# Building together

Annual report and accounts 2007

StatoilHydro


# Stronger together!

The merger between Statoil ASA and Norsk Hydro ASA's oil and gas activities resulted in the formation of StatoilHydro on 1 October 2007. The new company is represented in 40 different countries and has 29,500 employees. "Stronger together!" is the merged company's first annual report.

Our strategy is to maximise the values and opportunities on the Norwegian continental shelf, while at the same time increasing our international production. StatoilHydro is a technology-based energy company. While continuing to focus on health, safety and the environment as competitive advantages and as the basis for our operations, we aim to target the following four areas:

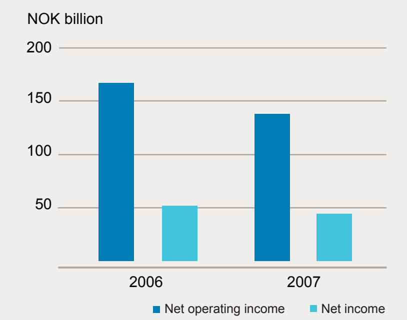
- Maximise long-term value creation on the Norwegian continental shelf
- Build profitable international growth
- Develop profitable principles midstream and downstream
- Create a new platform for new energy

Statoil and Hydro's oil and gas activities have achieved a great deal separately. By combining the best from both companies, StatoilHydro will have the expertise, technology and capacity it requires to pursue more interesting business opportunities on the Norwegian continental shelf and, not least, internationally.

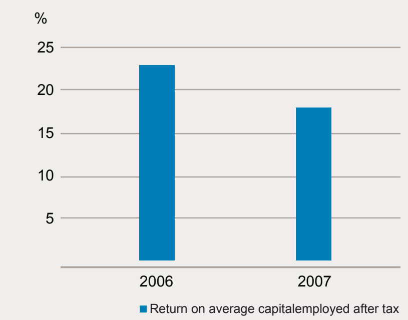
The year 2007 will go down in history as a landmark year for the new company.

# Key figures

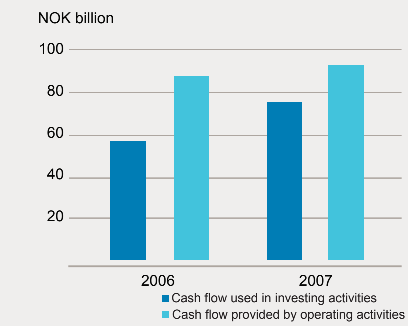
### INCOME



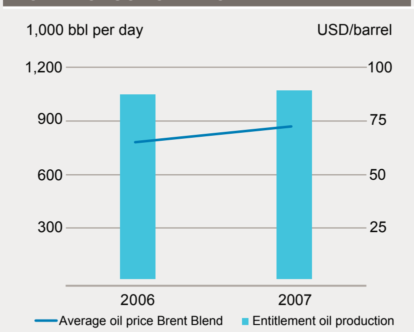

### RETURN



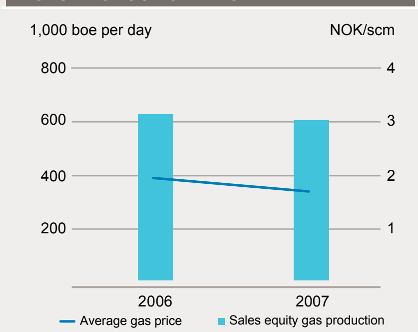

### CASH FLOW



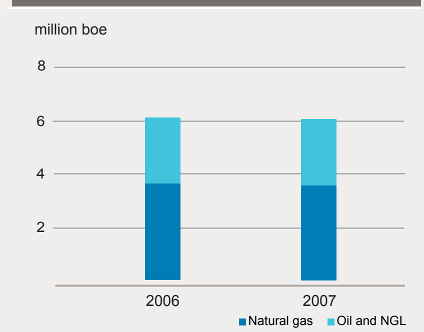

### OIL PRODUCTION/PRICE



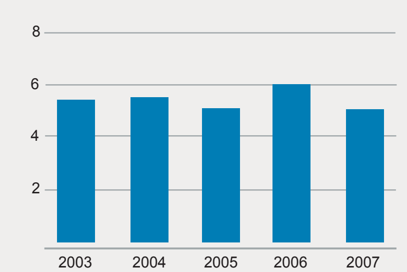

### GAS PRODUCTION/PRICE



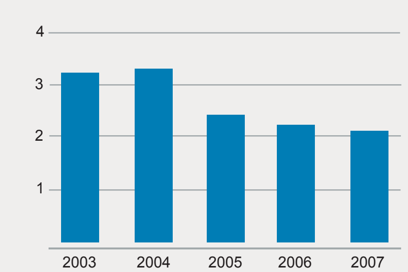

### PROVED OIL AND GAS RESERVES



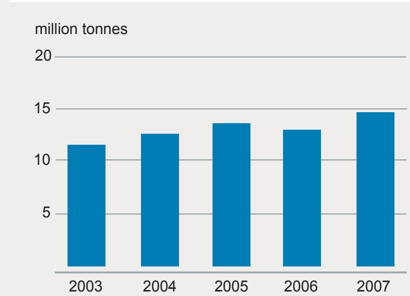

### TOTAL RECORDABLE INJURY FREQUENCY




### SERIOUS INCIDENT FREQUENCY




### CARBON DIOXIDE



# IFRS – Financial highlights

| | 2007 | 2006 |
|---|---|---|
| **Financial information** (NOK million) | | |
| Total revenues and other income | 522,797 | 521,482 |
| Net operating income | 137,204 | 166,164 |
| Net income | 44,641 | 51,847 |
| Cash flow provided by operating activities | 93,926 | 88,593 |
| Cash flow used in investing activities | 75,112 | 57,175 |
| Interest-bearing debt | 50,539 | 54,772 |
| Net interest-bearing debt | 25,461 | 43,779 |
| Net debt to capital employed | 12.4% | 20.5% |
| Return on average capital employed after tax | 17.9% | 22.9% |
| **Operational information** | | |
| Combined oil and gas production (thousand boe/day) | 1,724 | 1,708 |
| Proved oil and gas reserves (million boe) | 6,010 | 6,101 |
| Production cost (NOK/boe) | 44.1 | 28.4 |
| Reserve replacement ratio (three-year average) | 81% | 76% |
| **Share information** (in NOK, except number of shares) | | |
| Net income per share | 13.80 | 15.82 |
| Share price at Oslo stock exchange (Oslo Børs) 31 December | 169.00 | 165.25 |
| Weighted average number of ordinary shares outstanding | 3,195,866,843 | 3,230,849,707 |

*See Shareholder information section for a description of how dividends are determined and share repurchases.

# Definitions

**Net interest-bearing debt =**
Gross interest-bearing debt less cash and cash equivalents.

**Net debt to capital employed =**
The relationship between net interest-bearing debt and capital employed.

**Average capital employed =**
Average of the capital employed at the beginning and end of the accounting period. Capital employed is net interest-bearing debt plus shareholders' equity and minority interest.

**Return on average capital employed after tax =**
Net income plus minority interest and net financial expenses after tax as a percentage of capital employed.

**Production costs per barrel oil equivalent =**
Operating expenses associated with production of oil and natural gas divided by total production (lifting) of oil and natural gas.

**Reserve replacement ratio =**
Additions to proved reserves, including acquisitions and disposals, divided by volumes produced.

**Barrel of oil equivalent (boe) =**
Oil and gas volumes expressed as a common unit of measurement. One boe is equal to one barrel of crude, or 159 standard cubic metres of gas.

**Carbon dioxide ($CO_2$) =**
Carbon dioxide emissions from Statoil operations embrace all sources such as turbines, boilers, furnaces, engines, flares, drilling of exploration and production wells and well testing/workovers. Reductions in emissions are accumulated for the period 1997-2006.

**Total recordable injury frequency =**
The number of total recordable injuries per million working hours. Employees of Statoil and its contractors are included.

**Serious incident frequency =**
The number of incidents of a very serious nature per million working hours. An incident is an event or chain of events which has caused or could have caused injury, illness and/or damage to/loss of property, the environment or a third party.

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I tillegg til denne rapporten utgir vi bærekraftrapport, årsregnskap basert på norske regnskapsprinsipper og rapporten 20-F, som er laget i henhold til krav fra kreditt-tilsynet i USA. Mer om rapportene på side 181.

# The chief executive's preface

*StatoilHydro's first annual result is strong, and we are in a good position to achieve long-term growth and increased value creation for our shareholders. The potential for improvement on the Norwegian continental shelf and the opportunity to participate in the development of the Shtokman project support the rationale behind the merger as well as being early indications of the opportunities and potential it has created.*

I have long focused on the fact that the industry is increasingly characterised by high complexity. This will continue to influence our activities in the time ahead. This coincides with a period during which the industry is operating at almost full capacity, and in which the competition for opportunities and expertise is becoming tougher and tougher.

The merger of Statoil ASA and Norsk Hydro's oil and gas activities was carried out in record time. Less than one year elapsed from the proposal was launched until StatoilHydro became a reality on 1 October 2007. The merger is a forceful response to the challenges facing the industry. Our industrial freedom of action has increased as a result of our broader geographical presence and bigger portfolio. Our ability to take on and execute large, complex projects has been strengthened. In terms of finance and organisation, we have increased our capacity and ability to manage the commercial risks that characterise today's industrial landscape.

The merger is used as a catalyst for operational improvement through the use of best practice. Employees and managers at all levels have made an enormous effort. Good cooperation with the employees' organisations and representatives has been a very important contribution to the good result achieved so far.

StatoilHydro is an ambitious company. We will set high goals for ourselves, and we aim to win against international competition, but win the right way. That is why we run our activities with a high degree of openness and within a clear performance framework defined by our values and our principles for HSE, ethics and leadership. Safe and efficient operations are our most important task. High-quality operations protect employees and equipment and increase shareholder values. This is a prerequisite both for securing our "licence to operate" from society and for our ability as an employer to attract new generations of talent.

Our strategy is to realise the full potential of the Norwegian continental shelf while at the same time developing strong international positions. Developments in 2007 underpin this strategy. The merger was important in itself. In addition, we established new platforms for long-term growth in Canadian oil sands and offshore in Russia through our participation in the Shtokman Development Company.

Through Ormen Lange and Snøhvit, we have put two very complex industrial projects into production that have provided us with important experience. Promising exploration results in Azerbaijan, the US Gulf of Mexico and Algeria, as well as many discoveries on the Norwegian continental shelf, have strengthened the basis for our ambitions for growth in the future.

Increasing attention is being devoted to the climate challenge. We will contribute to both meeting the world's increasing energy needs and reducing the increasing emissions of greenhouse gases.

Our ability to develop industrial solutions can prove to be a competitive advantage in the future. StatoilHydro is making active endeavours to reduce carbon dioxide emissions. Through our focus on energy efficiency and cleaner core business, we produce oil and gas offshore with the lowest emissions per produced unit in the world. We also utilise our experience in the field of carbon capture and storage in our work on new projects. If we succeed in this area, we can contribute to reducing global greenhouse gas emissions as well as creating new business opportunities for ourselves.

StatoilHydro will also increase its investment in renewable energy over time, particularly in areas where we have natural advantages. Our involvement in biofuel is based on our broad experience of the development and marketing of refined products. Correspondingly, we will also utilise the offshore expertise we have gained through nearly 40 years of operation on the Norwegian continental shelf in the development of offshore windmills. We will continue to look for business opportunities with a clear industrial basis where our participation can create added value.

StatoilHydro has embarked on a journey, a journey that involves developing the company into a global energy company. In order to succeed, we must combine safe and efficient operations with the ability to meet increasing complexity with technology development and creativity. Our motivated and highly qualified employees and our strong industrial position give us an excellent starting point for creating substantial values for our owners and society around us.

