3.12.4 Delivery commitments

This section describes the long-term NCS commitments for the contract years 2012-2015.

On behalf of the Norwegian state's direct financial interest (SDFI), Statoil is responsible for managing, transporting and selling the Norwegian State's oil and gas from the Norwegian continental shelf (NCS). These reserves are sold in conjunction with our own reserves. As part of this arrangement, Statoil delivers gas to customers under various types of sales contracts. In order to meet the commitments, we utilise a field supply schedule that ensures the highest possible total value for Statoil and SDFI's joint portfolio of oil and gas.

The majority of our gas volumes in Norway are sold under long-term contracts with take-or-pay clauses. Statoil's and SDFI's annual delivery commitments under these agreements are expressed as the sum of the expected off-take under these contracts. As of 31 December 2012, the long-term commitments from NCS for the Statoil/SDFI arrangement totalled approximately 17.65 tcf (500 bcm).

Statoil and SDFI's delivery commitments, expressed as the sum of expected off-take for the gas years 2012, 2013, 2014 and 2015, are 2.4, 1.9, 1.8 and 1.7 tcf (68.8, 54.5, 51.4 and 48.8 bcm), respectively.

Our currently developed gas reserves in Norway are more than sufficient to meet our share of these commitments for the next three years.

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3.13 Applicable laws and regulations

The principal laws governing our petroleum activities in Norway are the Norwegian Petroleum Act and the Norwegian Petroleum Taxation Act.

The principal laws governing our petroleum activities in Norway and on the NCS are currently the Norwegian Petroleum Act of 29 November 1996 (the "Petroleum Act") and the regulations issued thereunder, and the Norwegian Petroleum Taxation Act of 13 June 1975 (the "Petroleum Taxation Act"). The Petroleum Act sets out the principle that the Norwegian State is the owner of all subsea petroleum on the NCS, that exclusive right to resource management is vested in the Norwegian State and that the Norwegian State alone is authorised to award licences for petroleum activities. We are dependent on the Norwegian State for approval of our NCS exploration and development projects and our 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 (the Storting) and relevant decisions of the Norwegian State. The Ministry of Petroleum and Energy primarily implements petroleum policy through its powers to administer the awarding of licences and to approve operators' field and pipeline development plans. Only plans that comply with the policies and regulations adopted by the Storting are approved. As set out 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 Norwegian 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 in relation to major policy issues in the petroleum sector can affect us in two ways: firstly, when the Norwegian State acts in its capacity as majority owner of our shares and, secondly, when the Norwegian State acts in its capacity as regulator:

- The Norwegian State's shareholding in Statoil is managed by the Ministry of Petroleum and Energy. The Ministry of Petroleum and Energy will normally decide how the Norwegian State will vote 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 what stance the Norwegian Storting will take on a proposal to issue additional shares that would either significantly dilute its holding of Statoil shares or require a capital contribution from it in excess of government mandates. A decision by the Norwegian State to vote against a proposal on our part 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. For more information about the Norwegian State's ownership, see the sections *Risk review - Risk factors - Risks related to state ownership* and *Shareholder information - Major shareholders*.
- The 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 licences and other approval of various kinds from the Norwegian State. In respect of certain important applications, such as for the approval of major plans for the 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 Statoil is majority-owned by the Norwegian State, it does not receive preferential treatment with respect to licences granted by or under any other regulatory rules enforced by the Norwegian State.

Although Norway is not a member of the European Union (EU), it is a member of the European Free Trade Association (EFTA). The EU and the EFTA Member States have entered into the Agreement on the European Economic Area, referred to as the EEA Agreement, which provides for the inclusion of EU legislation covering the four freedoms - the free movement of goods, services, persons and capital - in the national law of the EFTA Member States (except Switzerland). An increasing volume of regulations affecting us is adopted in the EU and then applied to Norway under the EEA Agreement. As a Norwegian company operating both within EFTA and the EU, our business activities are subject to both the EFTA Convention governing intra-EFTA trade and EU laws and regulations adopted pursuant to the EEA Agreement.

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3.13.1 The Norwegian licensing system

Production licences are the most important type of licence awarded under the Petroleum Act, and the Norwegian Ministry of Petroleum and Energy has executive discretionary powers to award and set the terms for production licences.

As a participant in licences, we are subject to the Norwegian licensing system. For an overview of our activities and shares in our production licences, see *Business overview - Development and Production Norway (DPN).*

Production licences are the most important type of licence awarded under the Petroleum Act, and the Ministry of Petroleum and Energy has executive discretionary powers to award a production licence and to decide the terms of that licence. The Norwegian Government is not entitled to award us a licence in an area until the Norwegian parliament (Storting) has decided to open the area in question for exploration. The terms of our production licences are decided by the Ministry of Petroleum and Energy.

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.

Production licences are normally awarded in 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 awarding of licences has moved northward to cover areas in both the Norwegian Sea and the Barents Sea. In recent years, the principal licensing rounds have largely concerned licences in the Norwegian Sea. However, in the future, we expect an increase in licencing rounds for licences in the Barents Sea.

