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3.10 Regulation

The principal Norwegian legislation applying to our petroleum activities in Norway are the Norwegian Petroleum Act and the Norwegian Petroleum Taxation Act.

The principal Norwegian legislation applying to our petroleum activities in Norway and on the NCS is currently the Norwegian Petroleum Act of November 29, 1996 (the "Petroleum Act"), and the regulations promulgated thereunder, as well as the Norwegian Petroleum Taxation Act of June 13, 1975 (the "Petroleum Taxation Act"). The Petroleum Act states the principle that the Norwegian State is the owner of all subsea petroleum on the NCS, that the exclusive right to resource management is vested in the Norwegian State and that the Norwegian State alone is authorized to award licenses concerning the petroleum activities. We are dependent upon the Norwegian State for its approval of our NCS exploration and development projects and applications for production rates for individual fields.

Under the Petroleum Act, the Norwegian Ministry of Petroleum and Energy is responsible for resource management and for administering petroleum activities on the NCS. The main task of the Ministry of Petroleum and Energy is to ensure that petroleum activities are conducted in accordance with the applicable legislation, the policies adopted by the Norwegian parliament or Storting, and relevant decisions of the Norwegian State. The Ministry of Petroleum and Energy primarily implements petroleum policy through its power to administer the award of licenses and approve operators' field and pipeline development plans, as well as petroleum transport and gas sales contracts. Only those plans that conform to the policies and regulations set by the Storting are approved. As set forth in the Petroleum Act, if a plan involves an important principle or will have a significant economic or social impact, it must also be submitted to the Storting for acceptance before being approved by the Ministry of Petroleum and Energy.

We are not required to submit any decisions relating to our operations to the Storting. However, the Storting's role with respect to major policy issues in the petroleum sector may affect us in two ways: first, when the Norwegian State acts in the capacity as the majority owner of our shares and, second, when the Norwegian State acts in its capacity as regulator:

- Norwegian State held 67% of our ordinary shares as at 5 March, 2009. Norwegian State's shareholding in StatoilHydro is managed by the Ministry of Petroleum and Energy. The Ministry of Petroleum and Energy will normally determine how the Norwegian State will vote its shares on proposals submitted to general meetings of the shareholders. However, in certain exceptional cases, it may be necessary for the Norwegian State to seek approval from the Storting before voting on a certain proposal. This will normally be the case if we issue additional shares and such issuance would significantly dilute the Norwegian State's holding, or if such issuance would require a capital contribution from the Norwegian State in excess of government mandates. It is not possible to predict how the Norwegian Storting will decide on a proposal for issuance of additional shares which would either significantly dilute its holding of StatoilHydro shares or require a capital contribution from it in excess of governmental mandates. A decision by the Norwegian State against our proposal to issue additional shares would prevent us from raising additional capital in this manner and could adversely affect our ability to pursue business opportunities and to further develop the company.
- Norwegian State exercises important regulatory powers over us, as well as over other companies and corporations. As part of our business, we, or the partnerships to which we are a party, frequently need to apply for licenses and other approvals of various types from the Norwegian State. In respect of certain important applications, such as approvals of major plans for operation and development of fields, the Ministry of Petroleum and Energy must obtain the consent of the Storting before it can approve our or the relevant partnership's application. This may take additional time and affect the content of the decision. Although StatoilHydro is majority-owned by the Norwegian State, it does not receive any preferential treatment with respect to licenses granted by or under any other regulatory rules enforced by the Norwegian State.

Although Norway is not a member of the European Union, or EU, it is a member of the European Free Trade Association (EFTA). The EU and its member states have entered into the Agreement on the European Economic Area, referred to as the EEA Agreement, with the members of EFTA (except Switzerland).

The EEA Agreement makes certain provisions of EU law binding as between the states of the EU and the EFTA states, and also as between the EFTA states themselves. An increasing volume of regulation affecting us is adopted within the EU and is then applied to Norway under the EEA Agreement. As a Norwegian company operating both within EFTA and the EU, our business activities are regulated by both EEA law and EU law to the extent that EU law has been accepted into EEA law under the EEA Agreement.

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3.10.1 The Norwegian licensing system

The most important type of license awarded under the Petroleum Act is the production licence, and the Ministry of Petroleum and Energy holds executive discretionary power to award a production licence and to determine the terms of that licence.

In 2008 we participated in 346 production license on the NCS. As a participant in licenses, we are subject to the regulations of the Norwegian licensing system.

The most important type of license awarded under the Petroleum Act is the production licence, and the Ministry of Petroleum and Energy holds executive discretionary power to award a production licence and to determine the terms of that licence. The Government is not entitled to award us a licence in an area until the Storting has decided to open the area in question for exploration. The terms of our production licenses are determined by the Ministry of Petroleum.

A production licence grants the holder an exclusive right to explore for and produce petroleum within a specified geographical area. The licensees become the owners of the petroleum produced from the field covered by the licence. Notwithstanding the exclusive rights granted under a production licence, the Ministry of Petroleum and Energy has the power, in exceptional cases, to permit third parties to carry out exploration in the area covered by a production licence. For a list of our shares in production licences, see the report section 3.1.5 Operational review-E&P Norway-Production.

Production licences are normally awarded through licensing rounds. The first licensing round for NCS production licences was announced in 1965. The award of the first licences covered areas in the North Sea. Over the years the award of licences has moved northward and covers areas both in the Norwegian Sea and in the Barents Sea. In recent years, the principal licensing rounds have mainly included licences in the Norwegian Sea. Beginning in 2003, the Norwegian government changed its policy on mature areas and introduced a scheme for award of production licences named "Award in Predefined Areas" (APA) in mature parts of the Norwegian Continental Shelf. The award of licences in the predefined areas has taken place every year since 2003. The Ministry of Petroleum and Energy has, in a report to the Storting, announced that this policy will continue.

The Norwegian State accepts licence applications from individual companies and group applications. This allows us to choose our exploration and development partners.

Production licences are awarded to joint ventures. As is the case for most fields on the NCS, our production activities are conducted through joint venture arrangements with other companies and in some cases with the Norwegian State through its wholly-owned company Petoro. The members of the joint venture are jointly and severally responsible to the Norwegian State for obligations arising from petroleum operations carried out under the license. Once a production licence is awarded, the licensees are required to enter into a joint operating agreement and an accounting agreement which regulate the relationship between the partners. The Ministry of Petroleum and Energy decides the form of the joint operating agreements and accounting agreements.