Helge Lund
President and CEO

# A strategy for growth

StatoilHydro's strategy is to maximise value and potential on the NCS while growing our international production. We are an upstream focused and technology-driven energy company with strong gas and downstream positions.

With continued focus on HSE as a competitive advantage and a basis of our operations, we concentrate our efforts on four areas:

- Maximising long-term value creation from the NCS
- Building profitable international growth
- Developing profitable midstream and downstream positions
- Creating a new platform for new energy

In the short term, we plan to focus on predictable and efficient operation by realising the potential value resulting from the merger of Statoil ASA with the oil and gas assets of Norsk Hydro ASA. In the longer term, our focus will be on developing prospects and projects that will enable us to excel and profitably grow. We endeavour to act in a responsible and sustainable manner by continuously improving energy and environmental efficiency in our production processes.

### Maximising long-term value creation from the NCS

As a consequence of the merger of Statoil ASA with Norsk Hydro ASA's oil and gas assets, we are in a unique position on the NCS. Our combined asset base, experience and technical know-how will enable us to fully utilise these resources. The NCS portfolio is expected to continue to be the company's core activity area, income generator and technology base for many years to come.

We believe the potential for further exploration on the NCS is significant, and we aim to be the industrial architect and driving force in utilising this potential to the maximum. We will strive to improve HSE performance, regularity and drilling efficiency, we will use Improved Oil Recovery (IOR) measures where appropriate and maximise the potential of the merged company. Our focus will be on delivering results and optimising our portfolio in order to maximise value creation.

### Building profitable international growth

The company's growth beyond 2012 is mainly expected to take place in the international arena. Our short to medium-term focus is on delivering our current projects on time, at agreed cost and quality. We plan to make the most of our NCS resources, capabilities and technical experience to develop new business opportunities internationally.

In the longer term, we believe that growth in our international assets will transform the structure and profile of the company. We expect to become more diversified, not only in geographical terms, but also in terms of production methods. This was demonstrated through the acquisition of the Canadian company North American Oil Sands Corporation (NAOSC) and the development of the Peregrino field (heavy oil) off the coast of Brazil, both of which present new challenges and opportunities in terms of applying our technology and experience to a different type of oil production than in the North Sea.

In connection with the company's international growth our main focus will be on utilising our core expertise in areas such as deepwater, harsh environment, heavy oil and gas value chains to exploit new opportunities around the world. We believe that our skills, experience and technological ability will give us a competitive advantage in these areas. We intend to achieve this growth through an ambitious exploration programme, developing and delivering from our current international assets, and, as appropriate, acquiring new assets which complement our portfolio.

### Developing profitable midstream and downstream positions

Compared with many of our peers, we have a strong upstream focus in terms of our total value and asset base. However, we also have a sizeable midstream and downstream portfolio in retailing, marketing, trading, refining and storage of oil and gas products. We are one of the largest seller of crude oil in the world, and our refineries, gas processing plants and service stations support our upstream positions. Our ambition is to maximise value for the company by making the most of the opportunities which these value chains represent.

### Creating a platform for new energy

We are a leading industry player in the field of carbon capture and storage. Our ambition is to further develop our technology and capabilities in this area to create a profitable business and to reduce emissions. We are also looking into the opportunities for commercially sound investments in renewable energy chains. We have initiated projects in the areas of wind power and biofuels, setting the stage for further expansion in this area, such as offshore wind farms.

# StatoilHydro today

On 1 October 2007, the merger between Statoil and Hydro's oil and gas activities was concluded in accordance with the agreement signed in December 2006.

A Norwegian-based company of global format was created through the merger. StatoilHydro has roughly 29,500 employees in 40 different countries. Statoil and Hydro's oil and energy businesses had achieved a great deal on their own. By combining the best from both companies, StatoilHydro has the expertise, technology and capacity it requires to pursue interesting business opportunities on the Norwegian continental shelf and, not least, internationally.

The year 2007 will go down in history as a landmark year for the new company. Statoil and Hydro employees put a tremendous amount of effort into the merger through the integration planning process that resulted in the establishment of StatoilHydro.

**Facts and figures**

StatoilHydro is an integrated energy company based in Norway. We are a leading operator on the Norwegian continental shelf, and we are in a growth phase internationally. StatoilHydro is making substantial investments in the development of sustainable solutions and new energy.

- The company is the world's biggest operator in water depths exceeding 100 metres
- Operator of 38 oil and gas fields in operation
- Expected equity production of 1.9 million barrels of oil equivalent per day in 2008
- Proven reserves: more than six billion barrels of oil equivalent
- World leader in carbon capture and storage
- One of the world's biggest crude and gas suppliers
- The biggest seller of oil products in Scandinavia
- Engaged in new energy sources such as wind power, tidal power, wave power, biofuel and hydrogen
- Listed on the Oslo and New York stock exchanges


We created a Norwegian-based energy company of global format on 1 October 2007.

# Our history

On 1 October 2007, the oil and gas assets of Norsk Hydro ASA (Hydro Petroleum) were merged with Statoil ASA, and the company changed its name to StatoilHydro ASA. Through this merger, our ability to fully realise the potential of the NCS was strengthened and our chances of succeeding as an international player improved. As a result of the merger, we are the largest international oil and gas company operating in water deeper than 100 metres. The financial and other information in this report effect the developments of the former Statoil ASA and Hydro Petroleum on a combined basis for all period presented.

Statoil was founded by a decision of the Norwegian Storting (parliament) in 1972 and incorporated as a limited company under the name Den norske stats oljeselskap a.s. Wholly owned by the Norwegian State, the company's role was to be the government's commercial instrument in the development of the oil and gas industry in Norway. In 2001, the company became a public limited company listed on the Oslo and New York stock exchanges, and it changed its name to Statoil ASA.

Norsk Hydro's involvement in the oil and gas industry started in 1965, when it was awarded licences by the Norwegian State to explore for petroleum on the NCS.

Hydro participated in the discovery of the Ekofisk field in 1969 and the Frigg field in 1971. The development of these discoveries brought it into the petroleum refining and marketing business. In 1975, it began oil refining operations at Mongstad in Norway.

In 1974, Mobil discovered the Statfjord field in the North Sea, which was to have enormous significance for further developments. During the development of Statfjord, one of the world's largest offshore oil fields, we encountered great challenges. Statfjord came on stream in 1979 and Statoil took over as operator eight years later. StatoilHydro has a 44% interest in the field.

The 1980s saw us become a major player in the European gas market through large sales contracts for the development and operation of gas transport systems and terminals.

During the same decade, we were heavily involved in manufacturing and marketing in Scandinavia and we established a comprehensive network of service stations. We acquired Esso's service stations, refineries and petrochemical facilities in Denmark and Sweden.

The 1990s were characterised by intense technological development on the NCS. StatoilHydro became a leading company in the fields of floating production facilities and subsea developments. We grew strongly, expanded in product markets and increased our commitment to international exploration and production in alliance with BP.

In recent years, our business has grown as a result of substantial investments, including several acquisitions, such as Saga Petroleum AS in 1999, several major acquisitions in the Gulf of Mexico, acquisitions of oil sand leases in Canada in 2007, the 24% equity interest in the Shtokman Development Company and most recently the acquisition of the remaining share in the Peregrino field in Brazil (the transaction is subject to government approval), in which we also become the operator. For more information on this aquisition, see the report section Operational review-International E&P.

Norsk Hydro took part in the development of the first Norwegian oil field, Ekofisk.

Statfjord, which was discovered in 1974, is the biggest oil field in the North Sea. Statoil became operator for the Statfjord field in 1987.

Theme

# Deep ambitions in the Gulf of Mexico

*Broad and exciting perspectives are now opening for us in and around the world's largest energy market. We are developing and strengthening our presence in North America. For more than two decades, we have been an important supplier of Norwegian oil to the US and Canada. A new chapter is now being written in our history, which involves growing entitlement production from offshore and land-based oil and gas fields in both the US and Canada. And we are taking our first steps as an exploration operator in Alaska through the award of new licences. Deliveries of liquefied natural gas from Snøhvit to the US have also begun.*

In October 2007, we started production on the Q field, the first StatoilHydro-operated deepwater field in the Gulf of Mexico. The Q field has been developed with a subsea facility connected to the Anadarko-operated platform Independence Hub.


At the yard in Corpus Christie, work is underway to complete the Tahiti platform for production start in the Gulf of Mexico in 2009.

**Gulf of Mexico**

By acquiring licences and companies, we have built up a portfolio in the US Gulf of Mexico (GoM) which makes us the fourth largest deepwater player in this region. Our current production from the GoM is 20,000 barrels of oil equivalent per day. Production will increase strongly in the years to come.

The first oil explorers in the Norwegian North Sea during the mid-1960s brought experience from shelf areas of the GoM to the Norwegian continental shelf (NCS), and found oil. In the space of a few decades, Norway has built up heavyweight expertise in offshore operations. With experience from some of the industry's most demanding development projects on the NCS, we in StatoilHydro are now getting to grips with the extremely difficult reservoirs found in the deepwater GoM, relying on our NCS experience.

We will be taking delivery of two new drilling vessels in 2007 and 2008. Representing the most advanced technology ever seen in this area, they will be deployed in the GoM.

**Promising**

We currently participate in half of the 12 largest discoveries made off the US Gulf coast. A new discovery called Julia was announced at the beginning of 2008, in 2,000 metres of water. Drilled to a total measured depth of 9,500 metres, the discovery well was a result of an exploration agreement we concluded with ExxonMobil in 2005.

"This is a promising oil strike," reports Helen Butcher, who heads our exploration effort in the GoM.

It helps to strengthen our position in the Walker Ridge area, where we are a substantial licensee, and confirms our faith in this region.

We are involved in the development of Jack and St Malo, two other substantial finds in the vicinity. Both are planned to come on stream after 2013.

In early December 2007, we also announced that a discovery had been made near West Tonga in Green Canyon. These activities underline our strategy of building up an important new production source in the GoM.

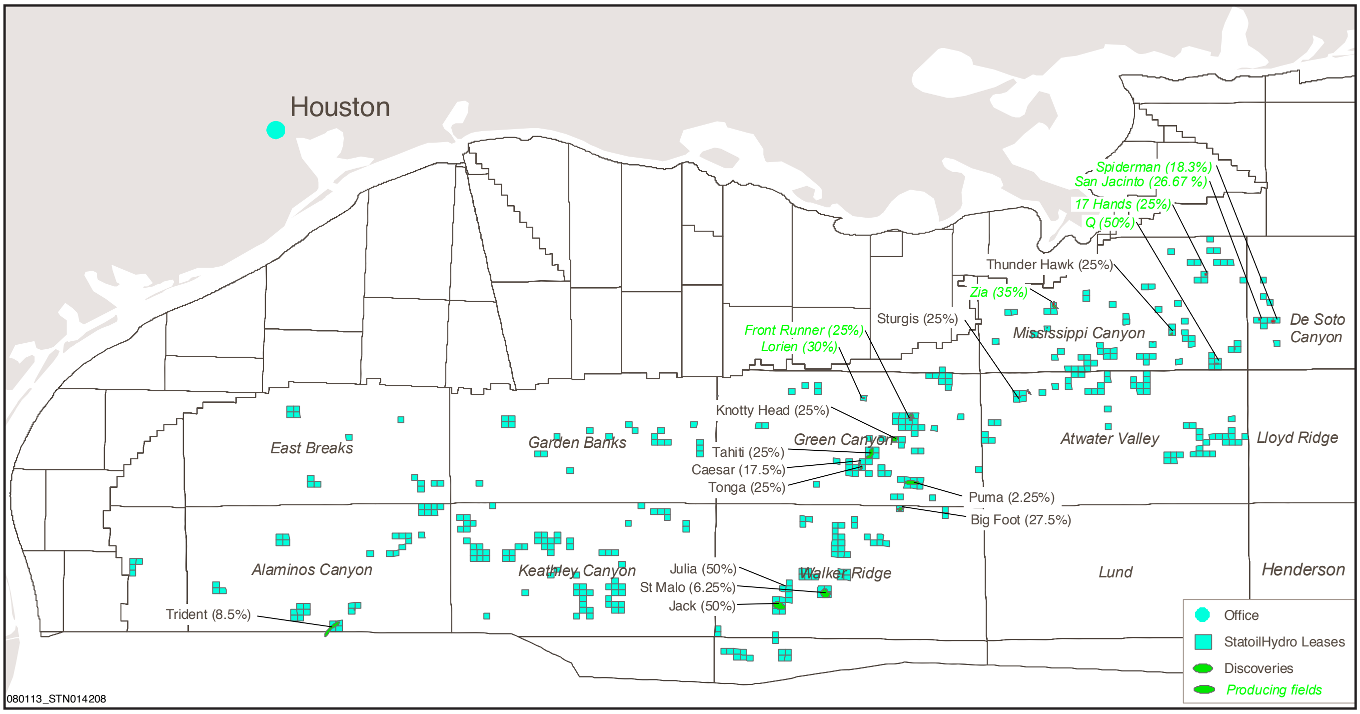
**Great potential**

The US Mineral Management Service (MMS) estimates potential reserves in the deepwater GoM at more than 50 billion barrels. We have positioned ourselves at the forefront of the search for these energy resources. Our experience and technology from the NCS are highly relevant for this part of the world.