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. 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 licence. Once a production licence is awarded, the licensees are required to enter into a joint operating agreement and an accounting agreement regulating 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. In licences awarded since 1996 where the State's direct financial interest (SDFI) holds an interest, the Norwegian State, acting through Petoro AS, 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 with respect to the Norwegian State's exploitation policies or financial interests. This power of veto has never been used.

The day-to-day management of a field is the responsibility of an operator appointed by the Ministry of Petroleum and Energy. 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 which the operator can normally terminate its engagement by giving six months' notice. The management committee can terminate the operator's engagement by giving six months' notice through 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 (PDO) to the Ministry of Petroleum and Energy for approval. For fields of a certain size, the Storting has to accept the PDO before it is formally approved by the Ministry of Petroleum and Energy.

Production licences are normally awarded for an initial exploration period, which is typically six years, but which can be shorter. The maximum period is ten years. During this exploration period, the licensees must meet a specified work obligation set out in the licence. 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. As a rule, the right to prolong a licence does not apply to the whole of the geographical area covered by the initial licence. The size of the area that 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 licence period. To date, such a delay has never been imposed.

If important public interests are at stake, the Norwegian State may instruct us and other licensees on the NCS to reduce the production of petroleum. The last time the Norwegian State instructed a reduction in oil production was in 2002.

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 interests 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. In most licences, there are no pre-emption rights in favour of the other licensees. However, the SDFI, or the Norwegian State, as appropriate, still holds pre-emption rights in all licences.

A licence from the Ministry of Petroleum and Energy is also required in order to establish facilities for the transportation and utilisation of petroleum. When applying for such licences a group of companies must prepare a plan for installation and operation. Licences for the establishment of facilities for the transportation and utilisation of petroleum will normally be awarded subject to certain conditions. Typically, these conditions require the facility owners to enter into a participants' agreement. Ownership of most facilities for the transportation and utilisation of petroleum in Norway and on the NCS is organised in the form of joint ventures. The participants' agreements are similar to the joint operating agreements.

Licensees are required to prepare a decommissioning plan before a production licence or a licence to establish and use facilities for the transportation and utilisation 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 years and no later than two years prior to the expiry of the licence or cessation of use of the facility, and it 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 the expropriation of private property apply.

Licences for the establishment of facilities for the transportation and utilisation of petroleum typically include a clause whereby the Norwegian State can require that the facilities be transferred to it free of charge on expiry of the licence period.

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3.13.2 Gas sales and transportation

We market gas from the NCS on our own behalf and on the Norwegian State's behalf. Gas is transported through the Gassled pipeline network to customers in the UK and mainland Europe.

Most of our and the Norwegian State's gas produced on the NCS is sold under long-term gas contracts to customers in the European Union (EU). The EU internal energy market has been high on the European Commission's agenda, and this market has thus been subject to continuous legislative initiatives. Such changes in EU legislation may affect Statoil's marketing of gas.

The Norwegian gas transport system, consisting of the pipelines and terminals through which licensees on the NCS transport their gas, is owned by a joint venture called Gassled. The Norwegian Petroleum Act of 29 November 1996 and the pertaining Petroleum Regulation establish the basis for non-discriminatory third-party access to the Gassled transport system. The ownership structure in Gassled and the pertaining regulations are intended to ensure the effectiveness of the system and to prevent conflicts of interest.

To ensure neutrality, the petroleum regulations also stipulate that all booking and allocation of capacity is administrated by Gassco AS, an independent system operator wholly owned by the Norwegian State. Spare capacity is released and allocated to shippers by Gassco based on standard procedures. Capacity that has already been allocated to a shipper may also be transferred bilaterally between shippers.

The tariffs for the use of capacity in the transport system are determined by applying a formula set out in separate tariff regulations stipulated by the Ministry of Petroleum and Energy. The tariffs are paid on the basis of booked capacity, not on the basis of the volumes actually transported. The Ministry's main objective when setting the tariffs is to ensure that the profits are extracted in the production fields on the NCS and not in the transport system.

For further information, see *Business overview - Marketing, Processing and Renewable Energy (MPR) - Natural Gas - The Norwegian gas transportation system*.

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3.13.3 HSE regulation

Our petroleum operations are subject to extensive laws and regulations relating to health, safety and the environment (HSE).

Norway
Under the Petroleum Act of 29 November 1996, our oil and gas 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 step with technological developments.

Following the incident that occurred on the BP-operated Macondo well in the deepwater Gulf of Mexico, USA, in April 2010, the Norwegian Ministry of Petroleum and Energy announced that the incident could result in changes to laws and regulations concerning activities on the NCS. After a review of the regulations, no changes have been imposed so far.

