affected. Any such new projects we acquire will require additional capital expenditure and will increase our finding and development expenditure. It is likely that such acquisitions will be in the exploratory or development phase and not in the production phase, which will have a material adverse effect on our net return in proportion to our average capital employed. These projects may also have different risk profiles than our existing portfolio. These and other effects of such acquisitions could result in us having to revise some or all of our targets with respect to ROACE, capital expenditure amounts and allocations, unit production costs, finding and development costs, reserves replacement rate and production.

In addition, the pursuit of acquisitions or new business opportunities could divert financial and management resources away from our day-to-day operations to the integration of acquired operations or properties. We have no current intention to issue additional equity; we may, however, require additional debt or equity financing to undertake or consummate future acquisitions or projects, which financing may not be available on terms satisfactory to us, if at all, and may, in the case of equity, be dilutive to our earnings per share.

*Our development projects involve many uncertainties and operating risks that can prevent us from realizing profits and can cause substantial losses.*

Our development projects may be delayed or unsuccessful for many reasons, including cost overruns, lower oil and gas prices, equipment shortages, mechanical and technical difficulties and industrial action. These projects will also often require the use of new and advanced technologies, which can be expensive to develop, purchase and implement, and may not function as expected. In addition, some of our development projects will be located in deepwater or other hostile environments, such as the Barents Sea, or produced from challenging reservoirs, which can exacerbate such problems. There is a risk that development projects that we undertake may suffer from such problems, such as the Snøhvit project where we have encountered cost overruns and face a challenging timetable for the assembly and transportation of the LNG plant, and the Kristin development, where we are facing difficult drilling conditions.

Our development projects on the NCS also face the challenge of remaining profitable where we are increasingly developing smaller satellite fields in mature areas and our projects are subject to the Norwegian State's relatively high taxes on offshore activities. Our other development projects in mature fields in Western Europe also face potentially higher operating costs. In addition, our development projects, particularly those in remote areas, could become less profitable, or unprofitable, if we experience a prolonged period of low oil or gas prices.

Many of our mature fields are producing increasing quantities of water with oil and gas. Our ability to dispose of this water in acceptable ways may impact our oil and gas production.

*We may not be able to produce some of our oil and gas economically due to a lack of necessary transportation infrastructure when a field is in a remote location.*

Our ability to exploit economically any discovered petroleum resources beyond our proved reserves will be dependent upon, among other factors, the availability of the necessary infrastructure to transport oil and gas to potential buyers at a commercially acceptable price. Oil is usually transported by tankers to refineries, and gas is usually transported by pipeline to processing plants and end-users.

We may not be successful in our efforts to secure transportation and markets for all of our potential production.

*Some of our international interests are located in politically, economically and socially unstable areas, which could disrupt our operations.*

We have assets located in unstable regions around the world. For example, there was war and civil strife in the Caspian region through much of the 1990s. In addition, the states bordering the Caspian Sea dispute ownership and distribution of proceeds from the Caspian's seabed and subsoil resources. Our activities in the Persian Gulf may be subject to disruption due to, for example, war and terrorism. Other countries, such as Venezuela, Nigeria and Angola, where we also have operations, have experienced expropriation or nationalization of property, civil strife, strikes, acts of war, guerrilla activities and insurrections. The occurrence of incidents related to political, economic or social instability could disrupt our operations in any of these regions, causing a decline in production that could have a material adverse effect on our results of operations or financial condition.

*Our activities in Iran could lead to US sanctions.*

In August 1996, the United States adopted the Iran and Libya Sanctions Act, referred to as ILSA, which authorizes the President of the United States to impose sanctions (from a list that includes denial of financing by the export-import bank and limitations on the amount of loans or credits available from US financial institutions) against persons found by the President to have knowingly made investments in Iran of USD 20 million or more that directly and significantly contribute to the enhancement of such countries' ability to develop their petroleum resources. We take part in certain exploration projects or study activities with respect to Iran. In October 2002, we signed a participation agreement with Petropars of Iran, pursuant to which we assumed the operatorship for the offshore part of phases six, seven and eight of the South Pars gas development project in the Persian Gulf. At the end of 2004, we had invested USD 219 million in connection with the project. We cannot predict interpretations of or the implementation policy of the US Government under ILSA with respect to our current or future activities in Iran or other areas. It is possible that the United States may determine that these or other activities will constitute activity covered by ILSA and will subject us to sanctions.