In addition to their water depth, reservoirs in the GoM lie deep beneath the seabed and have a very complicated geology. Thick layers of salt cover the reservoir rocks, which makes it difficult to spot oil and gas deposits on seismic charts. The reservoir has tight rock and high pressure. Achieving a high recovery factor for their oil and gas thus represents a challenge.

**Something to contribute**

"We're known as a company which gets a




StatoilHydro is the fourth biggest deepwater player in the Gulf of Mexico.

lot out of its resources and which is able to handle very complicated development projects," says Øyvind Reinertsen, who heads our North American activities. "This experience will represent our most important contribution to increased production and value creation in deep GoM waters. Despite the complexity, we believe we have something to contribute here, and it's my clear impression that we're regarded with respect as a company."

Randy Perry is one of the US staff at our Houston office and serves as asset manager for our interests in the Tahiti field, which is due to come on stream in 2009. A third-generation oilman, he has worked in the industry for 30 years. He has this to say about opportunities in the GoM:

"There are a lot of barrels out there, but discovering, developing and producing them will take much creativity."

## Growth

Increased activity in the GoM will be matched by an expansion in our Houston organisation, which currently totals almost 250 staff. The number of employees is expected to increase considerably in the years to come. Recruitment will primarily occur in the local labour market, and we are going to have a great need for specialists with experience from deepwater operations in the GoM.

We regard the US GoM as one of the most interesting exploration areas currently open to the oil industry. External frame conditions are characterised by political and economic stability and predictability, while the oil and gas fields there lie on the threshold of the world's largest energy market.

## The American market

Since the mid-1980s, we have been an important supplier of oil from the North Sea to the US and Canada. These sales are handled from Stamford in Connecticut, and our office there has been responsible for selling three billion barrels of oil and products to the North American market over the past 20 years.

We expect to be able to deliver crude to the US from sources in the GoM in coming years. Our commitment to oil fields off Brazil and our oil sand reserves in Canada are also seen as relevant for the US market in the future. Our Venezuelan oil production is also favourably located for delivery to the US.

In addition, we expect to supply large volumes of gas in the form of LNG from the Snøhvit field off northern Norway and the Melkøya terminal outside Hammerfest, the world's northernmost town. The gas liquefaction plant at Melkøya is the first in Europe and the world's most northerly. LNG will be delivered to the US market via the Cove Point terminal in Maryland, where we have secured access to an annual import capacity of 10.4 billion cubic metres. Substantial growth is forecast for the LNG market in coming years, and we are well positioned to take advantage of these market opportunities.

Theme

# Long-term growth in Canada

*From offshore oil to bitumen deep beneath the Boreal forest. Canada's vast oil resources provide StatoilHydro a platform for long-term growth. We visited the company's oil sands leases in Alberta to take a closer look at the opportunities for growth in Canada and the challenges involved.*

Exploration drilling for oil sands in Alberta.

Wayne Krueger is taking part in StatoilHydro Canada's trainee programme for local people in the area.

Wendy Gaucher-Bigcharles is community liaison officer in StatoilHydro Canada, and she takes a great interest in conditions for local inhabitants.

Oil, sweat and flexed muscles. The exploration drilling rig is shrouded in steam, and the air temperature is minus 15 degrees Celsius. The rig crew works intensely on the drill floor. Bang! A new length of casing is connected, and then the drill string descends 400-500 metres below the surface. This is one of 12 rigs working round the clock supported by an operation of nearly 700 contractors as StatoilHydro Canada's 150-well winter drilling programme ramps up.

StatoilHydro Canada has four large, contiguos lease areas in the forests of the Athabasca region in Alberta: Leismer, Corner, Hangingstone and Thornbury. Together, they contain around 2.2 billion barrels of bitumen. The indigenous Chipewyan Dene people in the area gave our project the name Kai Kos Dehseh.

We are on a trip with Wendy Gaucher-Bigcharles, one of StatoilHydro Canada's community liaison officers working with the local people. She tells us that in the language of the Chipewyan Dene people, Kai Kos Dehseh means Red Willow River, commonly known as the Christina River, which meanders through our lease area.

### Being a good neighbour

The drilling is finished, and the electronic logging tool is lowered into the hole on a long cable. The steam and noise fade, and six men climb down from the rig. Wayne Krueger has few company logo stickers on his hardhat. He has only been working on the rig for two days, and is part of the company's drilling training and employment programme for the local people.

"This means a lot to me. I have been given a new job opportunity and I feel it is going really well. The work may be hard, but I enjoy it," says Mr Krueger.

One of the jobs of Ms Gaucher-Bigcharles, who is from an indigenous Cree-community in central Alberta, is to develop and support the training and hiring of young people near our operations.

"Being able to provide meaningful employment opportunities to local people is all about StatoilHydro Canada's credo of "Being a Good Neighbour" she says.

Gaucher-Bigcharles has made many trips to the lease areas since she joined North American Oil Sands Corporation (NAOSC) almost three years ago. At the time, NAOSC was operator of the leases encompassing more than 1,110 square kilometres. The company was aquired by Statoil in June 2007. Since the merger with the offshore unit originally owned by Hydro, the company is called StatoilHydro Canada Ltd.

### Expanding in Canada

"What we are experiencing in Canada is triple integration," says Geir Jøssang, President of StatoilHydro Canada Ltd. He is sitting in a high-rise office building in Calgary, in what used to be NAOSC's offices. Soon the offices will expand in the building to accomodate the colleagues from the former Hydro's Atlantic offshore exploration and production group.

Hydro Exploration and Production activities started in Canada in 1996, acquiring, among other things, ownership interests in two producing fields, off Newfoundland and Labrador. Today, the company's share of production from the Terra Nova and the Hibernia field amounts to about 24,000 barrels a day.

Jøssang tells us that before the merger this was an important international source of income for Hydro. Statoil's interest in Canada, however, was oil sands, building on its heavy oil experience in Venezuela and demonstrated ability to work in harsh environments applying advanced technologies.

"The oil sands are accessible, there is a reasonably stable fiscal framework, and we are right next door to the worlds biggest petroleum product market. Large-scale production offshore with additional potential, combined with our significant foothold in oil sands, makes Canada a major future growth area for StatoilHydro," he says.

### No mining operations

We have left behind the towering derricks and are standing in a large, square clearing in the forest: the facility site for the Leismer project. This is the first phase of the Kai Kos Dehseh project. Oil sands development has encountered strong opposition from environmental groups, Norwegian among others, who have seen pictures of the open-pit mines. They are located 150 kilometres to the north of our leases, and Mr Jøssang is at pains to point

Around 150 exploration wells are drilled during the three winter months. In summer, swamps and bogs make it impossible to work in this area.

out that we will not be mining. We will use technology called Steam Assisted Gravity Drainage (SAGD).

The method entails placing pairs of horizontal wells in the sandstone formation containing the bitumen. A total of 22 well pairs will be drilled for the start of the Leismer project. A processing plant will generate steam that is fed down into the upper of the two wells of each pair. The steam condenses as it gives its heat to the bitumen causing the tar-like, viscous hydrocarbon to flow through the sand formation like light conventional oil down to the lower well. The mixture of hot bitumen and water is pumped to the surface. Once the water and bitumen are separated, the water will be cleaned up and returned to feed the boiler and again converted to steam.

Leismer will have capacity to produce 20,000 barrels of bitumen a day, while the total production from Kai Kos Dehseh is expected to reach 200,000 barrels a day by the end of the next decade.

**Environmental challenges**

The SAGD method leaves a much smaller environmental footprint than mining operations, but SAGD still faces challenges, such as water and land use, and of cource carbon dioxide emissions.

"We do not intend to use water from the Athabasca River, which is tens of kilometres to the northwest.We will instead be using saline water from a deep geological formation not used for other purposes," says Mr Jøssang. He points out that the goal is to recycle all the water:

"We will use the best available technology to recycle water and re-use it as well as reduce the amount we use. The industry standard today is 90% recycling. Our goal is to achieve 100%," says Mr Jøssang.

**Ambitious $CO_2$ strategy**

Steam production leads to the emission of carbon dioxide as the boilers are fired with natural gas. The method is energy-intensive and the emissions will be much higher than from conventional oil production.

On one of the new floors in StatoilHydros Calgary office sits Per Markestad, Vice President for Sustainable Technology. He tells us that, in the short-term, the company's ambition is to reduce the amount of steam required to heat the oil sand. One concrete example of this is a planned pilot project in which solvent will be injected into the steam, which

## Offshore

StatoilHydro is operator and partner in numerous licenses offshore Newfoundland and Labrador. We have ownership interests in two producing offshore fields:

- Terra Nova, with net interest of 15%
- Hibernia, with net interest of 5%

An extension of the main Hibernia field, Hibernia Southern Extension, is under review for development via the existing Hibernia platform. A pre-development evaluation is being performed for another large discovery, the Chevron-operated Hebron Ben Nevis oil field, in whichStatoilHydro's interest is approximately 10%.

In total in Canada, we currently have ownership interests in six offshore exploration licences, two production licences and 28 other licences on which hydrocarbones have been detected.

StatoilHydro Canada is operator for oil sands licences that extend over an area of 1,110 square kilometres.

## Technology centre

StatoilHydro has established its first technology centre outside Norway, the Heavy Oil Technology Centre. Situated in Alberta, Canada, it will undertake research and technology development to support our heavy oil business world-wide. The emphasis will be on the development of a sustainable chain on heavy oil.

The technology centre represents a long-term investment in exiting and future activities and development projects. According to Rolf Utseth, head of the centre, "locating our research in Canada close to one of the world's greatest deposits of heavy oil is also part of being a good citizen".

Our ambition in heavy oil increased considerably with the acquisition of NAOSC.

"New technology will have to play a key role if we are to realise these ambitions in relation to the recovery and upgrading of heavy oil," says Mr Utseth. He emphasises that the development of new clean technologies will be a major focus.

experiments show helps to reduce the viscosity of the bitumen reducing the amount of steam required.

"This could reduce the emissions of carbon dioxide significantly from the upstream production," says Mr Markestad.

He emphasises that, in the long run, the company wishes to participate in a carbon dioxide capture and storage project in cooperation with other industry players and the Alberta authorities. StatoilHydro has joined a group of the largest $CO_2$ emitters in Alberta (the ICON group) who are cooperating to establish an integrated network for $CO_2$ capture and sequestration in Alberta.

The first StatoilHydro heavy oil upgrader development is also planned to be "capture ready" in preparation for future carbon capture and storage. This is in line with the ambitions of the government of Alberta which has recently published a climate change strategy that includes a plan to capture 139 million tons of $CO_2$ per year by 2050.

