

upstream gas transportation system (Gassled).

Parts of the regulations have a general application and parts – including the tariffs – are applicable only to the upstream gas transportation system owned by the Gassled joint venture.

The new regulations set the main principles for access to the upstream gas transportation system. The access regime consists of a regulated primary market where the right to book free capacity, in accordance with regulations, is allocated to users with a duly substantiated reasonable need for transportation of natural gas. Further, the access regime consists of a secondary market where the capacity can be transferred between the users after the allocation in the primary market if the need for transportation changes.

The capacity in the primary market will be released and booked through Gassco AS on the internet. Spare capacity will be released for pre-defined time periods at announced points in time and with specific time limits for reservations. If the reservations exceed the spare capacity, the spare capacity will be allocated based on a distribution formula. However, consideration shall in case of spare capacity first be given to the owners' duly substantiated needs for capacity, which is limited to twice the owner's equity interest in the upstream pipeline network in question.

Based upon an authorization given under the new regulation, tariffs for use of capacity in Gassled are determined by the Ministry of Petroleum and Energy. The Ministry's policy for determining the tariffs is to avoid excessive returns being created on the capital invested in the transportation system, allowing the return on the Norwegian petroleum activity to be taken out on the fields instead of in the transportation systems. The tariffs are to be paid for booked capacity and not in respect of the actually transported volume.

HSE Regulation

Petroleum operations in Norway are subject to extensive regulation with regard to health, safety and the environment, or HSE. Under the Petroleum Act, which is in this respect administered by the Ministry of Labor and Government Administration, all petroleum operations must be conducted in compliance with a reasonable standard of care, taking into consideration the safety of employees, the environment and the economic values represented by installations and vessels. The Petroleum Act specifically requires that petroleum operations be carried out in such a manner that a high level of safety is maintained and developed in accordance with technological developments.

Licensees and other persons engaged in petroleum operations are required to maintain at all times a plan to deal with emergency situations. During an emergency, the Ministry of Labor and Government Administration may decide that other parties should provide the necessary resources, or otherwise adopt measures to obtain the necessary resources, to deal with the emergency for the account of the licensees.

The new Petroleum Safety Authority Norway (PSA) was established on January 1, 2004 as a consequence of the Storting process surrounding the Storting White Paper No.17 (2002-2003) on State supervision bodies. The PSA has the regulatory responsibility for safety, emergency preparedness and the working environment for all petroleum-related activities. This responsibility was transferred from the Norwegian Petroleum Directorate (NPD) effective January 1, 2004. With the establishment of the PSA, regulations relating to HSE in petroleum activities continue with the PSA as the responsible authority. In addition, the PSA's sphere of responsibility has been expanded to include supervision of safety, emergency preparedness and the working environment at the petroleum facilities and connected pipeline systems on land such as Kårstø, Kollsnes, Tjeldbergodden, Mongstad, and Melkøya, as well as potential future integrated petroleum facilities.

In our capacity as a holder of licenses under the Petroleum Act, we are subject to strict statutory 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 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. If the pollution is caused by a force majeure event, a Norwegian court may reduce the level of damages to the extent it considers reasonable.

Taxation of Statoil

We are subject to ordinary Norwegian corporate income tax as well as to a special petroleum tax relating to our offshore activities. We are also subject to a special carbon dioxide emissions tax. Under our production licenses we are obligated to pay royalties and an area fee to the Norwegian State. Set forth below is a summary of certain key aspects of the Norwegian tax rules that apply to our operations.

Corporate income tax . Our profits, both from offshore oil and natural gas activities and from onshore activities, are subject to Norwegian corporate income tax. The corporate income tax rate is currently 28%. Our profits are computed in accordance with ordinary Norwegian corporate income tax rules, subject to certain modifications that apply to companies engaged in petroleum operations. Gross revenue from oil production and the value of lifted stocks of oil are determined on the basis of norm prices which are decided on a monthly basis by the Petroleum Price Board, a body whose members are appointed by the Ministry of Petroleum and Energy, and published quarterly. The Petroleum Taxation Act provides that the norm prices shall correspond to the prices that could have been obtained in case of a sale of petroleum between independent parties in a free market. When adopting norm prices, the Petroleum Price Board takes into consideration a number of factors, including spot market prices and contract prices within the industry.