*We are exposed to potentially adverse changes in the tax regimes of each jurisdiction in which we operate.*

We operate in 29 countries around the world, and any of these countries could modify its tax laws in ways that would adversely affect us. Most of our operations are subject to changes in tax regimes in a similar manner as other companies in our industry. In addition, in the long-term, the marginal tax rate in the oil and gas industry tends to change in correlation with the price of crude oil. Significant changes in the tax regimes of countries in which we operate could have a material adverse effect on our liquidity and results of operation.

*We are not insured against all potential losses and could be seriously harmed by natural disasters or operational catastrophes.*

Exploration for and production of oil and natural gas is hazardous, and natural disasters, operator error or other occurrences can result in oil spills, blowouts, cratering, fires, equipment failure, and loss of well control, which can injure or kill people, damage or destroy wells and production facilities, and damage property and the environment. Offshore operations are subject to marine perils, including severe storms and other adverse weather conditions, vessel collisions, and governmental regulations, as well as interruptions or termination by governmental authorities based on environmental and other considerations. Losses and liabilities arising from such events would significantly reduce our revenues or increase our costs and have a material adverse effect on our operations or financial condition.

*The crude oil and natural gas reserve data in this Annual Report on Form 20-F are only estimates, and our future production, revenues and expenditures with respect to our reserves may differ materially*

*from these estimates.*

The reliability of proved reserve estimates depends on:

- the quality and quantity of our geological, technical and economic data;
- whether the prevailing tax rules and other government regulations, contracts, oil, gas and other prices will remain the same as on the date estimates are made;
- the production performance of our reservoirs; and
- extensive engineering judgments.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in our reserve data. Any downward adjustment could lead to lower future production and thus adversely affect our financial condition, future prospects and market value.

*We face foreign exchange risks that could adversely affect our results of operations.*

Our business faces foreign exchange risks because a large percentage of our revenues and cash receipts are denominated in US dollars while a significant portion of our operating expenses and income taxes accrue in Norwegian kroner, reflecting our operations on the NCS. Movements between the US dollar and Norwegian kroner may adversely affect our business. While an increase in the value of the US dollar against the Norwegian kroner can be expected to increase our reported earnings, such an increase would also be expected to increase our operating expenses and the value of our debt, which would be recorded as a financial expense, and, accordingly, would adversely affect our net income. See Item 5-Operating and Financial Review and Prospects-Liquidity and Capital Resources-Risk Management.

*Public authorities in the United States are conducting investigations into a consultancy arrangement we entered into with respect to business development in Iran, which, if proceedings are brought and determined against us, could result in fines, penalties, sanctions or other restrictions that could have a material adverse effect on our business.*

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) conducted an investigation concerning an agreement which Statoil entered into in 2002 with Horton Investments Ltd., a Turks & Caicos Island company, for consultancy services in Iran. On June 29, 2004, Økokrim informed Statoil that it had concluded that Statoil violated section 276c, first paragraph (b) of the Norwegian Penal Code and imposed a penalty on Statoil of NOK 20 million. Statoil's board decided on October 14, 2004 to accept the penalty without admitting or denying the charges by Økokrim. The U.S. Securities and Exchange Commission is conducting a formal investigation into this consultancy arrangement to determine if there have been any violations of U.S. federal securities laws, including the Foreign Corrupt Practices Act. The U.S. Department of Justice is also conducting a criminal investigation of the Horton matter jointly with the Office of the United States Attorney for the Southern District of New York. The SEC staff informed Statoil on September 24, 2004 that it is considering recommending that the SEC authorize a civil enforcement action in federal court against Statoil for violations of various U.S. federal securities laws, including the anti-bribery and books and records provisions of the Foreign Corrupt Practices Act. See Item 8-Financial Information-Legal Proceedings.

We continue to provide information to the U.S. authorities in order to assist them with their ongoing investigations. Responding to the requests of the public authorities and cooperating with their investigations continues to divert management's attention and resources, and any developments or requests by the authorities for additional information will engage more of management's attention and resources. We cannot predict the outcome of these inquiries being conducted by public authorities in the United States or the resulting effect that they might have on our business. If proceedings are brought and determined against us in the United States this may result in fines, penalties, sanctions or restrictions that could have a material adverse effect on our business or financial results.