The long-term ambition is clear to Mr Markestad:

"Our ambition is to significantly reduce the $CO_2$ emissions compared to the typical $CO_2$ emission intensity today, and we have started a comprehensive project where we will study all possible options for reducing or offsetting $CO_2$ emissions. This study will form the basis for our $CO_2$ strategy. We are serious about this, and that is why we have to do our homework properly before we decide on a specific plan of actions".

### Platform for long-term growth

Right next door sits Marty Proctor, Senior Vice President for Upstream Development and Production. He was in this position with NAOSC as well, and tells us that the company's employees have always been concious of the environmental impact of bitumen production.

"It means a lot to us that NAOSC is now part of a company that also has a strong focus on this aspect and has means at its disposal to put its plans into practice," he says. But right now, Mr Proctor's focus is on the winter drilling programme, the Leismer project and moving forward with the engineering design and planning of the full field development.

"StatoilHydro's oil sands leases will produce for many years. This project is truly a platform for long-term growth for the company", says Mr Proctor.

The cold night air at the Leismer camp bites, and everyone is shivering as they climb back into the pick-ups. Soon, we warm up as our small plane climbs steadily into the night sky, headed for Calgary. Behind us, beneath the wintery silence of the Boreal Forests, lies one of world's greatest hydrocarbon treasures. But unlocking it poses challenges.

"One of the keys to our success", says Ms Gaucher-Bigcharles, "will be ensuring good relations with the local communities. Our license to operate will depend on how well we work with them."

It’s all about having a lot of company logos on your hardhat. Tylor Warren can demonstrate that he has worked for many different companies and has extensive experience.

# Our business

*StatoilHydro ASA is the leading operator on the Norwegian continental shelf. Our international production is currently growing strongly. We create value for our owners through engaging in profitable and safe business activities and sustainable business development.*

- In 2007, our entitlement production was 1,724 million barrels of oil equivalent per day, 18% of which was produced outside Norway.
- As of 31 December 2007, our total reserves amounted to 6,010 million barrels of oil equivalent, divided between 2,389 million barrels of oil and 576 billion standard cubic metres of natural gas.
- We are represented in 40 different countries and have 29,500 employees.
- We are among the world's biggest sellers of crude oil and the second biggest supplier to the European gas market.
- We have substantial activities in the fields of processing and refining, and we operate service stations in Scandinavia, Poland, the Baltic countries and Russia.
- We contribute to the development of energy resources and are at the forefront of developments in carbon capture and storage.
- Our core expertise is related to deepwater projects, heavy oil, harsh environments and the handling of gas value chains.

The company's activities and business areas are presented in the following chapters.

Hammerfest LNG is StatoiHydro's first landing facility on the Norwegian continental shelf. The gas is piped 143 kilometres along the seabed before being brought ashore on the island of Melkøya.

# Business strategies

## Exploration & Production Norway

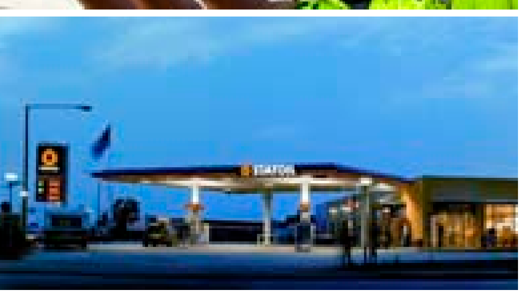
There are several factors that are expected to contribute to the achievement of our production goals on the NCS. They include cost-effective operations, improved recovery from existing fields, development of new discoveries, the proving of new reserves through intensive exploration activity and increased access to new licences. Focus on health, safety and the environment (HSE) and optimal use of existing infrastructure are also important elements in this connection.

## International Exploration & Production

International Exploration & Production (INT) is driving the company's future upstream growth ambition. The strategy is to access new resources through high quality exploration activities and focused business development by utilising our technological experience and project execution skills.

## Natural Gas

The Natural Gas' (NG) strategy is to maximise the value of our long-term sales business, improve our portfolio optimisation activities and establish new gas value chains.
We have a long-term portfolio of sales contracts for gas and are continuously assessing the midstream and downstream possibilities to improve our utilisation of existing infrastructure, access to deliveries and experience in marketing of natural gas.



## Manufacturing & Marketing

Manufacturing & Marketing (M&M) aims to contribute to the integrated value chain for oil by developing selected competitive positions, thus maximising the value of crude oil production and increasing the value of our upstream portfolio. We plan to continue developing our position in North America by maximising value creation relating to the company's crude oil production in Canada and the Gulf of Mexico in addition to equity oil shipped to the USA from other regions.

## Technology & New Energy

TNE is an important partner for the business areas and is responsible for research and development and new energy. The technology strategy continues to be upstream-focused, although considerable attention is also paid to integrating technology into value chains, the exploitation of oil sands, carbon management and renewable energy sources. Our New Energy business aims to achieve profitable growth in the sale of wind power and biofuels.

## Projects

Our strategy is to develop projects on time, at cost and in a safe and reliable manner. Our ability to utilise the company's world-leading technology and execute projects in complex surroundings will be of vital importance in terms of opening up new business opportunities, as will our ability to demonstrate our core expertise in new markets.

# Facts

# Key events in 2007

Exploration & Production Norway (EPN) is responsible for our exploration, field development and production operations on the Norwegian continental shelf. EPN is the operator of 37 developed fields that collectively produced more than three mmboe per day in 2007, which represented about 80% of the total production from the NCS. In 2007, our average daily equity oil and NGL (Natural Gas Liquids) production was 817,9 mboe and our daily equity gas production was 95.2 mmcm (3.4 bcf), totalling 1.417 mmboe per day.

- The giant Ormen Lange development project was completed. Production started in September.
- The Snøhvit field started production in September.
- The Statfjord late-life project started production in October following the opening of Tampen Link Pipeline for gas exports.

International Exploration & Production (INT) is responsible for the company's exploration, development and production of oil and gas outside the Norwegian Continental Shelf. The entitlement production increased to 307 mboe per day in 2007 from 234 mboe per day in 2006. We have ownership interests in producing fields in Canada, the US Gulf of Mexico, Venezuela, Algeria, Libya, Angola, Azerbaijan, the UK, China and Russia. In addition, there are large development projects in Brazil, Nigeria and Ireland.

- 31% growth in production, six new fields put into operation
- Heavy oil position was strengthened by the acquisitions of North American Oil Sands Corporation in Canada and the Mariner/Bressay/Broch discoveries in the UK
- Peregrino in Brazil and Pazflor in Angola ready for development
- Framework agreement signed with Gazprom about development of phase 1 in the Shtokman project

The Natural Gas (NG) business area is responsible for transporting, processing and marketing StatoilHydro's gas via pipelines and LNG worldwide, including securing sufficient processing, transport and storage capacity. NG is also responsible for marketing the gas from the State's Direct Financial Interest (SDFI). Altogether, we are responsible for roughly 80% of all Norwegian gas exports. NG is responsible for technical operation of most of the export pipelines and onshore plants in the processing and transport system for Norwegian gas (Gassled).

- On 20 October 2007, the first vessel with liquefied natural gas (LNG) from Snøhvit left Melkøya
- Start-up of the Tampen Link pipeline opened a new corridor to the UK gas market in the autumn of 2007
- Regular deliveries of gas from the Shah Deniz field in Azerbaijan to Turkey since July 2007

M&M creates value by processing and selling the company and the State's crude oil and liquefied natural gas (LNG) and is responsible for the transportation of oil, refining, sales of crude oil and refined products, and for the retail business. Operating in 12 countries, M&M runs two refineries, one methanol plant, two crude oil terminals and an extensive distribution network. More than one million customers visit our approximately 2300 petrol stations daily. M&M employs more than 13,000 people of more than 30 different nationalities.

- We signed a purchase agreement with ConocoPhillips for its Scandinavian Jet brand unmanned gas station network
- Building of the combined heat and power plant at Mongstad started
- Our energy and retail business on the Faeroe Islands was sold

Technology & New Energy (TNE) is responsible for securing capacity and technological expertise and for developing concrete technological solutions for global growth. This includes new, competitive technological solutions for exploration, increased recovery, field development, concept development and safe and efficient operations. The R&D department carries out research and development, pilot testing and commercialisation of new technology. The new energy department is responsible for development projects and technology development within wind power, biofuels, hydrogen and carbon capture and storage.

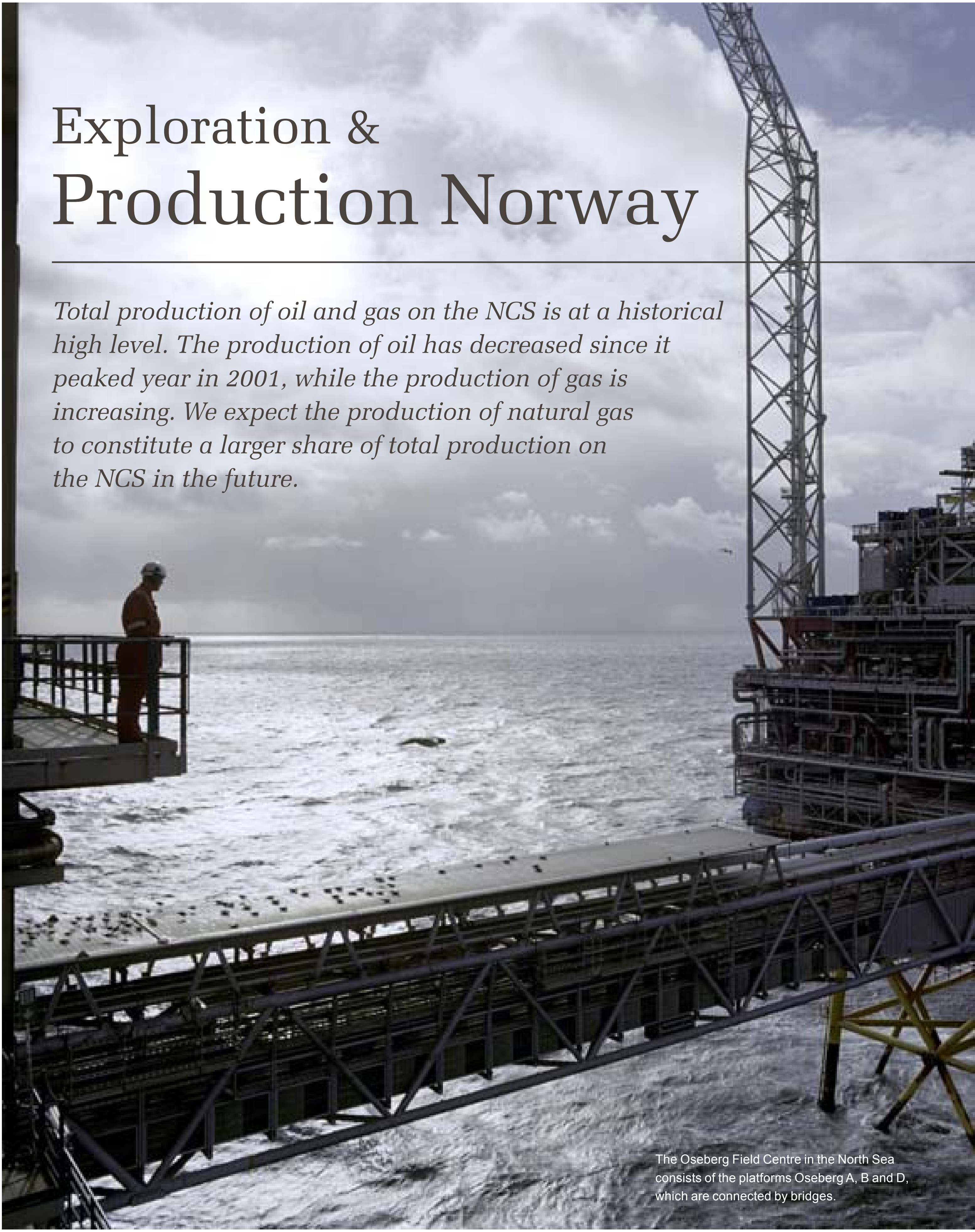
- Developed and delivered the world's longest multiphase pipelines on the Ormen Lange and Snøhvit gas fields.
- Installed the world's first commercial subsea separator on the Tordis field
- Started collaboration on Mongstad carbon dioxide test centre in June.