However, on 27 October 2011, the European Commission proposed a new offshore safety regulation with the objective of reducing the risk of a major incident in European Union (EU) waters and limiting the consequences should such an incident occur. The draft regulation is now subject to a consultation procedure among the EU Member States, which is not expected to conclude until late 2013. If enforced in the EU, it will have a direct impact on our offshore upstream operations in the EU, and if subsequently adopted in the European Economic Area (EEA), of which Norway is part, the regulation would also apply to our activities on the NCS. Its effects, if any, are not possible to foresee until the legislative process is finalised.

We are required at all times to have a plan to deal with emergency situations in our petroleum operations. During an emergency, the Norwegian Ministry of Labour/Norwegian Ministry of Fisheries and Coastal Affairs/Norwegian Coastal 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 licensees' account.

See also *Risk review - Risk factors - Legal and regulatory risks.*

Global operations
With business operations in 35 countries and territories, Statoil is subject to a wide variety of HSE laws and regulations concerning its products, operations and activities. As a result of the Macondo incident, in 2011, the US Department of the Interior created two new agencies to administer operations and activities in the Gulf of Mexico - the Bureau of Safety and Environmental Enforcement (BSEE) and the Bureau of Offshore Energy Management (BOEM). The department also issued new regulations to address the respective roles of the new agencies. Application of these regulations has the potential to affect our operations in the USA.

See also *Risk review - Risk factors - Legal and regulatory risks.*

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3.13.4 Taxation of Statoil

We are subject to ordinary Norwegian corporate income tax and to a special petroleum tax relating to our offshore activities in Norway. Internationally, our activities are mainly subject to tax in the countries where we operate.

Taxation in Norway
Statoil's Norwegian petroleum activities are subject to ordinary corporate income tax and to a special petroleum tax. In addition, there are taxes on both carbon dioxide emissions and emissions of nitrogen oxide. The holders of production licences are also required to pay an area fee. The amount of the area fee is stipulated in regulations issued under the Petroleum Act.

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 daily basis by the Petroleum Price Board, a body whose members are appointed by the Norwegian Ministry of Petroleum and Energy. Norm prices are published quarterly. The Petroleum Tax Act states that the norm prices shall correspond to the prices that could have been obtained in a sale of petroleum between independent parties in a free market. When stipulating norm prices, the Petroleum Price Board takes a number of factors into consideration, including spot market prices and contract prices in the industry.

The maximum rate of depreciation of development costs relating to offshore production installations and pipelines is 16.67% per year. Depreciation starts when the cost is incurred. Exploration costs may be deducted in the year in which they are incurred. Financial costs related to the offshore activity are calculated directly based on a formula set out in the Petroleum Tax Act. The financial costs deductible under the offshore tax regime are the total financial costs multiplied by 50% of tax values divided by the average interest-bearing debt. All other financial costs and income are allocated to the onshore tax regime.

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

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

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

Dividends received are subject to tax in Norway. The basis for taxation is 3% of the dividend received, which is subject to the standard 28% income tax rate. From 2012 dividends received from Norwegian companies and from similar companies resident in the EEA for tax purposes, in which the recipient holds more than 90% of the shares and votes, are fully exempt from tax.

Dividends from companies resident in the EEA that are not similar to Norwegian companies, companies in low-tax countries and portfolio investments outside the EEA will, under certain circumstances, be subject to the standard 28% income tax rate based on the full amounts received.

From 2012, capital gains from the realisation of shares are exempt from tax. Exceptions apply to shares held in companies resident in low-tax countries or portfolio investments in companies resident outside the EEA for tax purposes, where, under certain circumstances, capital gains will be subject to the standard 28% income tax rate and capital losses will be deductible.

Special petroleum tax
A special petroleum tax is levied on profits 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 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 from 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 capitalised cost of offshore production installations. The uplift can be deducted from taxable income for a period of four years, starting in the year in which the capital expenditure is incurred. Unused uplift can be carried forward indefinitely.

Taxation outside Norway
Statoil's international petroleum activities are subject to tax pursuant to local legislation. Fiscal regulation of our upstream operations is generally based on corporate income tax regimes and/or production sharing agreements (PSA). Royalties may apply in either case. Statoil is subject to excess (or "windfall") profit tax in some of the countries in which it produces crude oil.

With effect from 1 January 2012, new legislation enacted in Norway exempts income and deductions related to foreign petroleum activity from Norwegian taxation.

Production sharing agreements (PSA)
Under a PSA, the host government typically retains the right to the hydrocarbons in place. The contractor normally receives a share of the oil produced to recover its costs, and is also entitled to an agreed share of the oil as profit. The state's share of profit oil typically increases 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 are then entitled to recover those costs during the production phase. Fiscal provisions in a PSA are to a large extent negotiable and are unique to each PSA. Parties to a PSA are generally insulated, via the terms of the PSA, against legislative changes in a country's general tax laws.

Income tax regimes
Under an income tax/royalty regime, companies are granted licences 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. In general, the fiscal terms surrounding these licences are non-negotiable and the company is subject to legislative changes in the tax laws.