The governing body of the joint venture is the management committee. Each member is entitled to one seat on the management committee. The management committee's tasks are set out in the joint operating agreement and include setting guidelines for the operator of the field, exercising control over the activities of the operator, and making decisions on the activities of the joint venture. Votes in the management committee are counted by a combination of the number of members in the joint venture and their ownership interest. The number of votes required to make a decision varies from licence to licence, but a decision is normally reached when a certain number of the members and a percentage of the ownership interests, specified individually in each licence, have voted in favour of a proposal. The voting rules are structured so that a licensee holding more than 50% of a licence normally cannot vote through a proposal on its own, but will need the support of one or more of the other licensees. In licences awarded since 1996 where the SDFI holds an interest, the Norwegian State, acting through the SDFI management company, may veto decisions made by the joint venture management committee, which, in the opinion of the Norwegian State, would not be in compliance with the obligations of the licence as to the Norwegian State's exploitation policies or financial interests. This veto right has never been used.

Under the joint operating agreements covering licences awarded prior to 1996, the management company that supervises the Norwegian State's SDFI interest, Petoro AS, has the power, with certain exceptions, to make decisions unilaterally in matters which are assumed to be of political or principal importance, or which may have significant social or socio-economic consequences, if Petoro AS is acting under the direction of its shareholder. Prior to the establishment of the SDFI management company, StatoilHydro held this right, which was exercised three times, most recently in 1988. In autumn 2002, the Storting began to allow individual license groups to substitute this special voting rule for the SDFI with a veto rule similar to the veto rules which have applied to licences awarded since 1996. Such a substitution is subject to approval from the Ministry of Petroleum and Energy.

The day-to-day management of a field is the responsibility of an operator appointed by the Ministry of Petroleum and Energy. In 2008 we were the operator for 42 of our 48 production licenses. The operator is in practice always a member of the joint venture holding the production licence, although this is not legally required. The terms of engagement of the operator are set out in the joint operating agreement. Under the joint operating agreement, an operator may normally terminate its engagement upon six months' notice. The management committee may, however, with the consent of the Ministry of Petroleum and Energy, instruct the operator to continue performing its duties until a new operator has been appointed. The management committee can terminate the operator's engagement upon six months' notice on an affirmative vote by all members of the management committee other than the operator. A change of operator requires the consent of the Ministry of Petroleum and Energy. In special cases the Ministry of Petroleum and Energy can order a change of operator.

Licensees are required to submit a plan for development and operation, or PDO, to the Ministry of Petroleum and Energy for approval. In respect of fields of a certain size, the Storting has to accept the PDO before it is formally approved by the Ministry of Petroleum and Energy. Until the PDO has been approved by the Ministry of Petroleum and Energy, the licensees cannot, without the prior consent of the Ministry of Petroleum and Energy, undertake material contractual

obligations or commence construction work.

Production licences are normally awarded for an initial exploration period which is typically six years, but which can be either for a shorter period or for a maximum period of ten years. During this exploration period the licensees must meet a specified work obligation set out in the licence. The work obligation will typically include seismic surveying and/or exploration drilling. If the licensees fulfil the obligations set out in the production licence, they are entitled to require that the licence be prolonged for a period specified at the time when the licence is awarded, typically 30 years. The right to prolong the licence does not apply as a main rule to the whole of the geographical area covered by the initial licence, but only to a percentage, typically 50%. The size of the area which must be relinquished is determined at the time the licence is awarded. In special cases, the Ministry of Petroleum and Energy may extend the duration of a production licence.

If natural resources other than petroleum are discovered in the area covered by a production licence, the Norwegian State may decide to delay petroleum production in the area. If such a delay is imposed, the licensees are, with certain exceptions, entitled to a corresponding extension of the period of the licence. To date, such a delay has never been imposed.

The Norwegian State may, if important public interests are at stake, direct us and other licensees on the NCS to reduce production of petroleum. From 15 July 1987 until the end of 1989, licensees were directed to curtail oil production by 7.5%. Between 1 January 1990 and 30 June 1990, licensees were directed to curtail oil production by 5%. In 1998, the Norwegian State resolved to reduce Norwegian oil production by about 3%, or 100 mmbbl per day. In March 1999, the Norwegian State decided to increase the reduction to 200 mmbbl per day. In the second quarter of 2000, the reduction was brought back to 100 mmbbl per day. On 1 July 2000, this restriction was removed. By a royal decree of 19 December 2001, the Norwegian government decided that Norwegian oil production would be reduced by 150 mmbbl per day from 1 January 2002 until 30 June 2002. This amounted to approximately a 5% reduction in output.

Licensees may buy or sell interests in production licences subject to the consent of the Ministry of Petroleum and Energy and the approval of the Ministry of Finance of a corresponding tax treatment position. The Ministry of Petroleum and Energy must also approve indirect transfers of interest in a licence, including changes in the ownership of a licensee, if they result in a third party obtaining a decisive influence over the licensee. There are in most licences no pre-emption rights in favour of the other licensees. The SDFI, or the Norwegian State, as appropriate, however, still holds pre-emption rights in all licences. All of our licensing transactions entered into in 2008 were approved by the Ministry of Petroleum and Energy and the Ministry of Finance.

A licence from the Ministry of Petroleum and Energy is also required in order to establish facilities for transport and utilization of petroleum. When applying for such licences, the owners, which are in practice licensees under a production licence, must prepare a plan for installation and operation. Licences to establish facilities for transport and utilization of petroleum will normally be awarded subject to certain conditions. Typically, these conditions require the facility owners to enter into a participants' agreement. The ownership of most facilities for transport and utilization of petroleum in Norway and on the NCS are organized as a joint venture of a group of license holders, and the participants' agreements are similar to the joint operating agreements entered into among the members of joint ventures holding production licenses. All of our applications for facility licenses submitted in 2008 have been granted by the Ministry of Petroleum and Energy.