## Risks Related to the Regulatory Regime

*Competition is expected to increase in the European gas market, currently our main market for gas sales, as a result of new European Union, or EU, directives which could adversely affect our ability to expand or even maintain our current market position or result in reduction in prices in our gas sales contracts.*

Fundamental changes are now taking place in the organization and operation of the European gas market, with the objective of opening national markets to competition and integrating them into a single market for natural gas. This process started with the EU Gas Directive, which became effective in August 2000. The Directive was included into the EEA Agreement in June 2002, and all necessary changes in order to implement the Directive into Norwegian legislation were made during 2002. The Directive requires EEA states to take certain minimum steps to open their gas markets to greater competition. Each state must specify annually the wholesale and final gas customers inside its territory that have the legal capacity to contract for or be sold natural gas by the gas supplier of their choice.

The Directive also requires that eligible customers be given the right to negotiate agreements for using gas transport systems directly or rights of access based on tariffs or other mechanisms. A new Gas Directive is now approved by the EU. The new Gas Directive provides for accelerated requirements for market opening, which means that both large users and households will now be free to choose their supplier earlier than previously allowed.

Most of our gas is sold under long-term gas contracts to customers in the EU, a gas market that will be affected by changes in EU regulations. As a result of the Directive, our ability to expand or even maintain our current market position could be materially adversely affected and quantities sold under our gas sales contracts may be subject to a material reduction in gas prices.

*We may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations.*

Compliance with environmental laws and regulations in Norway and abroad could materially increase our costs. We incur and expect to continue to incur, substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety, including costs to reduce certain types of air emissions and discharges to the sea and to remediate contamination at various owned and previously-owned facilities and at third-party sites where our products or wastes have been handled or disposed. The new Petroleum Safety Authority Norway (PSA) was established on January 1, 2004, with the regulatory responsibility for safety, emergency preparedness and the working environment for all petroleum-related activities. Although existing regulations relating to HSE in petroleum activities continue with the PSA as the responsible authority, the PSA's sphere of responsibility has been expanded. see item 4-information on the company-regulation.

In our capacity as holder of licenses on the NCS under the Norwegian Petroleum Act of November 29, 1996, we are subject to statutory strict liability in respect of losses or damages suffered as a result of pollution caused by spills or discharges of petroleum from petroleum facilities covered by any of our licenses. This means that anyone who suffers losses or damages as a result of pollution caused by operations at any of our NCS license areas can claim compensation from us without needing to demonstrate that the damage is due to any fault on our part.

Whether in Norway or abroad, new laws and regulations, the imposition of tougher requirements in licenses, increasingly strict enforcement of or new interpretations of existing laws and regulations, or the discovery of previously unknown contamination may require future expenditures to:

- modify operations;
- install pollution control equipment;
- perform site clean-ups; or
- curtail or cease certain operations.

In particular, we may be required to incur significant costs to comply with the 1997 Kyoto Protocol to

the United Nations Framework Convention on Climate Change, known as the Kyoto Protocol, and other pending EU laws and directives. In addition, increasingly strict environmental requirements, including those relating to gasoline sulphur levels and diesel quality, affect product specifications and operational practices. Future expenditures to meet such specifications could have a material adverse effect on our operations or financial condition.

*Political and economic policies of the Norwegian State could affect our business.*

The Norwegian State plays an active role in the management of NCS hydrocarbon resources. In addition to its direct participation in petroleum activities through the SDFI and its indirect impact through tax and environmental laws and regulations, the Norwegian State awards licenses for reconnaissance, production and transportation and approves, among other things, exploration and development projects, gas sales contracts and applications for (gas) production rates for individual fields. The Norwegian State may also, if important public interests are at stake, direct us and other oil companies to reduce production of petroleum. Reductions of up to 7.5 per cent have been imposed in the past. By a royal decree of December 19, 2001, the Norwegian government decided that Norwegian oil production should be reduced by 150,000 barrels per day from January 1, 2002 until June 30, 2002. This amounted to roughly a 5 per cent reduction in output. Further, in the production licenses in which the SDFI holds an interest, the Norwegian State retains the ability to direct petroleum licensees' actions in certain circumstances.

If the Norwegian State were to take additional action pursuant to its extensive powers over activities on the NCS or to change laws, regulations, policies or practices relating to the oil and gas industry, our NCS exploration, development and production activities and results of operations could be materially and adversely affected. For more information about the Norwegian State's regulatory powers, see Item 4-Information on the Company-Regulation.