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3.13.5 The Norwegian State's participation

The Norwegian State's policy as a shareholder in Statoil 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 largely organised through Statoil. In 1985, the Norwegian State established the State's direct financial interest (SDFI) through which the Norwegian State has 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. Petoro AS, a company wholly owned by the Norwegian State, was formed in 2001 to manage the SDFI assets.

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3.13.6 SDFI oil and gas marketing and sale

We market and sell the Norwegian State's oil and gas as part of our own production. The Norwegian State has chosen to implement 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 that requires us to continue to market and sell the Norwegian State's oil and gas together with our own oil and gas. This is done 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 instruction referred to in the new article. This resolution is referred to as the owner's instruction.

The Norwegian State has a coordinated ownership strategy aimed at maximising the aggregate value of its ownership interests in Statoil and the Norwegian State's oil and gas. This is reflected in the owner's instruction to Statoil. It contains a general requirement that, in our activities on the NCS, we must take account of these ownership interests in decisions that could affect the execution of this marketing arrangement.

The owner's instruction sets out specific terms for the marketing and sale of the Norwegian State's oil and gas. The principal provisions of the owner's instruction are 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 to ensure an equitable distribution of the total value creation between the Norwegian State and Statoil. In addition, the following considerations are important:

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

Our tasks
Our main tasks under the owner's instruction are to market and sell the Norwegian State's oil and gas and to carry out all the necessary related activities, other than those carried out jointly with other licensees under production licences. This includes, but is not limited to, 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 for a mechanism under which contracts for the marketing and sale of the Norwegian State's oil and gas to which we are 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 that, in the underlying relationship between the Norwegian State and us, the Norwegian State has all rights and

obligations relating to the Norwegian State's oil and gas.

Costs
The Norwegian State does not pay us a specific consideration for performing these tasks, but 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
Payment to the Norwegian State for sales of the Norwegian State's natural gas, both to us and to third parties, is based either on the prices achieved, a net back formula or market value. We 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
To ensure 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. The different fields are ranked in accordance with their assumed total value creation for the Norwegian State and Statoil, assuming that 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. Within each individual field in which both the Norwegian State and Statoil are licensees, the Norwegian State and Statoil will deliver volumes and share income in proportion to our respective participating interests.

The Norwegian State's oil and NGL is 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 at any time utilise its position as majority shareholder of Statoil to withdraw or amend the owner's instruction.

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3.14 Property, plants and equipment

Statoil has interests in real estate in many countries throughout the world. However, no individual property is significant.

Statoil's head office is located at Forusbeen 50, NO-4035, Stavanger, Norway and comprises approximately 135,000 square metres of office space. The office buildings are wholly owned by Statoil.

In October 2012, Statoil moved into a new 65,500-square-metre office building located at Fornebu on the outskirts of Norway's capital Oslo. Statoil as tenant has signed a long-term lease agreement with the owner of the office building, IT-Fornebu AS. The new office building provides an environmentally friendly workplace for up to 2,500 employees.

For a description of our significant reserves and sources of oil and natural gas, see note 30 to the Consolidated financial statements, *Supplementary oil and gas information (unaudited)*.

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3.15 Related party transactions

See note 27 Related parties to the Consolidated financial statements for information concerning related parties.

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3.16 Insurance

Statoil takes out insurance policies for physical loss of or damage to our oil and gas properties, liability to third parties, workers' compensation and employer's liability, general liability, pollution and well control, among other things.

Our insurance policies are subject to:

- Deductibles, excesses and self-insured retentions (SIR) that must be borne prior to recovery
- Exclusions and limitations.

Our well control policy, which covers costs relating to well control incidents (including pollution and clean-up costs), is subject to a gross limit per incident. The gross limits for our two most significant geographical areas, the NCS and the Gulf of Mexico (GoM), USA, are:

NCS

- NOK 11,500 million per incident for exploration wells
- NOK 2,000 million per incident for production wells.

GoM

- USD 1,800 million (approximately NOK 7,800 million) per incident for exploration wells.
- USD 300 million (approximately NOK 1,800 million) per incident for production wells.

The limits assume a 100% ownership interest in a given well and would be scaled to be equivalent to our percentage ownership interest in a given well. Our SIR for well control policies varies between NOK 7.6 million and NOK 100 million per loss on the NCS depending on our percentage ownership interest in the well and certain other factors. Our SIR in the GoM would be approximately USD 10 million (approximately NOK 60 million) per incident assuming 100% ownership. In addition to the well control insurance programmes, we have in place a third-party liability insurance programme with a gross limit of USD 800 million (approximately NOK 4,800 million) per incident. The SIR is insignificant (maximum NOK 6 million).

We have a variety of other insurance policies related to other projects worldwide for which we have limited SIR.

There is no guarantee that our insurance policies will adequately protect us against liability for all potential consequences or damages.

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3.17 People and the group

3.17.1 Employees in Statoil

The Statoil group employs approximately 23,000 employees. Of these, approximately 20,200 are employed in Norway and

approximately 2,800 outside Norway.