Licensees are required to prepare a decommissioning plan before a production licence or a licence to establish and use facilities for transportation and utilization of petroleum expires or is relinquished, or the use of a facility ceases. The decommissioning plan must be submitted to the Ministry of Petroleum and Energy no sooner than five and no later than two years prior to the expiry of the licence or the cessation of the use of the facility, and must include a proposal for the disposal of facilities on the field. On the basis of the decommissioning plan, the Ministry of Petroleum and Energy makes a decision as to the disposal of the facilities.

The Norwegian State is entitled to take over the fixed facilities of the licensees when a production licence expires, is relinquished or revoked. In respect of facilities on the NCS, the Norwegian State decides whether any compensation will be payable for facilities thus taken over. If the Norwegian State should choose to take over onshore facilities, the ordinary rules of compensation in connection with expropriation of private property apply. None of our production licenses expired in 2008 and none are due to expire in 2009.

Licences for the establishment of facilities for transport and utilization of petroleum typically include a clause whereby the Norwegian State can require that the facilities be transferred to it free of charge at the expiration of the licence period.

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### 3.10.2 Gas sales and transportation

**StatoilHydro markets gas from the Norwegian continental shelf on our own and the Norwegian state's behalf. Gas is transported through the Gassled pipeline network to customers in Europe.**

Gas sales contracts with buyers for the supply of Norwegian gas are concluded individually with each company.

The upstream gas transportation system consists of several pipelines owned by a joint venture called Gassled. We have a 32.10% interest in Gassled (32.88% including our indirect interest through our 28.58% holding in Norsea Gas AS) and are responsible for the technical operation of the majority of export pipelines and onshore plants in the processing and transportation systems for Gassled; see section 3.3.4 Operational review-Natural Gas-Norway's gas transport system.

The Norwegian authorities have issued regulations by a royal decree of 20 December 2002 for access to and tariffs for capacity in the upstream gas transportation system. There are three main considerations behind the regulations. Firstly the regulations, together with the law adopted by the Storting in June 2002, implement the Gas Directive of the European Union. Secondly, they established a system for access to the upstream gas transportation system that is compatible with company-based gas sales from the NCS. Thirdly, they provided for the new ownership structure of the 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 regulations establish 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 spare capacity, in accordance with regulations, is allocated to users with need requisite need for transportation of natural gas. Furthermore, 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 is released and booked through Gassco AS on the internet. Spare capacity is 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, in case of scarce capacity, consideration must first be given to the owners' duly substantiated needs for capacity, limited to twice the owner's equity interest in the upstream pipeline network.

Based on authorisation given under the regulations, 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.

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### 3.10.3 Gas directive of the European Union

**The EU Gas Directive, which has been included in the EEA Agreement and incorporated into Norwegian legislation, regulates the European gas market in conjunction with the gas Transmission Access Regulation of 2005.**

Most of our gas is sold under long-term gas contracts to customers in the EU, a gas market that is continuing to be affected by changes in EU regulations and the implementation of such regulations in EU member sates. Such regulation affects our ability to expand or even maintain our current market position, as quantities sold under our gas sales contracts may be subject to a material change in gas prices as a result of the regulations under the EU Gas Directive.

The Directive requires that all consumers in Europe should be able to choose their energy supplier beginning in July 2007. Fundamental changes to this directive and regulation were proposed by the European Commission in September 2007 with a specific focus on the separation of ownership of transmission assets from supply activities. The objective of these proposals is to increase competition in national markets and integrate them into regional and eventually a single EU-wide market for natural gas. The final form of these proposals are as yet unknown and are expected to be developed further throughout 2009. It is difficult to predict the effect liberalisation 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.

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### 3.10.4 HSE regulation

**Our 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 administered by the Ministry of Labour and Government Administration, our 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. StatoilHydro established a system for monitoring the technical safety of its plants in 2001, and, as part of this system, it collects and interprets information from its operating activities and incorporates risk management in its operating activities.

We are required to maintain at all times a plan to deal with emergency situations in our petroleum operations. During an emergency, the Ministry of Labour 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 also includes supervision of safety, emergency preparedness and the working environment at the petroleum facilities and connected pipeline systems on land.

In our capacity as a holder of licences 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 damage or loss as a result of pollution caused by any of our NCS licence 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.

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### 3.10.5 Taxation of StatoilHydro

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 nitrogen oxide fee.

Under our production licenses we are obligated to pay an area fee to the Norwegian State. 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. 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 16.67% per year. The depreciation starts when the cost is incurred. Exploration costs may be deducted in the year in which they are incurred. Beginning in 2007, financial costs related to the offshore activity are calculated directly based on a formula set in the Petroleum Tax Act. The financial costs deductible against the offshore tax regime are the total financial costs multiplied by 50% of tax values divided by average interest bearing debt. All other financial costs and income are allocated to the onshore tax regime.

Any tax losses may be carried forward indefinitely against subsequent income earned. 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.

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 be offset to a great extent. Group distributions are not deductible in our offshore income.

Dividends received are subject to tax in Norway. The basis for taxation is 3% of the dividend amounts received and this is subject to the standard 28% income tax. Dividends from low-tax countries or portfolio investments outside the EEA will under certain circumstances be subject to the standard 28% income tax based on the full amounts received.

Capital gains from realisation of shares are taxable where the basis for taxation is 3 % of the gain which is subject to the standard 28% income tax. Capital losses from realisation of shares are not deductible. Exemptions exist for shares held in companies domiciled in low-tax countries or portfolio investments outside the EEA where capital gains under certain circumstances will be subject to the standard 28% income tax and capital losses will be deductible.

**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 7.5% 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 four years, starting in the year in which the capital expenditures are incurred. Unused uplift may be carried forward indefinitely.

**Abandonment costs.** Abandonment costs incurred can be deducted as operating expenses. Provisions for future abandonment costs are not tax deductible.

**Carbon dioxide emissions tax.** A special carbon dioxide emissions tax applies to petroleum activities on the NCS. The tax is NOK 0.45 for 2008 and NOK 0.46 for 2009 per standard cubic metre of gas burned or directly released and per litre of oil burned. From 2008, companies operating on the NCS have to buy quotas to cover the carbon dioxide emissions from the petroleum activities.