Projects (PRO) is responsible for planning and executing all development projects and major modification projects, and it will contribute to safe and efficient operations in connection with the projects. It is also responsible for procurements, including securing the required rig capacity. The business area has activities in most of the company's office locations and platforms, and offices in Oslo, Stavanger, Bergen and Stjørdal.

- Sanctioned start-up of first phase of the oil sands project in Athabasca in Canada. The authorities approved the Leismer SAGD demonstration project.
- Plan for development and operation for Alve, Gjøa and Vega approved by the authorities.
- Kårstø extension project approved.

# Exploration & Production Norway

*Total production of oil and gas on the NCS is at a historical high level. The production of oil has decreased since it peaked year in 2001, while the production of gas is increasing. We expect the production of natural gas to constitute a larger share of total production on the NCS in the future.*



The Oseberg Field Centre in the North Sea consists of the platforms Oseberg A, B and D, which are connected by bridges.

| KEY FIGURES | | |
|---|---|---|
| (NOK million) | 2007 | 2006 |
| Total revenues | 179,244 | 179,199 |
| Net operating income | 123,150 | 135,140 |
| Gross investments | 31,100 | 29,200 |



Total production from the NCS is at a historical high. In 2007, the total production from the NCS was 4.1 mmboe per day. However, production of oil on the NCS has decreased since peaking in 2001 and it is now at the lowest level since 1993/94. While oil production on the NCS shows a falling trend, natural gas production is increasing and we expect the production of natural gas to constitute a larger share of total production in the future. This will affect both the level of activity and profitability on the NCS.

### Exploration

In 2007, we participated in 24 exploration wells, 16 of which resulted in discoveries. We operated 19 of the 24 exploration wells, including 14 of the 16 discoveries. In addition, we operated two exploration extensions, both of which resulted in discoveries.

In 2007, the most important discoveries in the North Sea were Ermintrude and Ragnarrock, both close to the Sleipner field. In the Oseberg area, production tests carried out on the Shetland Chalk oil discovery confirmed recoverable resources in chalk reservoirs. In the shallow water of the Norwegian Sea, the Onyx South West gas discovery increased the probability of a new gas province development. In the Barents Sea, the Goliat West well proved additional resources in deeper segments, and the Nucula discovery confirmed the oil potential in this part of the Barents Sea.

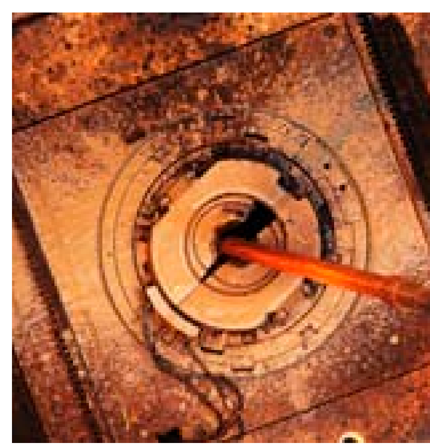
### New development projects

**Alve.** The Alve field, in which we hold an 85% interest, is located in PL159B in the Norwegian Sea, 14 km south west of the Norne field. The Plan for Development and Operation (PDO) was submitted to the Norwegian authorities in January 2007 and approved in March 2007. The field will be developed through the installation of a four-slot subsea wellhead template that will be tied back to the Norne FPSO. Production is scheduled to start in early 2009.

**Morvin.** Morvin, in which we hold an interest of 64%, is an oil and gas field located in the Norwegian Sea, 15 km north-west of Åsgard. The field was discovered in 2001 and the Plan for Development and Operation was submitted in February 2008. The field will be a subsea development with two templates tied in to Åsgard B for processing through a 20 km long wellstream pipeline. Production from the field is estimated to commence in late 2010.

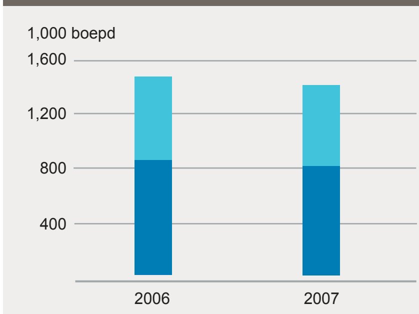
**Yttergryta.** The Yttergryta subsea gas and condensate field development in the Norwegian Sea, 33 km east of Åsgard B, with an investment value of approximately NOK 1.2 billion, is an excellent example of a relatively small but unique project in our portfolio. The discovery was made in the summer of 2007 and the Plan for Develop-

Tommy Hans Andersen is a process technician who works in the control room on Oseberg.



From the drill floor on West Venture,

### STATOILHYDROS SHARE OF OIL AND GAS PRODUCTION, NCS




| | 2007 | 2006 |
|---|---|---|
| Oil (thousand barrels per day) | 818 | 864 |
| Natural gas (thousand boe per day) | 599 | 610 |
| Total production (thousand boe per day) | 1 417 | 1 474 |

ment and Operation was submitted in January 2008. Production start-up is expected to take place in early 2009.

**Skarv.** The PDO for Skarv was submitted in June 2007 and approved by the Norwegian parliament in December 2007. Skarv is an oil and gas field. It is located in the Norwegian Sea and BP is the operator. Production is expected to start in August 2011.

Our NCS portfolio consists of licences in the North Sea, the Norwegian Sea and the Barents Sea. We have organised our production operations into three business clusters: Operations North Sea, Operations West and Operations North.

**STATOILHYDROS AVERAGE OIL AND GAS PRODUCTION - NCS**

1,000 barrels of oil equivalent/day

| Field | Statoilhydro's share | 2007 |
|---|---|---|
| Kristin | 55.30 % | 87.1 |
| Norne/Urd | 39.1/63.95% | 42.7 |
| Heidrun | 12.41% | 15.3 |
| Åsgard | 34.57% | 127.0 |
| Mikkel | 43.97% | 25.5 |
| Njord | 20.00% | 4.0 |
| Snøhvit | 33.53% | 1.3 |
| Sleipner East | 59.60% | 53.4 |
| Sleipner West | 58.35% | 110.5 |
| Gungne | 62.00% | 16.3 |
| Troll Phase 1 (Gas) | 30.58% | 191.2 |
| Troll Phase 2 (Oil) | 30.58% | 50.4 |
| Fram | 45.00% | 20.1 |
| Kvitebjørn | 58.55% | 10.7 |
| Visund | 53.20% | 36.5 |
| Grane | 38.00% | 78.8 |
| Veslefrikk | 18.00% | 2.9 |
| Huldra | 19.88% | 3.4 |
| Glitne | 58.90% | 4.7 |
| Heimdal | 29.87% | 1.0 |
| Brage | 32.70% | 8.1 |
| Vale | 28.85% | 1.6 |
| Statfjord Unit | 44.34% | 62.4 |
| Statfjord North | 21.88% | 4.7 |
| Statfjord East | 31.69% | 9.0 |
| Sygna | 30.71% | 2.0 |
| Gullfaks | 70.00% | 168.6 |
| Snorre | 33.32% | 49.4 |
| Tordis area | 41.50% | 18.4 |
| Vigdis area | 41.50% | 26.6 |
| Gimle | 65.13% | 6.3 |
| Oseberg | 49.30% | 99.3 |
| Tune | 50.00% | 17.4 |
| Totalt StatoilHydro Operated Fields | | 1 356.4 |
| Ormen Lange | 28.92% | 8.6 |
| Ekofisk area | 7.60% | 25.9 |
| Ringhorne East | 14.82% | 4.2 |
| Sigyn | 60.00% | 17.8 |
| Enoch | 11.78% | 0.7 |
| Skirne | 10.00% | 2.3 |
| Murchison | 11.52% | 0.7 |
| Total Partner Operated Fields | | 60.1 |
| Total | | 1 416.7 |

### Operations North Sea

The Operations North Sea area covers most of StatoilHydro's production activity in the North Sea. Our producing fields in the Operations North Sea are Troll, Fram, Sleipner, Kvitebjørn, Visund, Grane, Brage, Veslefrikk, Huldra, Glitne, Volve, Heimdal and Vale. The area is dominated by the production of natural gas, as 60% of the equity production 2007 was gas. The petroleum reserves are located in water depths of between 80 and 330 metres. There is high focus on increasing and prolonging production in the area. Improved oil recovery and field exploration and development have priority. In late 2007, our application for extension of the licence period in the Sleipner area until 2028 was approved, which is expected to have a positive impact on the economic life of the infrastructure in the area.

### Operations West

The Operations West area is responsible for a compact geographic area in which StatoilHydro is the sole operator. The main

Sleipner A is an important hub for gas deliveries to Europe.

producing fields in the area are Statfjord, Gullfaks, Snorre, Oseberg, Tordis and Vigdis. Operations West is the leading oil producing area on the NCS. Even after twenty years of production, we believe there are still substantial opportunities for increased value creation. We have taken several initiatives to identify and implement measures to increase and prolong production from the Operations West area. These initiatives involve a combination of cost reductions and increased oil recovery, and they have resulted in a prolongation of planned production beyond the current licence period for several of the fields.

**Operations North**

Our producing fields in the Operations North area are Åsgard, Mikkel, Heidrun, Kristin, Norne, Urd, Njord and Snøhvit.

This region is characterised by petroleum reserves located at water depths of between 250 and 500 meters. The reserves are partly under high pressure and at high temperatures. These conditions have made development and production more difficult and have challenged the participants to develop new types of platforms and new technology, such as floating processing systems with subsea production templates. We plan to increase efficiency by further coordinating our operations in the area and by stemming the decline in production from the mature fields through increased seismic activity and well maintenance. In addition, we intend to expand our activities by utilising our installed production and transportation capacity before building new infrastructure.

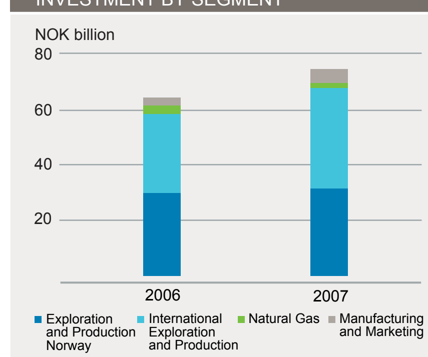
**Snøhvit and Ormen Lange commenced production**

Snøhvit is the first developed gas field in the Barents Sea. Twenty wells will produce natural gas from three gas reservoirs: Snøhvit, Askeladd and Albatross. All of the offshore installations are subsea, which makes Snøhvit one of the first major developments without production facilities on the surface. The natural gas is transported to shore through a 143-kilometre pipeline and it is landed at Melkøya, where it is processed. Snøhvit is Europe's first export plant for LNG. LNG is shipped to customers in Europe and the USA in tankers. The first shipment took place in late 2007. The LNG plant has suffered from operational challenges and there are still uncertainties related to the timing of regular and stable operations.

Ormen Lange, a deepwater gas field in the Norwegian Sea, is the second largest gas field on the NCS. StatoilHydro was the operator for the development phase and Norske Shell became the operator for the production phase that began on 1 December 2007. StatoilHydro will continue to execute approved, but not yet completed, parts of the subsea development. The selected development solution is an extensive seabed installation at depths ranging from 850 to 1,100 metres. The well stream is transported to an onshore processing and export plant at Nyhamna. The gas is transported through the Langeled pipeline via Sleipner to Easington in the UK. Production started in September 2007.