Numbers of permanent employees and percentage of women in the Statoil group from 2010 to 2012

	Number of employees*			Women*		
Geographical Region	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Norway	**20,186**	20,021	18,838	30%	31%	31%
Rest of Europe	**925**	10,187	10,335	30%	50%	49%
Africa	**116**	121	140	25%	28%	30%
Asia	**157**	146	145	56%	59%	58%
North America	**1,378**	1,030	713	34%	34%	33%
South America	**266**	210	173	38%	40%	46%
TOTAL	**23,028**	31,715	30,344	31%	37%	37%
Non - OECD	**653**	2,773	2,732	39%	64%	63%

* Statoil Fuel and Retail employees are included in 2010 and 2011.

Total workforce by region, employment type and new hires in the Statoil group in 2012

Geographical Region	**Permanent employees**	**Consultants**	**Total Workforce***	**% Consultants****	**% Part - Time**	**New Hires**
Norway	20,186	2,549	22,735	11%	3%	1,661
Rest of Europe	925	165	1,090	15%	1%	100
Africa	116	53	169	31%	NA	15
Asia	157	14	171	8%	NA	31
North America	1,378	54	1,432	4%	NA	344
South America	266	148	414	36%	NA	69
TOTAL	23,028	2,983	26,011	11%	3%	2,220
Non - OECD	653	230	883	26%	NA	120

* Total workforce consists of number of permanent employees and consultants.
** Consultants do not include enterprise personnel.

Statoil works systematically with recruitment and development programmes in order to build a diverse workforce by attracting, recruiting and retaining people of both genders and different nationalities and age groups across all types of positions. In 2012, Statoil recruited 2,220 new employees worldwide. While 75% were recruited to jobs in Norway, 15% were recruited to our business in North America, reflecting our growth ambitions in that region.

We believe Statoil's low turnover rates reflect a high level of satisfaction and engagement among its employees, which is also supported by the results of the annual organisational and working environment survey. In Statoil, the total turnover rate for 2012 was 2.2%.

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3.17.2 Equal opportunities

We are committed to building a workplace that promotes diversity and inclusion through its people processes and practices.

Statoil recognises the value of diversity throughout the organisation and in 2012 we have continued to monitor and promote diversity in our global workforce. We believe that diversity generates new and different ways of thinking and is crucial for our successful and sustainable international growth. We continue to focus on strengthening women in leadership and professional positions and building broad international experience in our workforce.

At 31 December 2012, the overall percentage of women in Statoil was 31% and 36% of the members of the board of directors were women, as were 20% of the corporate executive committee. The focus on diversity issues is also reflected in the company's people strategy. We aim to increase the number of female managers, and we endeavour to give equal representation to men and women in leadership development programmes. At 31 December 2012, the total proportion of female managers in Statoil was 27%.

We also devote close attention to male-dominated positions and discipline areas. In 2012, 26% of staff engineers were women, and among staff engineers with up to 20 years' experience, the proportion of women was 30%.

The reward system in Statoil is non-discriminatory and supports equal opportunities, which means that, given the same position, experience and performance, men and women will be at the same salary level. However, due to differences between women and men in types of positions and number of years' experience, there are some differences in compensation when comparing the general pay levels of men and women.

Cultural diversity
Statoil believes that being a global and sustainable company requires people with a global mindset. One way to build a global company is to ensure that recruitment processes both within and outside Norway contribute to a culturally diverse workforce. In 2012, 30% of our new hires were women and 41% nationalities other than Norwegian.

Outside Norway, we need to continue to focus on increasing the number of people and managers that are locally recruited and to reduce long-term, extensive use of expats in our business operations. At 31 December 2012, 20% of employees and 20% of the managerial staff in the Statoil group held nationalities other than Norwegian.

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3.17.3 Unions and representatives

Statoil's cooperation with employee representatives and trade unions is based on confidence, trust and continuous dialogue between management and the people in various cooperative bodies.

In Statoil, 65% of the employees in the parent company are members of a trade union. Work councils and working environment committees are established where required by law or agreement. Town hall meetings are also used for information and consultations in accordance with requirements and usage in each country.

In Norway, the formal basis for collaboration with labour unions is established in the Basic Agreements between the Confederation of Norwegian Enterprise (NHO) and the five Statoil unions.

In 2012, management and employee representatives collaborated closely in processes such as the use of external hires, the corporate staffs and services review project and measures to follow up safety incidents on the Norwegian continental shelf. In these processes we have endeavoured to engage in open and honest communication both inside and outside formal meeting arenas.

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4 Financial review

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4.1 Operating and financial review 2012

4.1.1 Sales volumes

Sales volumes include our lifted entitlement volumes, the sale of SDFI volumes and our marketing of third-party volumes.