**Nitrogen oxide fee.** Beginning on 1 January 2007, the Norwegian government introduced a nitrogen oxide fee applicable to emissions of nitrogen oxide on the NCS. The fee is NOK 15.39 per kilogram of nitrogen oxide for 2008 and NOK 15.85 for 2009.

Alternatively to pay the nitrogen oxygen fee, companies may voluntarily agree to contribute to an industry nitrogen oxygen fund for the years 2008-2010. The contribution to the fund is NOK 11 per kilogram of nitrogen oxide emissions. We have entered into an agreement to contribute to the fund.

**Area fee.** After the expiration of the initial exploration period, the holders of production licences 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 licences, the initial annual area fee is currently NOK 7000 per square kilometre. The annual area fee is increased yearly by NOK 7000 until it reaches NOK 70,000 per square kilometre.

#### Taxation outside Norway

StatoilHydro's international petroleum activities are subject to tax according to local tax legislation. Fiscal regulation of our upstream operations is generally based on corporate income tax regimes and/or production sharing agreement (PSA) regimes. Royalties may be applicable in each regime.

Generally, income from StatoilHydro's upstream production outside of Norway is subject to tax at the higher of the Norwegian on-shore rate (28%) or the prevailing rate of tax in the countries in which it operates. StatoilHydro is subject to excess (or "windfall") profit tax in some of the countries where it produces crude oil.

**Production sharing agreements.** Under a PSA, the host government typically retains the right to the hydrocarbons in place. The contractor under a PSA normally receives a share of the oil produced to recover its costs, and additionally is entitled to an agreed share of the oil as profit. The allocation of profit oil between the state and the contractors is typically increasing towards the state based on a success factor, such as surpassing certain specified internal rates of return, production rates or accumulated production. Normally, the contractors carry the exploration costs and risk prior to a commercial discovery and then are entitled to recover those costs during the producing phase. Fiscal provisions in a PSA contract are, to a large extent, negotiable and are unique to each PSA. Contractors to a PSA are generally insulated from legislative changes to a country's general tax laws.

**Income tax regimes.** Under an income tax/royalty regime, companies are granted licenses by the government to extract petroleum, and the state may be entitled to royalties in addition to tax based on the company's net taxable income from production. The fiscal terms surrounding these licenses are, in general, not negotiable and the company is subject to legislative changes to the tax laws.

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### 3.10.6 The Norwegian state's participation

The Norwegian state's direct participation in petroleum operations on the NCS

The Norwegian State's policy as an owner of shares of StatoilHydro has been and continues to be to ensure that petroleum activities create the highest possible value for the Norwegian State.

Initially, the Norwegian State's participation in petroleum operations was organised mainly through us. In 1985, the Norwegian State established the State's direct financial interest, or SDFI, through which the Norwegian State has taken direct participating interests in licences and petroleum facilities on the NCS. As a result, the Norwegian State holds interests in a number of licences and petroleum facilities in which we also hold interests.

As a result of changes in global markets and competitive conditions in the petroleum industry, the Norwegian State implemented a strategic review of its oil and gas policy in 2000. Based on the results of this strategic review, the Norwegian State prepared a plan to restructure its petroleum holdings on the NCS that was approved by the Storting on 26 April 2001. The key elements of the restructuring plan led to:

- the partial privatization of Statoil
- a restructuring of the Norwegian State's SDFI assets, including the sale of SDFI assets to us and to other oil and gas companies and an exchange of interests in certain oil and gas infrastructure between the SDFI and us
- the establishment of procedures to ensure that, as long as the Norwegian State instructs us to do so, we will continue to market and sell the State's oil and gas, together with our oil and gas
- the transfer of responsibility over and management of the SDFI's assets from us to a new company named Petoro AS which is wholly owned by the Norwegian State; and
- the transfer of operational responsibility over certain pipelines on the NCS from us to Gassco AS which is wholly owned by the Norwegian State.

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### 3.10.7 Marketing and sale of SDFI oil and gas

Historically, we have marketed and sold the Norwegian State's oil and gas as a part of our own production, and the Norwegian State has elected to continue this arrangement.

Accordingly, at an extraordinary general meeting held on 27 February 2001, the Norwegian State, as sole shareholder, revised our articles of association by adding a new article which requires us to continue to market and sell the Norwegian State's oil and gas together with our own oil and gas in accordance with an instruction established in shareholder resolutions in effect from time to time. At an extraordinary general meeting held on 25 May 2001, the Norwegian State, as sole shareholder, approved a resolution containing the instructions referred to in the new article. This resolution is referred to as the owner's instruction.

The Norwegian State has a coordinated ownership strategy to maximise the aggregate value of its ownership interests in StatoilHydro and the Norwegian State's oil and gas. This is reflected in the owner's instruction, which contains a general requirement that, in our activities on the NCS, we are required to take account of these ownership interests in decisions that may affect the execution of this marketing arrangement.

The owner's instruction sets forth specific terms for the marketing and sale of the Norwegian State's oil and gas. The principal provisions of the owner's instruction are as set out below.

**Objectives.** The overall objective of the marketing arrangement is to obtain the highest possible total value for our oil and gas and the Norwegian State's oil and gas and ensure an equitable distribution of the total value creation between the Norwegian State and us. In addition, the following considerations are important:

- create the basis for making long-term and predictable decisions concerning the marketing and sale of the Norwegian State's oil and gas;
- ensure that results, including costs and revenues related to our oil and gas and the Norwegian State's oil and gas, are transparent and possible to measure; and
- ensure an efficient and simple administration and execution.

**Our tasks.** Our tasks under the owner's instruction are to market and sell the Norwegian State's oil and gas and to carry out all necessary tasks, other than those carried out jointly with other licensees under the production licence, in relation to the marketing and sale of the Norwegian State's oil and gas, including, but not limited to, the responsibility for processing, transport and marketing. In the event that the owner's instruction is terminated, in whole or in part, by the Norwegian State, the owner's instruction provides a mechanism under which contracts for the marketing and sale of the Norwegian State's oil and gas to which we are a party may be assigned to the Norwegian State or its nominee. Alternatively, the Norwegian State may require that the contracts be continued in our name, but to the effect that in the underlying relationship between the Norwegian State and us, the Norwegian State receives all rights and obligations related to the Norwegian State's oil and gas.

