

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 Petroleum Safety Authority Norway (PSA) has the regulatory responsibility for safety, emergency preparedness and the working environment for all petroleum-related activities. The PSA's sphere of responsibility now includes 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 and, from 2007, a NO<sub>x</sub> fee. Under our production licenses we are obligated to pay 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 per cent. 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. Norm prices 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 cent per year. The depreciation starts when the cost 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. 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. From 2007, financial costs related to the offshore activity will be calculated directly based on a formula set in the petroleum tax act. The financial costs deductible against the offshore tax regime will be total financial costs multiplied by 50 per cent of tax values divided by average interest bearing debt. All other financial costs and income will be allocated to the onshore tax regime.

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

By use of group contributions between Norwegian companies in which we hold more than 90 per cent 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.

From January 1, 2004, dividends received have not been subject to tax in Norway. Exemptions exist for dividends from low-tax countries or portfolio investments outside the EEA.

From March 26, 2004, capital gains on realization of shares are not taxable and losses are not deductible. Exemptions exist for shares held in companies domiciled in low-tax countries or portfolio investments outside the EEA.

**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 per cent. The special tax is applied to relevant income in addition to the standard 28 per cent income tax, resulting in a 78 per cent 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 7.5 per cent 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 four 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.

**Abandonment costs.** In June 2003 the taxation treatment of abandonment costs was changed from a system with government grants 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.

**Carbon dioxide emissions tax.** A special CO2 emissions tax applies to petroleum activities on the NCS. The tax is NOK 0.79 for 2006 and NOK 0.80 for 2007 per standard cubic meter of gas burned or directly released, and per liter of oil burned.

**NOx fee.** From January 1, 2007, the Norwegian government has introduced a NOx fee applicable to emissions of NOx on the NCS. The fee is currently NOK 15 per kilogram of NOx.

**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.** The obligation to pay royalty on the NCS was abolished at the end of 2005.

## EU Regulation

### EU Gas Directive

The EU Gas Directive, which has been included in the EEA Agreement and incorporated into Norwegian legislation, regulates the European gas market. Fundamental changes have continued to occur in the organization and operation of this 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 liberalization measures will have 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.

On June 26, 2003, the EU approved a new Gas Directive, Directive 2003/55/EC which was incorporated into Norwegian legislation in 2006. The new Directive accelerates the requirements for market opening, meaning that both large users and households will be free to choose their supplier earlier than previously anticipated. Large users have been free to choose their supplier since July 2004, and households will be free to do so beginning in July 2007.

### COMPETITION

In the oil and gas industry there is intense competition for customers, production licenses, operatorships, capital and experienced human resources. In recent years, the oil and gas industry has experienced consolidation, as well as increased deregulation and integration in strategic markets. Statoil competes with major integrated oil and gas companies, as well as independent and government-owned companies for the acquisition of assets and licenses for the exploration, development and production of oil and gas, and for the refining, marketing and trading of crude oil, natural gas and related products. Key factors affecting competition in the oil and gas industry are oil and gas prices and demand, the cost of exploration and production, global production levels, alternative fuels and governmental and environmental regulations. Statoil's ability to remain competitive will require, among other things, management's continued focus on reducing unit costs and improving efficiency, maintaining long-term growth in our reserves and production through continued technological innovation and our ability to capture international opportunities in areas where our competitors may also be actively pursuing exploration and development opportunities. The company believes that it is in a position to compete effectively in each of its business segments.

## Organizational Structure

The following table sets forth our significant subsidiaries owned directly by the parent company in alphabetical order, equity interest and each subsidiary's country of incorporation. In each case our voting interest is equivalent to our equity interest.

Subsidiary	Equity interest in	%Country of incorporation
AS Eesti Statoil	100	Estonia
Latvija Statoil SIA	100	Latvia
Mongstad Refining DA	79	Norway
Mongstad Terminal DA	65	Norway
Statholding AS	100	Norway
Statoil AB	100	Sweden