In addition to our own volumes, we market and sell oil and gas owned by the Norwegian State through the Norwegian State's share in production licences. This is known as the State's Direct Financial Interest or SDFI. For additional information, see the section *Business overview - Applicable laws and regulations - SDFI oil & gas marketing & sale*. The following table shows the SDFI and Statoil sales volume information on crude oil and natural gas, for the periods indicated. The Statoil natural gas sales volumes include equity volumes sold by the segment MPR, natural gas volumes sold by the segment DPI and ethane volumes.

For more information on the differences between equity and entitlement production, sales volumes and lifted volumes, see the section *Financial review - Operating and financial review - Definitions of reported volumes*.

Sales Volumes	**For the year ended 31 December**		
	2012	**2011**	**2010**
Statoil: (1)			
Crude oil (mmbbls) (2)	**351**	332	354
Natural gas (bcf)	**1,721**	1,377	1,472
Natural gas (bcm) (3)	**48.8**	39.0	41.7
Combined oil and gas (mmboe)	**658**	577	616
Third party volumes: (4)			
Crude oil (mmbbls)(2)	**399**	333	310
Natural gas (bcf)	**210**	244	247
Natural gas (bcm) (3)	**6.0**	6.9	7.0
Combined oil and gas (mmboe)	**436**	376	354
SDFI assets owned by the Norwegian State:			
Crude oil (mmbbls) (2)	**156**	162	172
Natural gas (bcf)	**1,591**	1,476	1,610
Natural gas (bcm) (3)	**45.1**	41.8	45.6
Combined oil and gas (mmboe)	**439**	425	458
Total:			
Crude oil (mmbbls) (2)	**905**	827	835
Natural gas (bcf)	**3,523**	3,096	3,329
Natural gas (bcm) (3)	**99.8**	87.7	94.3
Combined oil and gas (mmboe)	**1,533**	1,379	1,428

(1) The Statoil volumes included in the table above are based on the assumption that volumes sold were equal to lifted volumes in the relevant year. Changes in inventory may cause these volumes to differ from the sales volumes reported elsewhere in this report by MPR in that such volumes include volumes still in inventory or transit held by other reporting entities within the group. Excluded from such volumes are volumes lifted by DPI but not sold by the MPR, and volumes lifted by DPN or DPI and still in inventory or in transit.
(2) Sales volumes of crude oil include NGL and condensate. All sales volumes reported in the table above include internal deliveries to our manufacturing facilities.
(3) At a gross calorific value (GCV) of 40 MJ/scm.
(4) Third party volumes of crude oil include both volumes purchased from partners in our upstream operations and other cargos purchased in the market. The third party volumes are purchased either for sale to third parties or for our own use. Third party volumes of natural gas include third party LNG volumes related to our activities at the Cove Point regasification terminal in the US.

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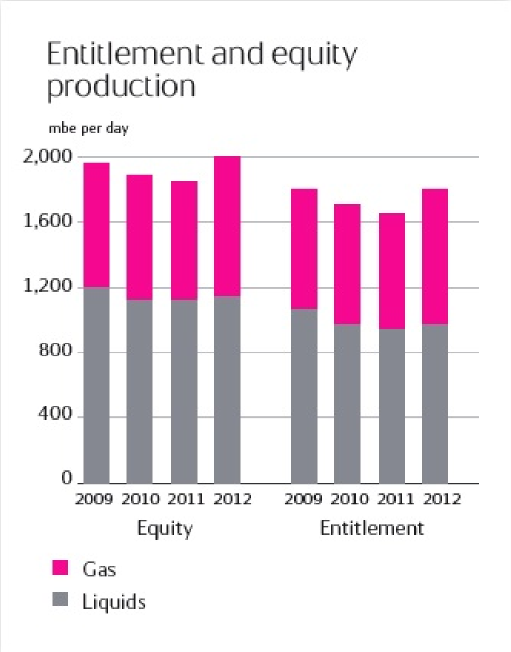
4.1.2 Group profit and loss analysis

Net operating income was NOK 206.6 billion in 2012, down 2% compared to 2011. Higher prices and increased volumes were offset by lower gain from sale of assets and increased operational costs.

Operational review

Operational data	**For the year ended 31 December**				
	2012	**2011**	**2010**	**12-11 change**	**11-10 change**
Average liquids price (USD/bbl)	**103.5**	105.6	76.5	(2%)	38%
USDNOK average daily exchange rate	**5.82**	5.61	6.05	4%	(7%)
Average liquids price (NOK/bbl)	**602**	592	462	2%	28%
Average invoiced gas prices (NOK/scm)	**2.19**	2.08	1.72	5%	21%
Refining reference margin (USD/bbl)	**5.5**	2.3	3.9	>100%	(41%)
Production (mboe per day)					
Entitlement liquids production	**966**	945	968	2%	(2%)
Entitlement gas production	**839**	706	738	19%	(4%)
Total entitlement liquids and gas production	**1,805**	1,650	1,705	9%	(3%)
Equity liquids production	**1,137**	1,118	1,122	2%	(0%)
Equity gas production	**867**	732	766	18%	(4%)

Total equity liquids and gas production	**2,004**	1,850	1,888	8%	(2%)
Liftings (mboe per day)					
Liquids liftings	**959**	910	969	5%	(6%)
Gas liftings	**839**	706	738	19%	(4%)
Total liquids and gas liftings	**1,797**	1,616	1,706	11%	(5%)
Production cost (NOK/boe, last 12 months)					
Production cost entitlement volumes	**47**	47	42	(1%)	12%
Production cost equity volumes	**42**	42	38	(0%)	11%



Total equity liquids and gas production (see section *Financial review - Operating and financial review - Definition of reported volumes*) was 2,004 mboe, 1,850 mboe and 1,888 mboe per day in 2012, 2011 and 2010, respectively.