**Costs.** The Norwegian State does not pay us specific consideration for executing these tasks, but the Norwegian State reimburses us for its proportionate share of certain costs, which under the owner's instruction may be our actual costs or an amount specifically agreed.

**Price mechanisms.** For sales of the Norwegian State's natural gas, both to us and to third parties, the payment to the Norwegian State is based on either achieved prices, a net back formula or market value. We now purchase all of the Norwegian State's oil and NGL. Pricing of the crude oil is based on market reflective prices. NGL prices are based on either achieved prices, market value or market reflective prices.

**Lifting mechanism.** As part of the coordinated ownership strategy, a lifting mechanism for the Norwegian State's and our oil and gas is established in accordance with rules set out in the owner's instruction.

To ensure a neutral weighting between the Norwegian State's and our own natural gas volumes, a list has been established for deciding the priority between each individual field. To decide the ranking, a mathematical optimisation model is used which describes existing and planned production facilities, infrastructure and processing terminals where the Norwegian State and we have ownership interests. The list yields a result giving the highest total net present value for the Norwegian State's and our oil and gas. In the evaluation, the following objective criteria shall, among other things, apply:

- the effect of the draw on the depletion rate
- identification of time critical fields
- influence on oil/liquid fields with associated gas needing gas disposal; and
- free capacity and flexibility in transportation systems and onshore facilities.

The various fields are ranked in accordance with the assumed total value creation for the Norwegian State and us, assuming all of the fields meet our profitability requirements if we participate as a licensee, and the Norwegian State's profitability requirements if the State is a licensee. The list is updated annually or more frequently if incidents occur that may significantly influence the ranking. Within each individual field where both the Norwegian State and we are licensees, the Norwegian State and we will deliver volumes and share income in accordance with our respective participating interests.

The Norwegian State's oil and NGL are lifted together with our oil and NGL in accordance with applicable lifting procedures for each individual field and terminal.

**Withdrawal or Amendment.** The Norwegian State may utilise its position as majority shareholder of StatoilHydro at any time to withdraw or amend the instruction requiring us to market and sell the SDFI oil and natural gas together with our own.

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**3.10.8 Petoro AS**

Petoro AS - the SDFI management company

**In 1985, the Norwegian State began taking a direct financial interest in production licences through the establishment of the SDFI, and in 2001, a new state-owned company, Petoro, was established to administer SDFI assets.**

From the establishment of Statoil in 1972 and until 1 January 1985, the participation of the Norwegian State in production licences and facilities for transport and utilisation of petroleum took place entirely through Statoil. As of 1 January 1985, the Norwegian State's participation was reorganised through the establishment of the SDFI. Through this reorganisation the Norwegian State began taking a direct financial interest in production licences. The establishment of the SDFI entailed a transfer of a substantial part of our participation in most of our then-existing licences to the SDFI, although formally such licences continued to be held wholly in our name. Since its establishment in 1985, the SDFI has taken shares in most licences awarded. The SDFI also holds shares in a number of oil and gas pipelines and land-based terminal facilities.

In connection with the restructuring, the Norwegian State established a new State-owned company, Petoro AS, in May 2001 which took over responsibility for, and the management of, the SDFI assets as licensee, in accordance with a new chapter of the Petroleum Act. The Norwegian State continues to be the beneficial owner of these assets. We continue to market and sell the Norwegian State's oil and gas together with our own oil and gas, pursuant to the owner's instruction described under report section 3.10.8 Operational review-Regulation-Marketing and sale of SDFI oil and gas. One of the tasks of Petoro AS is to supervise our compliance with the owner's instruction.

Petoro AS does not own any of the oil and gas produced under the licence interests it holds, does not receive any revenues from sales of the Norwegian State's oil and gas, and is not permitted to obtain an operator role. However, Petoro AS may become a participant in new licences awarded by the Norwegian State.

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**3.10.9 Gassco AS**

Gassco AS - the gas transportation operating company

**In connection with the restructuring of the Norwegian State's oil and gas interests in May 2001, the Norwegian State established a separate company, Gassco AS.**

Gassco took over as operator of the natural gas transportation system previously operated by us on 1 January 2002. Gassco AS is wholly owned by the Norwegian State. The owners of the infrastructure systems appointed Gassco AS as the new operator.

The transfer of the operatorship to Gassco AS was made without consideration of, and does not affect existing arrangements, with respect to ownership or access to the natural gas transportation system or tariffs for transport. However, in accordance with the joint venture agreements relating to each of the gas transportation assets, the operator is entitled to be reimbursed for its costs as operator. Accordingly, since Gassco AS was appointed as operator, we no longer receive such reimbursement, and we will, as will other users of the infrastructure, be required to pay our portion of Gassco AS's expenses associated with the operation of the natural gas pipelines in which we hold interests.

Gassco AS has entered into contracts with us for each infrastructure joint venture, pursuant to which we will carry out technical operating activities on behalf of Gassco AS, such as system maintenance, for which we will receive reimbursement of costs. Either Gassco AS or we may terminate without cause each of these contracts, except the contract for the Statpipe joint venture, after five years. Either Gassco AS or we may also terminate the part of the Statpipe contract, which refers to the offshore pipelines, after five years. Currently, Gassco AS may terminate the part of the Statpipe contract that refers to the Kårstø plant, at any time, provided that 2/3 of the owners, representing more than 2/3 of the ownership interests, have supported such termination.

The natural gas transportation system was transferred to a new joint venture called Gassled as of 1 January 2003. Gassco AS is the operator of the Gassled joint venture. Our initial direct ownership interest in Gassled is currently 32.06% (32.86% including our indirect interest through our 28.58% holding in Norsea Gas AS), 15.71% in Zeepipe Terminal JV and 20.84% in Dunkerke Terminal DA. From 1 January 2011, our direct ownership interest in Gassled will be reduced to 28.05% due to an increased ownership interest for SDFI. In addition, our ownership interest in Gassled may also change as a result of inclusion of existing or new infrastructure or if Gassled undertakes further investments without participation from its owners in the same ratio as their ownership interests in Gassled. For more information on the Gassled joint venture, see report section 3.3.4 Operational review-Natural Gas-Norway's gas transportation system.