Åsgard A production vessel. Åsgard is one of the fields in the operations north unit. The petroleum reserves on the field are located on water depths of 250-500 metres.

INVESTMENT BY SEGMENT

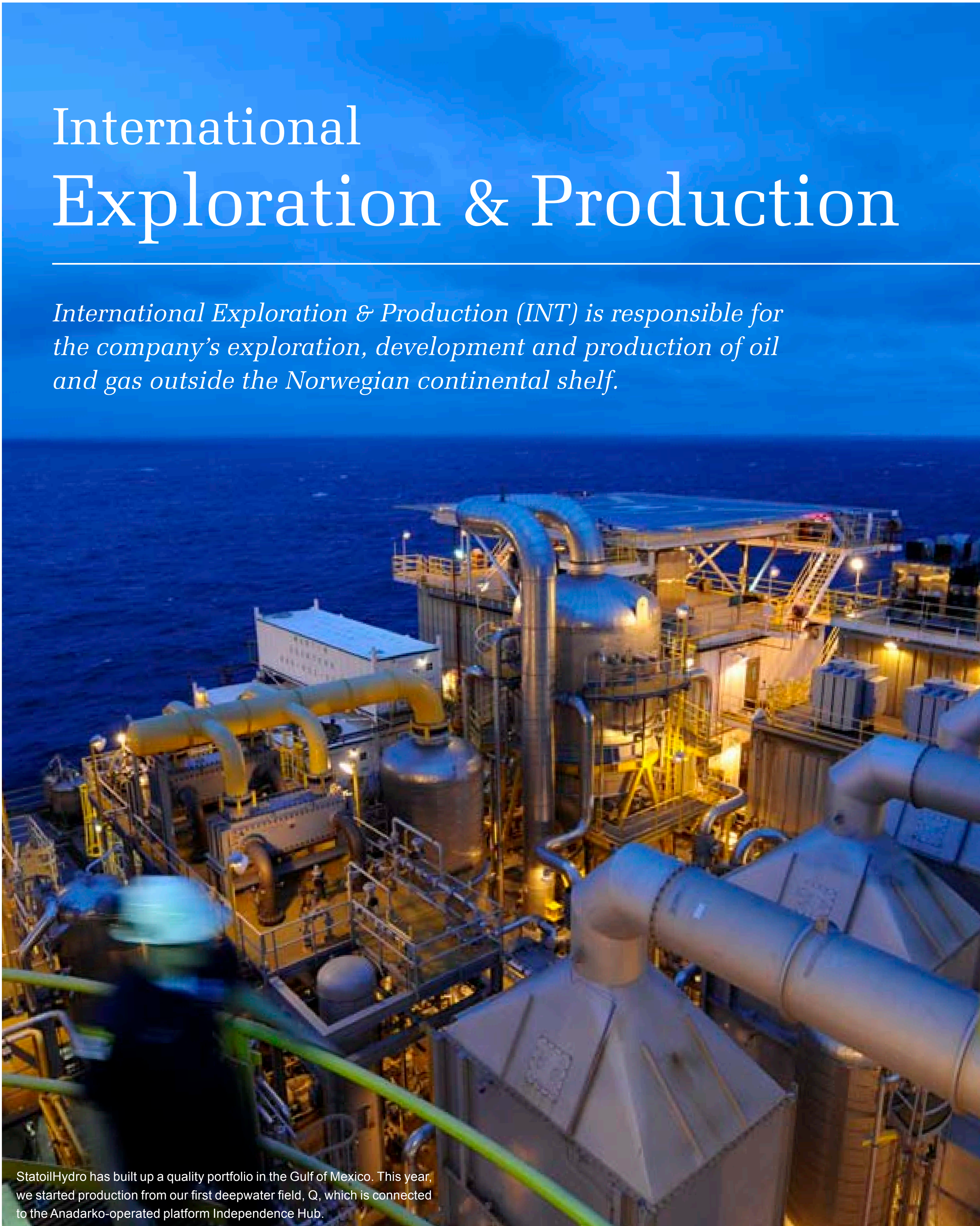



PROJECTS UNDER DEVELOPMENT

| Field | StatoilHydro's share | StatoilHydro's investment | Production start | Plateau production StatoilHydro's share | Lifetime in years |
|---|---|---|---|---|---|
| Alve | 85.000 % | 2.1 | 2009 | 21,000 | 12 |
| Gjøa | 20.000 % | 5.9 | 2010 | 19,000 | 15 |
| Morvin | 64.000 % | 5.6 | 2010 | 21,000 | 14 |
| Oseberg Delta | 49.300 % | 1.1 | 2008 | 15,000 | 18 |
| Skarv | 36.165 % | 11.7 | 2011 | 53,000 | 12 |
| Statfjord Late Life | 44.340 % | 8.4 | 2007 | 43,000 | 12 |
| Tyrihans | 58.840 % | 8.5 | 2009 | 56,000 | 17 |
| Vega/Vega Sør | 60 %/45 % | 4.3 | 2010 | 30,000 | 13 |
| Vilje | 28.853 % | 0.7 | 2008 | 8,000 | 15 |
| Yttergryta | 45.750 % | 0.5 | 2009 | 10,000 | 5 |

# International
# Exploration & Production

*International Exploration & Production (INT) is responsible for the company's exploration, development and production of oil and gas outside the Norwegian continental shelf.*



StatoilHydro has built up a quality portfolio in the Gulf of Mexico. This year, we started production from our first deepwater field, Q, which is connected to the Anadarko-operated platform Independence Hub.

| KEY FIGURES | | |
|---|---|---|
| (NOK million) | 2007 | 2006 |
| Total revenues | 41,601 | 32,602 |
| Net operating income | 12,161 | 3,917 |
| Gross investments | 36,200 | 27,900 |

# INTERNATIONAL EXPLORATION & PRODUCTION

In 2007, we made considerable progress in our targeted effort to strengthen our international position. The entitlement production from our international upstream portfolio was 307 mboe per day, an increase of 31% compared to the previous year. Our exploration and business development activities have been high and we have established new positions in countries such as Canada and Russia supporting our strategy for longterm growth.

**Exploration**

The exploration strategy for StatoilHydro was revised in 2002, and we carried out a major global screening of oil and gas basins to further develop our exploration portfolio.

We completed 47 wells in 2007 and 11 were ongoing as per year-end. Out of these 47 wells 18 were announced as discoveries and 14 were under evaluation at year-end. All of the 11 wells have been completed in first quarter 2008, and two of these 11 have been announced as discoveries.

We are further high-grading prospects for our short-term drilling, which imply prioritisation of the most prospective drilling targets, more optimal allocation of our rig fleet and a dedicated exploration organisation.

**Details about some selected countries:**

**Canada**

In 2007, we acquired 100% of the shares of North American Oil Sands Corporation (NAOSC).

The Leismer SAGD (steam assisted gravity drainage) Demonstration Project was sanctioned by the Board of Directors in December 2007. We anticipate the sanctioning of more project phases after 2009. Production start is scheduled for 2010. In August 2007, we submitted an application to the Alberta regulatory authorities for the full 220 mboe per day commercial SAGD project.

Our offshore assets consist of non-operated, mature oil production from the Hibernia and Terra Nova fields and two discoveries under appraisal - Hebron and Hibernia Southern Extension.

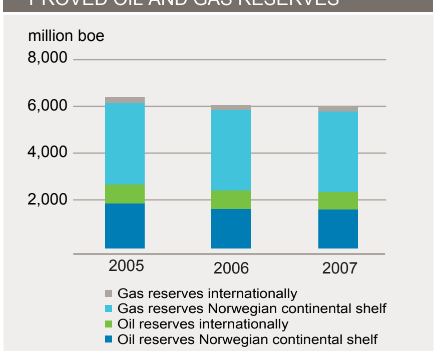
**STATOILHYDROS INTERNATIONAL OIL AND GAS PRODUCTION**

(1,000 barrels of oil equivalent/day)

| Field | 2007 | StatoilHydro's share |
|---|---|---|
| Algeria: In Salah | 25.9 | 31.85% |
| Algeria: In Amenas(2) | 9.7 | 50.00% |
| Angola: Kizomba A | 18.0 | 13.33% |
| Angola: Kizomba B | 17.1 | 13.33% |
| Angola: Xikomba | 1.3 | 13.33% |
| Angola: Marimba North | 1.1 | 13.33% |
| Angola: Girassol/Jasmim | 19.0 | 23.33% |
| Angola: Dalia | 43.4 | 23.33% |
| Angola: Rosa | 9.4 | 23.33% |
| Azerbaijan: ACG | 50.2 | 8.56% |
| Azerbaijan: Shah Deniz | 17.8 | 25.50% |
| Canada: Hibernia | 6.7 | 5.00% |
| Canada: Terra Nova | 17.4 | 15.00% |
| China: Lufeng | 2.8 | 75.00% |
| Libya: Mabruk | 2.2 | 25.00% |
| Libya: Murzuq | 3.6 | 8.00% |
| Russia: Kharyaga | 5.1 | 40.00% |
| UK: Alba | 7.2 | 17.00% |
| UK: Caledonia | 0.1 | 21.32% |
| UK: Dunlin | 0.9 | 28.76% |
| UK: Jupiter | 1.1 | 30.00% |
| UK: Merlin | 0.0 | 2.35% |
| UK: Schiehallion | 2.9 | 5.88% |
| USA: Lorien | 3.0 | 30.00% |
| USA: Front Runner | 2.6 | 25.00% |
| USA: Spiderman Gas | 0.9 | 18.33% |
| USA: Q Gas | 1.3 | 50.00% |
| USA: San Jacinto Gas | 1.1 | 26.67% |
| USA: Zia | 0.6 | 35.00% |
| USA: Seventeen Hands | 0.9 | 25.00% |
| USA: Shelf | 12.8 | 100.00% |
| Venezuela: Sincor | 20.9 | 15.00% |
| Total | 307.2 | |

Helge Lund, CEO of StatoilHydro, and Alexei Miller, chairman of Gazprom, sign the Shtokman agreement on 25 October 2007. The agreement gives us a 24% ownership interest in the Shtokman Development Company.

PROVED OIL AND GAS RESERVES




## Russia

In October 2007, StatoilHydro signed a framework agreement with Gazprom to become a partner with 24% ownership in phase 1 of the Shtokman development through participation in the Shtokman Development Company. The implementation of the project is subject to a final investment decision which is planned to take place in the second half of 2009.

We also have a 40% interest in the producing oil field Kharyaga.

## The US Gulf of Mexico

We have step by step built a high-quality asset portfolio in the US Gulf of Mexico (GoM) through a clear strategy combining acquisitions and exploration.

We are one of the largest deepwater acreage holders in the GoM with more than 400 leases. The Julia and Tonga West wells have been announced as deepwater discoveries in 2007.

Spiderman, Q and San Jacinto commenced production in the fourth quarter of 2007. We have production from several deepwater fields, we have interests in two oil fields under development, Tahiti and Thunder Hawk, and several discoveries under appraisal in the Walker ridge area, Jack and St. Malo.

All our assets on the shelf were sold to Mariner Energy effective 1 January 2008.

## Angola

The Angolan continental shelf is the largest contributor to StatoilHydro's present production outside Norway. It yielded more than 100 mboe per day at the end of 2007, representing approx. 35% of the group's total oil and gas output outside Norway.

We have a 20% interest in block 4/05, 13.33% interest in block 15 and 31, 5% interest in block 15/06, 23.33% interest in block 17 and 50% interest in block 34, all offshore blocks. Current production from Angola comes from the Kizomba A, Kizomba B, Xikomba, Marimba North and Mondo fields in block 15, and Girassol, Jasmin, Rosa and Dalia fields in block 17. Marimba North and Rosa came on stream in 2007 and Mondo came on stream on 1 January 2008.