The 8% increase in total equity production in 2012 compared to 2011 was primarily due to increased gas deliveries from the NCS, start-up of production from new fields and ramp-up of production on various fields. Higher maintenance activities in 2011 partly accounts for the lower production in 2011. Expected natural decline on mature fields and the Heidrun redetermination settlement with a relatively high production in 2011, partly offset the increase in equity production.

The 2% decrease in total equity production in 2011 compared to 2010 was primarily caused by reduced water injection at Gullfaks, riser inspections and repairs, maintenance shut downs and deferral of gas sales. In addition, expected reductions due to natural decline on mature fields and suspended production in Libya contributed to the decrease. This decrease was partly offset by production from start-up of new fields, ramp-up of production on existing fields and increased ownership shares.

Total entitlement liquids and gas production (see section *Financial review - Operating and financial review - Definition of reported volumes*) increased 9% from 1,650 mboe per day in 2011 to 1,805 mboe per day in 2012. Total entitlement liquids and gas production decreased by 3% from 2010 to 2011, impacted by the reduction in equity production as described above and volume reducing PSA effects.

Over time, the volumes lifted and sold will equal our entitlement production, but they may be higher or lower in any period due to differences between the capacity and timing of the vessels lifting our volumes and the actual entitlement production during the period, see section *Financial review - Operating and financial review - Definition of reported* volumes for more information.

Production cost per boe of entitlement volumes was NOK 47, NOK 47 and NOK 42 for the 12 months ended 31 December 2012, 2011 and 2010, respectively.

Based on equity volumes, the production cost per boe was NOK 42, NOK 42 and NOK 38 for the 12 months ended 31 December 2012, 2011 and 2010, respectively.

Production cost per boe of entitlement volumes and equity volumes are non-GAAP measures, see section *Non-GAAP measures - Financial review - Unit of production cost* for further information.

Exploration expenditure (including capitalised exploration expenditure) was NOK 20.9 billion in 2012, compared to NOK 18.8 billion in 2011 and NOK 16.8 billion in 2010. The NOK 2.1 billion increase in 2012 stems mainly from both higher drilling activity internationally and increased field evaluation costs, partly offset by lower activity on the NCS.

In 2012, Statoil completed 46 **exploration and appraisal wells**, 19 on the NCS and 27 internationally. A total of 23 wells were announced as discoveries in the period, 14 on the NCS and nine internationally.

Financial review

Income statement under IFRS (in NOK billion)	**For the year ended 31 December 2012**	**2011**	**2010**	**12-11 change**	**11-10 change**
Revenues	**705.7**	645.6	527.0	9%	23%
Net income from associated companies	**1.7**	1.3	1.2	32%	8%
Other income	**16.0**	23.3	1.8	(31%)	>100%
Total revenues and other income	**723.4**	670.2	529.9	8%	26%
Purchases [net of inventory variation]	**(363.1)**	(319.6)	(257.4)	14%	24%

Operating expenses and selling, general and administrative expenses	**(75.1)**	(73.6)	(68.8)	2%	7%
Depreciation, amortisation and net impairment losses	**(60.5)**	(51.4)	(50.7)	18%	1%
Exploration expenses	**(18.1)**	(13.8)	(15.8)	31%	(12%)
Net operating income	**206.6**	211.8	137.3	(2%)	54%
Net financial items	**0.1**	2.0	(0.5)	(95%)	>(100%)
Income before tax	**206.7**	213.8	136.8	(3%)	56%
Income tax	**(137.2)**	(135.4)	(99.2)	1%	37%
Net income	**69.5**	78.4	37.6	(11%)	>100%

Total revenues and other income amounted to NOK 723.4 billion in 2012 compared to NOK 670.2 billion in 2011 and NOK 529.9 billion in 2010. Most of the revenues stem from the sale of lifted crude oil, natural gas and refined products produced and marketed by Statoil. In addition, we also market and sell the Norwegian State's share of liquids from the NCS. All purchases and sales of the Norwegian State's production of liquids are recorded as purchases [net of inventory variations] and *revenues*, respectively, while sales of the Norwegian State's share of gas from the NCS are recorded net.