### 3.11 Competition

In the oil and gas industry there is intense competition for customers, production licences, 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.**

StatoilHydro competes with major integrated oil and gas companies, as well as independent and government-owned companies for the acquisition of assets and licences 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.

StatoilHydro'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.

### 3.12 Property, plant and equipment

We have interests in real estate in numerous countries throughout the world, but no one individual property is significant to us as a whole. Plans have been announced for a new office building to be leased in Oslo.

**Our principal offices located at Forusbeen 50, N-4035, Stavanger, Norway, comprise approximately 135,000 square metres of office space, and are owned by StatoilHydro.**

A letter of intent has been signed with IT Fornebu Holding AS in Oslo for the long-term lease of a new 60,000 square metre office building to be built at Fornebu in Bærum municipality. The building will enable all of StatoilHydro's activities in the Oslo region to be collocated, and will be ready for occupation in the autumn of 2012. IT Fornebu Holding AS will be the owner and StatoilHydro will be the tenant.

For a description of our significant reserves and sources of oil and natural gas, see note 34 - supplementary oil and gas information in the Consolidated Financial Statements. in this report.

### 3.13 Related party transactions

We have the following transactions with related parties, including state-owned entities and the bank DnB NOR:

#### Transactions with the Norwegian State

For a description of shares held by the Norwegian State, see report section 7.8 Shareholder information-Major shareholders. See also report section 4.2.3 Financial performance-Liquidity and capital resources-Material contracts for details on the merger between Statoil and Norsk Hydro's oil and energy activities.

#### Transactions with other entities in which the Norwegian State is a major shareholder

As a result of the substantial proportion of industry in Norway controlled by the Norwegian State, there are many state-controlled entities with whom we do business. The financial value of most such transactions is relatively small, and the ownership interest of the Norwegian State of such counter parties has not had any effect on the arm's-length nature of the transactions. In particular, in respect of the goods and services that we purchase, we purchase telephone services from Telenor ASA, a telecommunications company in which the Norwegian State holds a 53.97% interest. Such purchases are made pursuant to standard tariff rates applicable to public and private companies in Norway.

#### Other transactions with the Norwegian State

Total purchases of liquids and natural gas from the Norwegian State amounted to NOK 112,682 million (223 mmbœ) in 2008, NOK 98,498 million (237 mmbœ) in 2007 and NOK 104,628 million (254 mmbœ) in 2006. Purchases of natural gas from the Norwegian State (excluding purchases from licences and sales on behalf of the Norwegian State) amounted to NOK 375 million in 2008, NOK 287 million in 2007 and NOK 293 million in 2006. The prices paid by StatoilHydro for the oil purchased from the Norwegian State are estimated market prices. In addition, StatoilHydro sells the Norwegian State's natural gas, in its own name, but for the account and risk of the Norwegian State.

The Norwegian State compensates us for its relative share of the costs related to certain StatoilHydro natural gas storage and terminal investments and related activities. See report section 3.10.8 Operational review-Regulation-Marketing and sale of the SDFI's oil and gas for more details.

Although StatoilHydro is majority-owned by the Norwegian State, it does not receive any preferential treatment with respect to licences granted by or under any other regulatory rules enforced by the Norwegian State.

#### Employee Loans

We have a general arrangement with DnB NOR whereby DnB NOR makes available to each of our employees personal consumer loans of up to NOK 300,000. The employees pay the "norm interest rate", which is variable and set by the Norwegian State, and we pay the difference between the norm interest rate and the then-current market interest rate. We also guarantee these loans up to an aggregate maximum amount of NOK 10 million. The repayment period is up to eight years. Our obligations for paying the interest rate difference will be dependent on the loan volume, but based on current interest rates would not exceed NOK 5 million per year.

Three employee-elected members of the board of directors and one member of the executive Committee each entered into loan agreements under this facility prior to 30 July 2002, and had, as of 31 December 2008, an aggregate total balance outstanding payable to DnB NOR under this loan facility of NOK 628,180. Members of the executive committee and the board of directors may not enter into loans under the foregoing programme.

Employees in certain employment levels are entitled to an interest free car loan from the company. Members of the executive committee and employee elected members of the board are generally excluded from this arrangement. As of 31 December 2008 none of the members of the executive committee had such loans, while one of the employee elected members of the board had a loan balance of NOK 260,555.

## 4 Financial performance

**StatoilHydro delivered a strong operational performance in 2008 marked by record high equity production, the most expansive exploration programme ever and net operating income amounting to NOK 198.8 billion.**

We also delivered significant synergies from the merger, and the ongoing integration and standardisation of offshore operations is aimed to further improve HSE results. These improvements will also increase StatoilHydro's flexibility and efficiency in the organisation.

With the addition of a strong balance sheet and active cost management, StatoilHydro is well positioned to manage through the global economic downturn. The group has the necessary strength and flexibility to pursue the long term strategic direction.

A downturn also represents an opportunity for improvements. We seek to reduce our own costs, improve quality and processes and work with our suppliers to bring industry costs down to more sustainable levels. The ongoing integration and standardisation of operational activities is a key element in our improvement agenda.

The following tables show selected consolidated financial and statistical data for StatoilHydro. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The accounting policies applied by the Group also comply with IFRSs as issued by the International Accounting Standards Board (IASB).

#### CONSOLIDATED STATEMENTS OF INCOME

(in NOK billion)	For the year ended 31 December		
	2008	2007	2006
REVENUES AND OTHER INCOME			
Revenues	652.0	521.7	519.0
Net income (loss) from associated companies	1.3	0.6	0.7
Other income	2.8	0.5	1.8
Total revenues and other income	656.0	522.8	521.5
OPERATING EXPENSES			
Purchases [net of inventory variation]	(329.2)	(260.4)	(249.6)
Operating expenses	(59.3)	(60.3)	(44.8)
Selling, general and administrative expenses	(11.0)	(14.2)	(10.8)
Depreciation, amortisation and impairment losses	(43.0)	(39.4)	(39.5)
Exploration expenses	(14.7)	(11.3)	(10.7)

Total operating expenses	(457.2)	(385.6)	(355.3)
Net operating income	198.8	137.2	166.2
FINANCIAL ITEMS			
Net foreign exchange gains (losses)	(32.6)	10.0	4.5
Interest income and other financial items	12.2	2.3	3.7
Interest and other finance expenses	2.0	(2.7)	(3.1)
Net financial items	(18.4)	9.6	5.1
Income before tax	180.5	146.8	171.2
Income tax	(137.2)	(102.2)	(119.4)
Net income	43.3	44.6	51.8
Attributable to:			
Equity holders of the parent company	38.3	44.1	51.1
Minority interest	5.0	0.5	0.7
	43.3	44.6	51.8
Earnings per share for income attributable to equity holders of the company - basic and diluted	13.58	13.80	15.82

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## 4.1 Strong operational performance



Good operational performance is the best protection in times of uncertainty, and the merger was key to our continuous performance improvements. We delivered record production in 2008 and brought 12 new fields on stream.