#### **Risks Related to Our Ownership by the Norwegian State**

*The interests of our majority shareholder, the Norwegian State, may not always be aligned with the interests of our other shareholders, which may affect our decisions relating to the NCS.*

The Norwegian Parliament, known as the Storting, and the Norwegian State have resolved that the Norwegian State's shares in Statoil and the SDFI's interests in NCS licenses must be managed pursuant to a coordinated ownership strategy for the Norwegian State's oil and gas interests. Under this strategy, the Norwegian State has required us to continue to market the Norwegian State's oil and gas together with our own as a single economic unit.

Pursuant to the coordinated ownership strategy for the Norwegian State's shares in us and the SDFI, the Norwegian State requires us in our activities on the NCS to take account of the Norwegian State's interests in all decisions which may affect the development and marketing of our own and the Norwegian State's oil and gas.

The Norwegian State holds more than a two-thirds majority of our shares. Accordingly, the Norwegian State has the power to determine matters submitted for a vote of shareholders, including amending our articles of association and electing all of the members of the corporate assembly except employee representatives. The employees may claim the right to be represented by up to one-third of the members of the board of directors as well as the corporate assembly. The corporate assembly is responsible for electing our board of directors and communicates its recommendations concerning the board of directors' proposals about the annual accounts, balance sheets, allocation of profits and coverage of losses of our company to the general meeting. The interests of the Norwegian State in deciding these and other matters and the factors it considers in exercising its votes, especially pursuant to the coordinated ownership strategy for the SDFI and our shares held by the Norwegian State, could be different from the interests of our other shareholders. Accordingly, when making commercial decisions relating to the NCS, we have to take into account the Norwegian State's coordinated ownership strategy and we may not be able to fully pursue our own commercial interests, including those relating to our strategy on development, production and marketing of oil and gas.

If the Norwegian State's coordinated ownership strategy is not implemented and pursued in the future, then our mandate to continue to sell the Norwegian State's oil and gas together with our own as a single economic unit is likely to be prejudiced. Loss of the mandate to sell the SDFI's oil and gas

could have an adverse effect on our position in our markets. For further information about the Norwegian State's coordinated ownership strategy, see Item 7-Major Shareholders and Related Party Transactions-Major Shareholders.

## **Forward-Looking Statements**

This Annual Report on Form 20-F contains forward-looking statements that involve risks and uncertainties, in particular under Item 4-Information on the Company and Item 5-Operating and Financial Review and Prospects. In some cases, we use words such as "believe", "intend", "expect", "anticipate", "plan", "target" and similar expressions to identify forward-looking statements. All statements other than statements of historical facts, including, among others, statements regarding our future financial position, business strategy, budgets, reserve information, reserve replacement rates, reserve recovery factors, projected levels of capacity, production growth, projected operating costs, finding and development costs, exploration expenditure, estimates of capital expenditure, expected exploration and development activities and plans, start-up dates for upstream and downstream activities, HSE goals and objectives of management for future operations, are forward-looking statements. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the risks described above in Item 3-Key Information, below in Item 5-Operating and Financial Review and Prospects, and elsewhere in this Annual Report on Form 20-F.

These forward-looking statements reflect current views with respect to future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including levels of industry product supply, demand and pricing; currency exchange rates; political and economic policies of Norway and other oil-producing countries; general economic conditions; political stability and economic growth in relevant areas of the world; global political events and actions, including war, terrorism and sanctions; the timing of bringing new fields on stream; material differences from reserves estimates; inability to find and develop reserves; adverse changes in tax regimes; development and use of new technology; geological or technical difficulties; the actions of competitors; the actions of field partners; natural disasters and other changes to business conditions; and other factors discussed elsewhere in this report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot assure you that our future results, level of activity, performance or achievements will meet these expectations. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. Unless we are required by law to update these statements, we will not necessarily update any of these statements after the date of this Annual Report, either to conform them to actual results or to changes in our expectations.

## **Statements Regarding Competitive Position**

Statements made in Item 4-Information on the Company, referring to Statoil's competitive position, are based on our belief, and in some cases rely on a range of sources, including investment analysts' reports, independent market studies and our internal assessments of market share based on publicly available information about the financial results and performance of market participants.

## **Item 4 Information on the Company**

### **History and Development of the Company**

Statoil ASA is a public limited company organized under the laws of Norway with its registered office at Forusbeen 50, N-4035 Stavanger, Norway. Our telephone number is +47 51 99 00 00. Our registration number in the Norwegian Register of Business Enterprises is 923 609 016. Statoil ASA was incorporated on September 18, 1972 under the name Den norske stats oljeselskap a.s. At an extraordinary general meeting held on February 27, 2001, it was resolved to change our company name to Statoil ASA and convert into a public listed company, or ASA.