The 8% increase in revenues from 2011 to 2012 was mainly attributable to increased volumes of liquids and gas sold and higher prices measured in NOK for both liquids and gas. Lower unrealised gains on derivatives and the drop in revenues caused by the divestment of the Fuel and Retail segment in the second quarter of 2012 partly offset the increase in revenues.

The 26% increase in revenues from 2010 to 2011 was mainly attributable to higher prices for both liquids and gas and unrealised net gains on derivatives. The increase was partly offset by lower volumes of both liquids and gas sold.

Other income was NOK 16.0 billion in 2012 compared to NOK 23.3 billion in 2011 and NOK 1.8 billion in 2010. The NOK 7.3 billion decrease from 2011 to 2012 was mainly due to the relatively higher gain from sale of assets in 2011, mainly related to the divestments of Peregrino, the Kai Kos Dehseh oil sands and Gassled in 2011.

The significant increase in other income from 2010 to 2011 stems mainly from gains on sale of assets primarily related to the divestments mentioned above.

Purchases [net of inventory variation] includes the cost of the liquids production purchased from the Norwegian State pursuant to the owners instruction. See section *Business overview - Applicable laws and regulations- SDFI oil & gas marketing & sale* for more details. The purchase [net of inventory variation] amounted to NOK 363.1 billion in 2012, compared to NOK 319.6 billion in 2011 and NOK 257.4 billion in 2010. Both the 24% increase from 2010 to 2011 and the 14% increase from 2011 to 2012 were mainly caused by increased volumes and higher prices of liquids purchased, measured in NOK.

Operating expenses and selling, general and administrative expenses amounted to NOK 75.1 billion, up 2% compared to 2011, mainly due to higher operating plant costs from start-up and ramp-up of production on various fields. Also, increased royalty payments, higher transportation activity due to higher volumes of liquids and longer distances and increased transportation costs due to lower Gassled ownership share, added to the increase. The reversal of a provision in the second quarter 2012 related to the discontinued part of the early retirement pension, and the drop in expenses caused by the divestment of the Fuel and Retail segment in the second quarter of 2012, partly offset the increase.

In 2011, operating expenses and selling, general and administrative expenses amounted to NOK 73.6 billion, an increase of NOK 4.8 billion compared to 2010 when operating expenses and selling, general and administrative expenses were NOK 68.8 billion. The 7% increase reflects mainly the higher activity level in 2011 related to start-up and ramp-up of production on various fields, increased transportation and processing costs and increased ownership shares. Also, changes in removal estimates, higher tariffs and royalties paid and increased business development costs added to the increase in expenses.

Depreciation, amortisation and net impairment losses amounted to NOK 60.5 billion in 2012 compared to NOK 51.4 billion in 2011 and NOK 50.7 billion in 2010. Included in these totals were net impairment losses of NOK 1.3 billion for 2012, NOK 2.0 billion for 2011 and NOK 4.8 billion for 2010.

Depreciation, amortisation and net impairment losses increased by 18% compared to 2011 mainly because of higher depreciation because of start-up and acquisition of new fields. Ramp-up and higher entitlement production on various fields together with higher investments added to the increase. Higher reserve estimates and lower ownership share in Gassled partly offset the increase.

Depreciation, amortisation and net impairment losses increased by 1% in 2011 compared to 2010 mainly because of higher depreciation from new fields and assets coming on stream, and the impact on depreciation from revisions of removal and abandonment estimates. The increase was mostly offset by the impact of lower production, increased reserve estimates and lower net impairment losses.

Exploration expenses (in NOK billion)	**For the year ended 31 December 2012**	**2011**	**2010**	**12-11 Change**	**11-10 Change**
Exploration expenditure (activity)	**20.9**	18.8	16.8	11%	12%
Expensed, previously capitalised exploration expenditure	**2.7**	1.8	2.6	49%	(30%)
Capitalised share of current periods exploration activity	**(5.9)**	(6.4)	(3.9)	(8%)	64%
Impairment	**0.5**	1.6	1.9	(71%)	(19%)
Reversal of impairment	**(0.1)**	(1.9)	(1.6)	(97%)	14%
Exploration expenses	**18.1**	13.8	15.8	31%	(12%)

In 2012, **exploration expenses** were NOK 18.1 billion, a NOK 4.3 billion increase since 2011, when exploration expenses were NOK 13.8 billion. Exploration expenses were NOK 15.8 billion in 2010.

The 31% increase in exploration expenses was mainly due to higher drilling activity in the international business, increased spending on seismic and field evaluation and because a lower portion of exploration expenditures was capitalised in 2012 due to non-commercial wells. A higher portion of exploration expenditures capitalised in previous periods being expensed in 2012 added to the increase.

Exploration expenses decreased by 12% in 2011 compared to 2010, mainly because successful drilling resulted in a higher portion of exploration expenditures being capitalised, and because a lower portion of exploration expenditure capitalised in previous years was expensed in 2011 compared to 2010.

Net operating income was NOK 206.6 billion in 2012, compared to NOK 211.8 billion in 2011 and NOK 137.3 billion in 2010.