In 2008, StatoilHydro delivered total liquids and gas entitlement production of 1.751 mboe per day, up 2% from 1.724 mboe per day in 2007. The contribution from international operations reached a record high and accounted for 18% of entitlement production. Total equity production increased by 5% from 2007 to 1.925 mboe per day in 2008. Strong production and high prices contributed to a net operating income of NOK 198.8 billion in 2008, compared to NOK 137.2 billion in 2007. The increase was mainly due to an increase in realised prices on both liquids and natural gas, measured in NOK, and was only partly offset by increased operating expenses caused by a higher activity level and new, more expensive fields coming on stream.

StatoilHydro delivered an extensive exploration programme in 2008. Of a total of 79 exploration wells completed before 31 December 2008, 40 were drilled outside the NCS. Thirty-five wells were declared as discoveries, of which eight are located outside the NCS. An additional eight wells have been completed since 31 December 2008. In 2008, 230 mmbore were added through revisions, extensions and discoveries. In total, the company achieved a reserve replacement ratio of 34% in 2008.

StatoilHydro maintained a high level of activity in progressing projects into production in 2008. Seven projects on the NCS and six international projects came on stream in 2008, and we also sanctioned 13 new projects for development, of which four are outside Norway.

During 2008, the group gained access to 20 new exploration licences in the Gulf of Mexico, Alaska, Brazil, Canada and the Faroe Islands. On the NCS we were granted access to 12 new licences, as operator in nine and as partner in three. In addition the group acquired a 15% interest in the Goliat field and a 10% interest in the Ragnarrock discovery on the NCS. In accordance with an agreement with Chesapeake Energy Corporation, StatoilHydro acquired a 32.5% interest in the Marcellus shale gas acreage in the USA. Statoilhydro also completed the purchase of the remaining 50% interest and became the operator of the Peregrino development offshore Brazil.

The report for 2007 was the first annual report in which financial statements for the merged StatoilHydro organisation was presented. Historical data was restated as if the merged company had existed for all periods.

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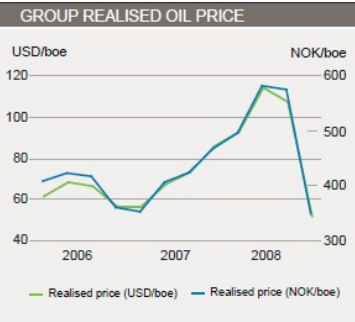
### 4.1.1 Group profit and loss analysis

Revenues and other income were NOK 133.2 billion higher than in 2007 and 134.5 million more than in 2006. Most of the revenues stem from the sale of lifted crude oil, natural gas and refined products produced and marketed by StatoilHydro.

Consolidated statements of income (in NOK billion)	Twelve months ended 31 December				
	2008	2007	08 -07 Change	2006	07-06 Change
Revenues and other income					
Revenues	652.0	521.7	25%	519.0	1%
Net income (loss) from equity accounted investments	1.3	0.6	111%	0.7	(10%)
Other income	2.8	0.5	428%	1.8	(72%)
Total revenues and other income	656.0	522.8	25%	521.5	0%
Operating expenses					
Purchase, net of inventory variation	329.2	260.4	26%	249.6	4%
Operating expenses	59.3	60.3	(2%)	44.8	35%
Selling, general and administrative expenses	11.0	14.2	(23%)	10.8	31%
Depreciation, amortisation and impairment	43.0	39.4	9%	39.5	(0%)
Exploration expenses	14.7	11.3	30%	10.7	6%
Total operating expenses	457.2	385.6	19%	355.3	9%
Net operating income	198.8	137.2	45%	166.2	(17%)
Net financial items	(18.4)	9.6	(291%)	5.1	89%
Income tax	(137.2)	(102.2)	(34%)	(119.4)	14%
Net income	43.3	44.6	(3%)	51.8	(14%)
Earnings per share for income attributable to equity holders of company basic and diluted	13.6	13.8	(100 %)	15.8	(13 %)

Operational data	Twelve months ended 31 December				
	2008	2007	08 -07 Change	2,006	07-06 Change
Average liquids price (USD/bbl)	91.0	70.5	29 %	63.2	12 %
USD/NOK average daily exchange rate	5.63	5.86	(4 %)	6.42	(9 %)
Average liquids price (NOK/bbl) [3]	513	413	24 %	406	2 %
Gas prices (NOK/scm)	2.40	1.66	45 %	1.94	(15 %)
Refining margin, FCC (USD/boe) [4]	8.2	7.5	9 %	7.1	6 %
Total entitlement liquids production (mboe per day)[5]	1055	1070	(1 %)	1057	1 %
Total entitlement gas production (mboe per day)	696	654	6 %	651	0 %
Total entitlement liquids and gas production (mboe per day) [6]	1751	1724	2 %	1708	1 %
Total equity liquids production (mboe per day)	1200	1165	3 %	1118	4 %
Total equity gas production (mboe per day)	725	674	8 %	661	2 %
Total equity liquids and gas production (mboe per day)	1925	1839	5 %	1780	3 %

Total liquids liftings (mboe per day)	1019	1081	(6 %)	1048	3 %
Total gas liftings (mboe per day)	696	654	6 %	651	0 %
Total liquids and gas liftings (mboe per day) [7]	1714	1735	(1 %)	1699	2 %
Production cost entitlement volumes (NOK/boe, last 12 months) [8]	38.1	44.1	(14 %)	28.4	55 %
Equity production cost excluding restructuring and gas injection cost (NOK/boe, last 12 months) [10]	33.3	31.2	7 %	28.1	11 %

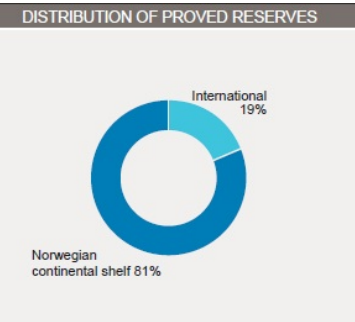


**Revenues and other income** totalled NOK 656.0 billion in 2008. This was NOK 133.2 billion more than in 2007 and NOK 134.5 billion more than in 2006. Most of the **revenues** stem from the sale of lifted crude oil, natural gas and refined products produced and marketed by StatoilHydro. We also market and sell the Norwegian State's share of oil from the NCS. All purchases and sales of the Norwegian State's production are recorded as purchases net of inventory variations and sales, respectively.