The maximum rate for depreciation of development costs related to offshore production installations and pipelines is 16 2/3% per year. The depreciation starts when the expense is incurred. Exploration costs may be deducted in the year in which they are incurred. Most financial items are allocated to onshore and offshore activities in proportion to the remaining tax balances of assets related to onshore and offshore activities, respectively. There is an adjustment factor allowing companies with an equity ratio of more than 0.2 to allocate a higher share of net financial items to the offshore tax regime.

Any NCS losses may be carried forward indefinitely against subsequent income earned. Any onshore losses may be carried forward for 10 years. Fifty percent of losses relating to activity conducted onshore in Norway may be deducted from NCS income subject to the 28% tax rate. Losses from foreign activities may not be deducted against NCS income. Losses from offshore activities are fully deductible against onshore income.

Abandonment costs. In June 2003 the taxation treatment of abandonment costs was changed from a system with Government grant to a system with tax deduction. Abandonment costs incurred after June 19, 2003 can be deducted as operating expenditures. Provisions for abandonment costs are not tax deductible.

By use of group contributions between Norwegian companies in which we hold more than 90% of the shares and the votes, tax losses and taxable income can, to a great extent, be offset. Group distributions are not deductible in our offshore income.

As a result of tax credits granted against tax levied on dividends received from Norwegian companies, we are effectively not subject to tax on dividends from Norwegian companies. Dividends from foreign companies are normally subject to income tax in both Norway and the foreign company's state of residence. If Norway has entered into a tax treaty with the foreign company's state of residence, the tax of the foreign company's state of residence is normally limited to a withholding tax at a specified rate. We are entitled to credit such withholding taxes against Norwegian income tax payable on the dividends.

Furthermore, if we own more than 10% of the capital of a foreign company, we are also entitled to a tax credit for a proportionate part of the foreign company's income tax. This tax credit is only available against Norwegian taxes payable on the

dividends received from the company. To obtain credit for taxes paid in the foreign company's state of residence, we must provide documentation proving that income taxes actually have been paid in the foreign state, and that the foreign taxes are creditable against Norwegian taxes.

Special petroleum tax. A special petroleum tax is levied on profits derived from petroleum production and pipeline transportation on the NCS. The special petroleum tax is currently levied at a rate of 50%. The special tax is applied to relevant income in addition to the standard 28% income tax, resulting in a 78% marginal tax rate on income subject to petroleum tax. The basis for computing the special petroleum tax is the same as for income subject to ordinary corporate income tax, except that onshore losses are not deductible against the special petroleum tax, and a tax-free allowance, or uplift, is granted at a rate of 5% per year. The uplift is computed on the basis of the original capitalized cost, of offshore production installations. The uplift may be deducted from taxable income for a period of six years, starting in the year in which the capital expenditures are incurred. Unused uplift may be carried forward indefinitely. Special provisions apply to investments made prior to 1992.

Carbon dioxide emissions tax. A special carbon dioxide emissions tax applies to petroleum activities on the NCS. The tax is currently NOK 0.76 per standard cubic meter of gas burned or directly released, and per liter of oil burned.

Area fee. After the expiration of the initial exploration period, the holders of production licenses are required to pay an area fee. The amount of the area fee is set out in regulations promulgated under the Petroleum Act. In respect of most of the production licenses, the initial annual area fee is currently NOK 7,000 per square kilometer. The annual area fee is increased yearly by NOK 7,000 until it reaches NOK 70,000 per square kilometer.

Royalty. We and other oil companies have an obligation to pay a royalty to the Norwegian State for oil produced on fields for which a plan for development and operation was approved prior to January 1, 1986. The royalty varies from 8% to 16% of the gross production value, and increases with the level of production. The Ministry of Petroleum and Energy may, on six months' notice, require that the royalty be paid in kind by delivery of petroleum. The Ministry of Petroleum and Energy has exercised this right so that we are currently required to pay royalty by delivering oil. Such royalty oil is repurchased by us at a calculated market price. No royalty is charged on natural gas or NGL production.