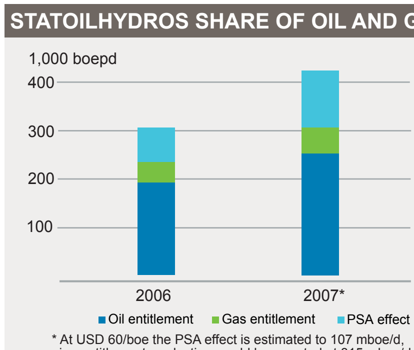
Gimboa in block 4 and Saxi Batuque in block 15 are both expected to commence production in 2008. In December 2007, the operator Total announced that the Pazflor field in Block 17 is ready for development with start-up scheduled for 2011. A new development project, PSVM in block 31, is expected to be approved in 2008. Work is also ongoing to pursue the CLOV development in block 17, additional development in block 31 and satellites like Clochas and Mavacola in block 15.

## Algeria

StatoilHydro is participating in two onshore producing fields, In Salah (31,8%) and In Amenas (50%). The In Salah field is Algeria's third largest gas development and is currently producing at plateau level. The In Amenas field is the fourth largest gas field in Algeria where our revenue stream is based on the liquid volumes produced.

We are the operator for the exploration phase in the Hassi Mouina licence (75%).

STATOILHYDROS SHARE OF OIL AND GAS PRODUCTION OUTSIDE NORWAY




* At USD 60/boe the PSA effect is estimated to 107 mboe/d, i.e. entitlement production would be reported at 315 mboe/d

| | 2007 | 2006 |
|---|---|---|
| Oil (thousand barrels per day) | 252 | 194 |
| Natural gas (thousand boe per day) | 55 | 40 |
| Total production (thousand boe per day) | 307 | 234 |

During 2007, we drilled three exploration wells and all wells resulted in gas discoveries. A fourth well was announced as a discovery in the first quarter of 2008.

Sonatrach has taken over the responsibility for the Algerian safe behaviour programme that StatoilHydro introduced and assisted in adapting to local conditions.

**Azerbaijan**

We hold a 8.56% interest in the Azeri-Chirag-Gunashli (ACG) oil field and a 25.5 % interest in the Shah Deniz gas and condensate field.

ACG commenced production in 1997 and the field is being developed in several stages. First oil from Phase III, which includes the Gunashli deepwater field, is expected to be delivered during the second quarter of 2008. We expect the overall daily production from ACG to reach plateau level of around one million bbls per day by 2010.

Shah Deniz stage I commenced production in December 2006. The plateau production from stage I is expected to be approximately 8.6 bcm (300 bcf) per year to be reached after two to three years of production. StatoilHydro is the commercial operator covering gas sales, contract administration and business development for the Shah Deniz stage I. A major new discovery was made in the Shah Deniz licence in 2007, laying the foundation for a second development phase.

The first drilling location in Hassi Mouina HTJ-2, Algeria in 2006. We are operator for the exploration phase in the Hassi Mouina licence.

**Brazil**

In March 2008, we signed an agreement with Anadarko to take over their 50% interest in the Peregrino project. This will give StatoilHydro a 100% working interest and operatorship of the development. The development was sanctioned in 2007 and the field will be developed with an FPSO (floating production, storage and offloading vessel) and two drilling/wellhead platforms. First oil is planned by 2010.

We successfully bid for two blocks in the 9th Brazilian Bid Round in 2007. A new discovery near the Peregrino field was announced in 2007.

**Nigeria**

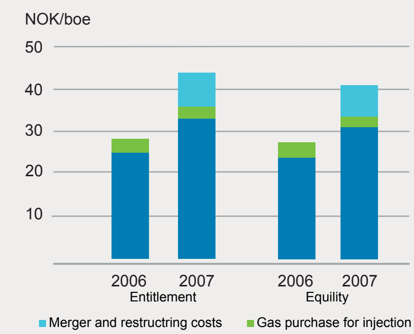
The Agbami field in deep waters off Nigeria is developed with an FPSO and first oil is expected in 2008. Agbami, operated by Chevron, is located in licences OML 127 and OML 128, and our interest in the unitised field is 18.85%.

StatoilHydro is operator for exploration activites in licences OML 128 and OML 129. OML 129 contains the Bilah and Nnwa discoveries, which currently are in the appraisal phase. In addition, we have interests in four other exploration licences.

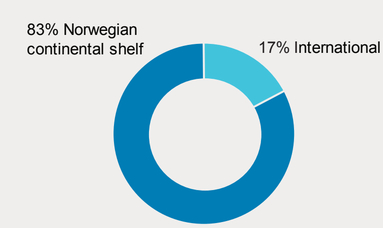
**Venezuela**

In June 2007, we agreed with the Venezuelan government on the main terms and conditions for our participation in the new incorporated joint venture to be created for the Sincor project. The new mixed company, Petrocedeño S.A., started on 9 February 2008. At year end 2007, StatoilHydro held a 15% stake in the Sincor project, while our new stake in Petrocedeño S.A. is 9.677%.

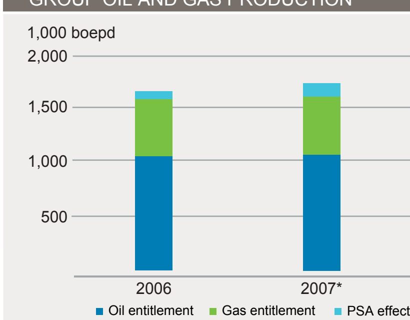
PRODUCTION UNIT COST




DISTRIBUTION OF PROVED RESERVES



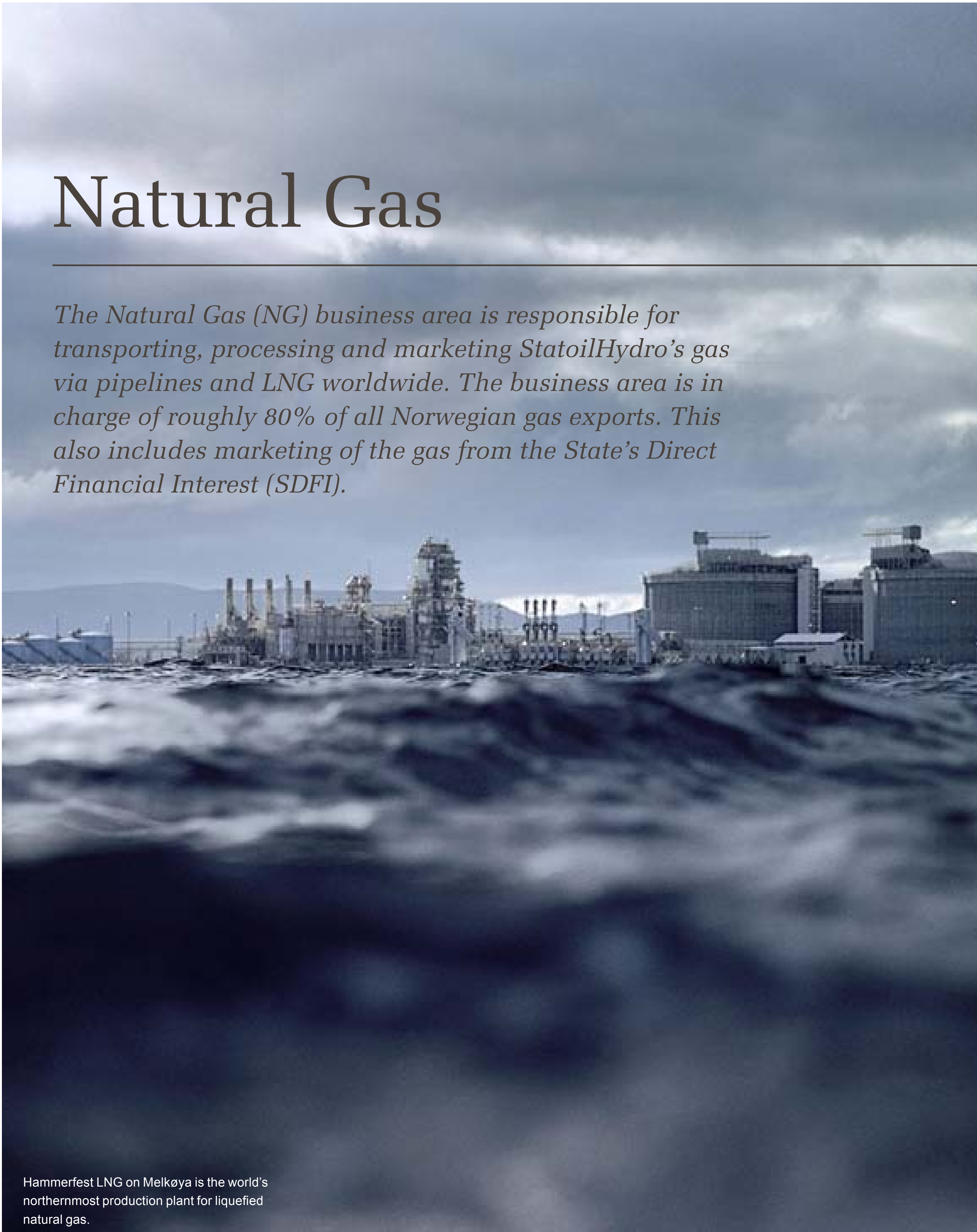

GROUP OIL AND GAS PRODUCTION




* At USD 60/boe the PSA effect is estimated to 107 mboe/d, i.e. entitlement production would be reported at 1,732 mboe/d

# Natural Gas

*The Natural Gas (NG) business area is responsible for transporting, processing and marketing StatoilHydro's gas via pipelines and LNG worldwide. The business area is in charge of roughly 80% of all Norwegian gas exports. This also includes marketing of the gas from the State's Direct Financial Interest (SDFI).*



Hammerfest LNG on Melkøya is the world's northernmost production plant for liquefied natural gas.

## KEY FIGURES

| (NOK million) | 2007 | 2006 |
|---|---|---|
| Total revenues | 73,434 | 97,069 |
| Net operating income | 1,562 | 21,693 |
| Gross investments | 2,100 | 3,200 |



According to the International Energy Agency (IEA), the estimated annual growth in global gas consumption in the period 2005-2030 is 2.1%. In the same period growth in OECD Europe is expected to be at 1.4%. This translates into a European demand for gas in 2030 of approximately 770 bcm - or approximately six times Norway's current export capacity.

### Increasing need in Europe

From around 2010, it is expected that Europe will need additional supplies of piped gas and/or LNG in order to cover demand. High regularity and the geographical location makes NCS gas attractive in the European market. We therefore expect that the demand for gas from Norway will continue to increase.

NG's business is conducted from three locations in Norway (Stavanger, Kårstø and Kollsnes) and from offices in Belgium, the UK, Germany, Turkey, Singapore, Azerbaijan, China and the USA.

In 2007, we sold 34.8 bcm of natural gas from the NCS on our own behalf, in addition to approximately 31.2 bcm NCS gas on behalf of the Norwegian State. From our international positions (mainly Azerbaijan and the US), we sold 2.2 bcm of gas in 2007, 0.8 bcm of which was entitlement gas.

### Sales and marketing of gas

StatoilHydro markets and sells its gas together with the Norwegian State's natural gas. This gives us an approximately 15% European market share and makes us the second largest gas supplier in Europe and the sixth largest supplier in the world. In addition, StatoilHydro markets gas sourced from producing areas other than the NCS. We believe that Norwegian natural gas exports will remain highly competitive because of reliability, access to the transportation infrastructure and proximity to the European market. In addition, natural gas is an attractive source of energy from the perspective of climate change since it emits far less greenhouse gases than coal and oil.

The major export markets for NCS gas are Germany, France, the United Kingdom, Belgium, Italy, the Netherlands and Spain. Our main customers consist of large national or regional gas companies. The gas is mainly sold through long-term take-or-pay contracts.