Realised prices of liquids measured in NOK increased by 29% from 2007 to 2008. The increased prices of liquids contributed NOK 37.0 billion to the revenues, whereas the overall gas sales contributed NOK 6.1 billion and the increase in prices of natural gas contributed NOK 29.2 billion to the change. This was partly off-set by a decrease in liftings of liquids of NOK 9.0 billion.

Realised oil prices measured in NOK increased by 2% from 2006 to 2007. The increased oil prices contributed NOK 3.1 billion to the revenues, whereas the contribution from increased oil liftings was NOK 5.0 billion. Overall gas sales contributed with NOK 3.6 billion to the change. This was partly off-set by a decrease in gas prices with a negative impact of NOK 10.4 billion.

The volumes of liquids lifted should over time correlate with the volumes produced. However, the volumes may be higher or lower than production in any period due to operational factors affecting the timing of when we lift the liquids from the fields. **Total liquids liftings** decreased from 1.081 mmbøe per day in 2007 to 1.019 mmbøe per day in 2008. From 2006 to 2007, total liquids liftings increased from 1.048 mmbøe per day in 2006 to 1.081 mmbøe per day in 2007.



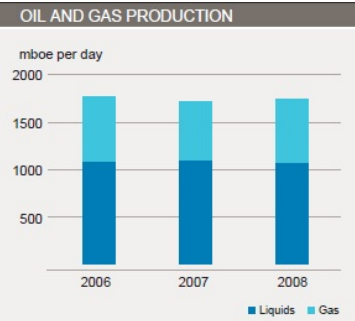
Entitlement volumes lifted is the basis for the revenue recognition while equity production volumes more directly affect operating costs. See report section 4.1.9 Financial performance-Strong operational performance-Reported volumes for more details on the PSA effects that cause differences between equity and entitlement volumes. See below for more details on the difference between lifted and produced volumes.

**Total natural gas sales** were 45.2 bcm (1,60 tcf) in 2008, 42.0 bcm (1.48 tcf) in 2007 and 40.2 bcm (1.42 tcf) in 2006. The 8% increase from 2007 to 2008 was mainly due to increased entitlement gas sales, but was partly offset by a net decrease in StatoilHydro third party sales volumes. The increase in entitlement sales volumes mainly relates to higher production from NCS in addition to the first full year of production from Shah Deniz in Azerbaijan. From 2006 to 2007, the increase of 1.8 bcm was mainly due to higher third party gas sales, and was partly offset by a net decrease in StatoilHydro entitlement sales volumes.

**Net income (loss) from equity accounted investments.** Our share of equity in net income of affiliates was NOK 1.3 billion in 2008, NOK 0.6 billion in 2007 and NOK 0.7 billion in 2006.

**Other income** was NOK 2.8 billion in 2008 compared to NOK 0.5 billion in 2007 and NOK 1.8 billion in 2006. The income in 2008 and 2007 was mainly related to gain from sale of assets whereas the income in 2006 was mainly related to a change in the write-down of inventory to production cost and gains from sales of assets.

**Purchase, net of inventory variation** includes the cost of the oil and NGL production that we purchase from the Norwegian State pursuant to the Marketing Instruction. The purchase, net of inventory variation amounted to NOK 329.2 billion in 2008 compared to NOK 260.4 billion in 2007 and NOK 249.6 billion in 2006. The increase from 2006 throughout 2008 was mainly caused by higher prices of liquids measured in NOK.



**Operatingexpenses** include field production costs and transport systems related to the company's share of oil and natural gas production. Operating expenses were NOK 59.3 billion in 2008 compared to NOK 60.3 billion in 2007 and NOK 44.8 billion in 2006. The 2% decrease from 2007 to 2008 was primarily due to restructuring costs related to the merger in 2007 and was only partly offset by increased costs related to start-up of new fields, higher activity and industry cost inflation in 2008. The 35% increase from 2006 to 2007 was primarily due to restructuring costs and other costs related to the merger, as well as higher operation and maintenance costs, increased transportation costs and new fields coming on stream.

**Total liquids and gas production** increased from 1.724 mmbøe per day in 2007 to 1.751 mmbøe per day in 2008. In 2006, total liquids and gas production was 1.708 mmbøe per day. Equity production of oil and gas increased from 1.839 mmbøe per day in 2007 to 1.925 mmbøe per day in 2008. In 2006, equity production of liquids and gas was 1.780 mmbøe per day.

**Production cost per boe** was NOK 38.1 for the 12 months ended 31 December 2008, compared to NOK 44.1 for the 12 months ending 31 December 2007. [8] In 2006, production cost per boe was NOK 28.4 (USD 4.44).

Based on equity volumes, [10] the production cost per boe for the two periods was NOK 33.5 and NOK 41.4, respectively. Normalised at a USDNOK exchange rate of 6.00, the production cost for the 12 months ending 31 December 2008 was NOK 38.6 per boe, compared to NOK 44.3 per boe for the 12 months ending 31 December 2007 and NOK 28.1 per boe for the 12 months ending 31 December 2006 [9]. Normalised production cost is defined as a non-GAAP financial measure. [2]

The production cost per boe, both actual and normalised, has decreased significantly from 2007 to 2008, mainly due to a NOK 3,6 billion change in non-recurring restructuring costs relating to the merger in 2007, but the positive effect was partly offset by start-up of new fields, increased maintenance cost and general industry cost pressure.