In a 1999 Government proposal, the Norwegian State announced that the remaining royalty obligations would be gradually abolished. The obligation to pay royalty currently only remains for the Gullfaks and Oseberg fields and will be abolished completely by the end of 2005.

EU Regulation

EU Gas Directive

Fundamental changes are now taking place in the organization and operation of the European gas market, with the objective of opening up national markets to competition and integrating them into a single internal market for natural gas. It is difficult to predict the effect of liberalization measures on the evolution of gas prices, but the main objective of the single gas market is to bring greater choice and reduced prices for customers through increased competition.

The EU Gas Directive was included in the EEA Agreement in June 2002 and was incorporated into Norwegian legislation in 2002.

On June 26, 2003, the EU approved a new Gas Directive, Directive 2003/55/EC. The Directive is not yet incorporated into Norwegian legislation.

The new Directive provides for accelerated requirements for market opening, which imply that both large users and households will now be free to choose their supplier earlier than before. Large users are free to choose their supplier from July 2004, and households from July 2007.

Competition

The integrated oil and gas industry is characterized by intense competition for customers, production licenses, operatorships, capital and experienced human resources. The industry is currently subject to several important influences, which we must deal with effectively if we are to remain competitive and achieve our goals.

Consolidation. In the past few years, the strategic and competitive landscape of the oil and gas industry has been transformed by a wave of mergers and acquisitions. This activity has been driven mainly by the need to enhance shareholder returns, to respond to the growing competitive threat of national oil companies and to achieve greater operational scale to capture new, attractive business opportunities. In 1998, the following mergers took place: BP/Amoco, Exxon/Mobil and Total/Fina. In 1999, further merger activity involved BP/Amoco/ARCO, Repsol/YPF and Total/Fina/Elf. In addition, Norsk Hydro acquired all the outstanding shares in Saga Petroleum after which we acquired certain Saga assets. In 2000, Chevron and Texaco announced a merger, while ENI acquired British Borneo and Lasmo. In 2001, Phillips announced the acquisition of Tosco and a merger with Conoco.

Deregulation. The establishment of free, competitive and integrated markets has become an important governmental objective in many countries. Initiatives such as the Directive aim to alter the framework of laws and institutions that govern the European gas industry. This includes, among others, the obligation on owners or operators of gas transportation facilities to offer non-discriminatory access to third parties wishing to use the infrastructure, and the opening of the industry to new participants. The relationship between customers and suppliers of gas is expected to change as a result of greater competition, with the emphasis on bringing down costs for energy purchasers.

International Opportunities. Significant shifts in the global political climate have provided oil and gas companies with access to previously inaccessible hydrocarbon resources in regions such as the former Soviet Union and the Middle East. New licensing rounds such as in the deepwater offshore sector of Western Africa have also created new exploration and development opportunities. Most recoverable oil and gas resources are believed to be located in such areas, where the political risk mostly remains high. Long-term growth in our reserves and production will require us to capture international opportunities in the face of significant competition.

Technological Advances. Technological innovations in the oil and gas industry have improved the industry's performance in finding and developing hydrocarbon resources. Exploration success rates have improved, field life and recovery rates from existing and marginal fields have been increased, and full project cycle costs have generally been reduced. These have been achieved by applying advanced technology more effectively. In addition, the exploitation of hydrocarbon reserves in remote deepwater and harsh environment offshore regions has been made possible by improvements in subsea development capabilities and sophisticated floating production and storage units. In general, there is comparable access to technology across the industry, and, in order to achieve our strategic and financial goals, we will need to compete on the basis of applying available technology to complex projects in the most skillful manner.

Environmental and Social Concerns. Oil and gas companies are facing increasing demand to conduct their operations in the context of and consistent with environmental and social goals. Investors, customers and governments are more actively following companies' performance on environmental responsibility and human rights, including performance with respect to the development of alternative and renewable sources of energy.

Organizational Structure