In the United Kingdom, we market our gas to large industrial customers, power generators and wholesalers, in addition to participating in the UK spot market. NG also has an end user sales business based in Belgium, serving large customers in Belgium, the Netherlands and France. Our group-wide gas trading activity is mainly focused around the UK gas market, which is a significant market in terms of size and the most liberalised market in Europe. We are also increasingly taking part in other liquid trading points such as the TTF (Title Transfer Facility) in the Netherlands and at Zeebrugge Hub in Belgium.

### Processing and new infrastructure

To transport Norwegian natural gas to European customers, Norwegian gas producers have built an extensive gas pipeline system, connecting gas fields to gas processing plants on the Norwegian mainland and to receiving terminals in Europe.

A new dry gas pipeline, Langeled, from the Ormen Lange field via Sleipner to Easington in the UK, was put into operation in October 2007. At plateau levels the field is expected to provide StatoilHydro with more than 6 billion standard cubic meters of gas per year. It is anticipated that Ormen Lange will account for

Turkey is the main market for the gas from phase 1 of the development of the Shah Deniz field in Azerbaijan.

In February 2008, the "Arctic Discoverer" moored at the quay at the Cove Point gas terminal on the West Coast of the USA. She contained the first cargo of gas from Snøhvit, and a new supply route for gas from the Norwegian continental shelf to the USA was established.

approximately 20% of Norwegian gas export in 2010. The Langeled pipeline is part of the Gassled system.

In October 2007 the strategically important Tampen Link pipeline was officially opened. The Tampen Link opens a new corridor to the UK gas market. Tampen Link ties the Statfjord field into Britain's existing Far North Liquids and Associated Gas System (Flags), which runs to St. Fergus in Scotland. The pipeline increases StatoilHydro's ability to export gas from its continental shelf with a maximum committable capacity of 26.5 million standard cubic metres per day. On completion the ownership of Tampen Link was merged into Gassled.

In November 2007 the Norwegian Government announced that it would not support plans to increase gas production from the Troll field, due to considerations of the possible negative impact on future liquids production. As a consequence, plans for an additional gas export pipeline from Norway were cancelled. We are now working on a number of projects to realise the full potential of the NCS that will all contribute to strengthening our position as an important and reliable long-term supplier of natural gas in Europe.

StatoilHydro has technical operating responsibility for Europe's largest gas processing plant of its kind at Kårstø, north of Stavanger, and at the Kollsnes plant outside Bergen. Gassco is the operator of both of these processing plants. In order to meet technical requirements and future needs, 2007 has been a planning year for a large modification and ugrading plan at Kårstø, with start-up in 2008. The project's framework investment is estimated at around NOK 6.5 billion with plans call for completion in 2012.

### International growth

StatoilHydro has a 25.5% interest in the Shah Deniz field in Azerbaijan and is commercial operator responsible for gas transportation and all gas sales activities. Turkey is the main market for gas from Stage 1 of the Shah Deniz development, and in addition Georgia and Azerbaijan are part of the gas sales portfolio. The gas is transported to customers through the South Caucasus Pipeline (SCP) running from Azerbaijan via Georgia to the Georgian/Turkish border. Shah Deniz Stage 1 production and the related gas transport in SCP were ramped up throughout 2007.

The Stage 2 development of Shah Deniz is currently being progressed toward a planned start-up in the end of 2013. Field reserves support a significant Stage 2 development and is likely to be on a similar or larger scale as the Stage 1 (plateau production of around 8.6 bcm). Key activities for NG in this respect are related to the commercialisation of Stage 2 through the organisation, planning and conduct of gas market/transport evaluations and negotiations with counterparties in the Caspian region, Turkey and the European Union. In February 2008, StatoilHydro signed an agreement with the Swiss company EGL to establish a joint venture to develop, build and operate the Trans Adriatic Pipeline (TAP) from Greece through Albania to Italy. A final investment decision is to be made in the second half of 2009. This potential pipeline, expected to be operational from 2011 at the earliest, will open a new corridor and market outlet for natural gas from the Caspian Sea into Europe. We have chosen to join the TAP project as part of our effort to offer an attractive export route for the Shah Deniz gas to the European market.

### A full member of the LNG family

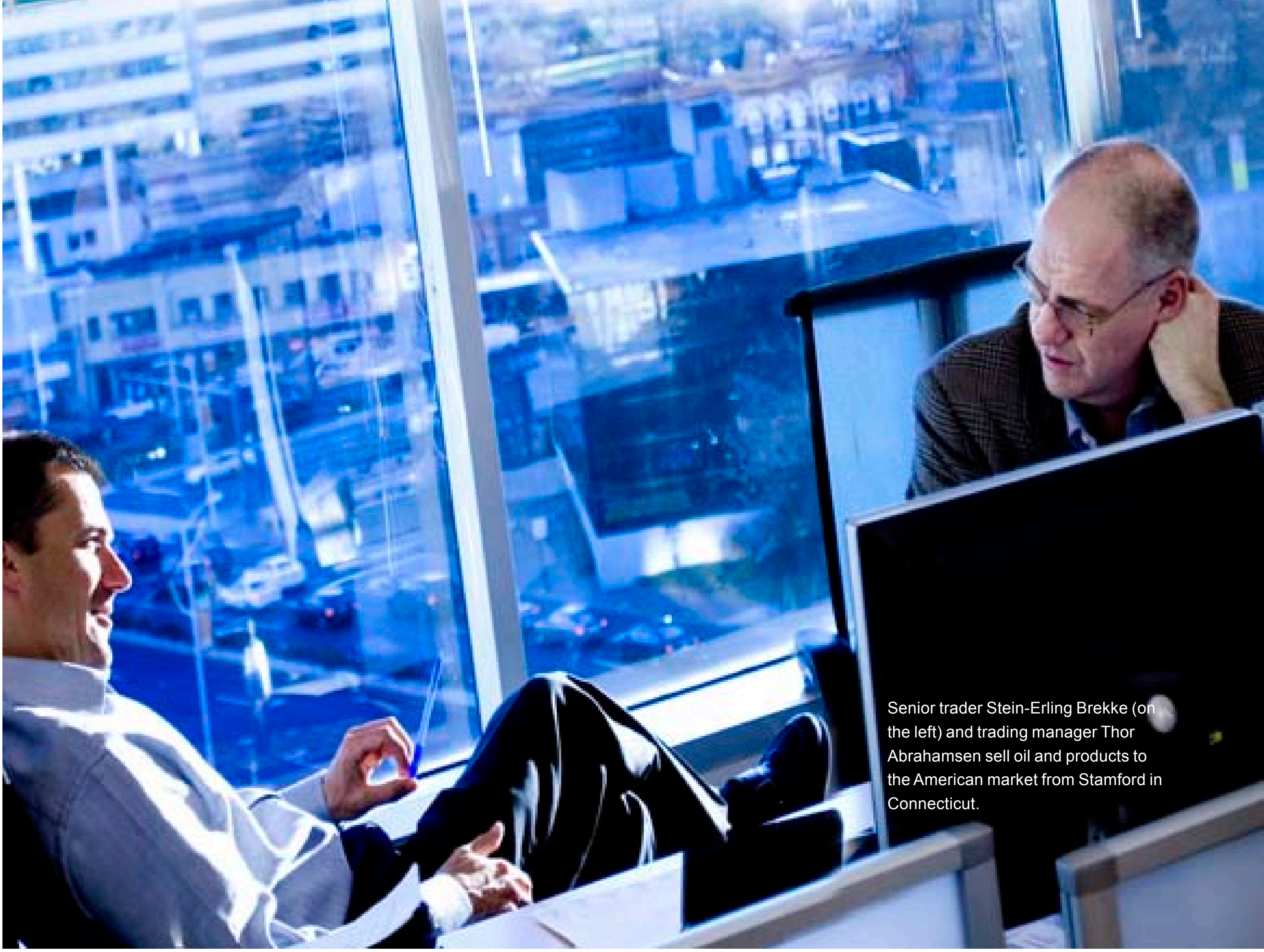
On 20 October 2007, the first vessel with a cargo of liquefied natural gas from the Snøhvit field left the port at Melkøya. For the first time StatoilHydro is supplying gas from the Norwegian continental shelf in a cooled state by ship. LNG gives us increased flexibility in terms of marketing gas globally. The plant at Melkøya is the first LNG production facility in Europe and it will be a key component in StatoilHydro's focus on LNG, which is the fastest growing gas market in the world. The LNG plant has faced operational challenges and there are still uncertainties related to the timing of regular and stable operations. Our commitments to our customers Iberdrola and SNG commenced on 1 October 2006. To meet our obligations, we have put into effect mitigation activities such as purchasing replacement LNG, and shipping gas by pipeline.

John Shaw is a gas trader in our Stamford office near New York. This office has become a bridgehead for our oil and gas sales in Northern America.

The plant on the island of Melkøya is the first production facility for LNG in Europe, and it will be a key factor in our efforts in the field of LNG, which is the fastest growing gas market in the world.

# Manufacturing & Marketing

*Manufacturing & Marketing (M&M) is responsible for the company's overall operations relating to the transportation of oil, refining, sales of crude oil and refined products, and for the retail business and the marketing of natural gas in Scandinavia. Operating in 12 countries, M&M runs two refineries, one methanol plant, two crude oil terminals, an extensive distribution network and around 2300 petrol stations.*



Senior trader Stein-Erling Brekke (on the left) and trading manager Thor Abrahamsen sell oil and products to the American market from Stamford in Connecticut.

| KEY FIGURES | | |
|---|---|---|
| (NOK million) | 2007 | 2006 |
| Total revenues | 428,043 | 411,990 |
| Net operating income | 3,776 | 7,280 |
| Gross investments | 4,800 | 2,500 |



In 2007, M&M continued to focus on streamlining the portfolio by investments and divestments, standardisation and simplification throughout the whole business area to create more value and an efficient and value chain-focused organisation.

We will contribute to the integrated value chain for oil by developing selected competitive positions. We aim to maximise the value of crude oil production and increase the value of the group's upstream portfolio.

## Global oil trading

With an average sales volume of 2.1 million barrels per day in 2007, StatoilHydro still ranks as one of the world's largest net sellers of crude oil.

Even though the NCS equity production of crude oil is decreasing, we continue to strengthen our global trading positions and have increased our trading flexibility through third-party volumes. An average volume of 524 thousand third-party barrels per day was sold in 2007, an increase of approx 25% from 2006.

We aim to continue to strengthen our global trading position by establishing physical trading infrastructure and establishing a presence in selected regions, based on equity production. To attract third-party volumes, we also plan to evaluate infrastructure assets independently of our own equity production.

Another focus area is the increased trading activity in new products emerging from the carbon dioxide market, the use of bio-components in transportation and the substitution of energy carriers.

## Robust manufacturing

There has been high activity within modifications and maintenance throughout the year to increase the robustness and maintain high regularity at our plants. This high activity, combined with a challenging contractor market, has required increased management attention to HSE, efficiency and prioritising.

We expect to increase the robustness of our manufacturing facilities by further exploiting technology in order to improve availability, optimise maintenance and increase HSE performance. We will focus on increasing the energy efficiency of our manufacturing facilities.

We will also endeavour to implement cost efficient and flexible liquid transportation solutions. We will seek to add value by implementing logistics solutions which will reduce feedstock costs and provide the flexibility required to handle high TAN and heavy crude oil.

Mongstad continued its good regularity (97.8%) in 2007, but Tjeldbergodden had an extended turnaround and a shut down due to a stop in gas deliveries (30 days) and Kalundborg had a very large turnaround which lasted for 62 days.

## Focused energy and retail business

We have maintained our leading energy and retail positions, and are number one or two in most of the markets in which we operate.

The restructuring and optimisation of the portfolio that started in 2004 with the buy back of ICA's 50% share of Statoil Detaljhandel Scandinavia AS, and the sale of Statoil Ireland in 2006, continued in 2007. During the year we sold our energy and retail business on the Faroe Islands, and entered into a purchase agreement with ConocoPhillips Scandinavian JET branded retail network (271 unmanned service stations). This agreement, still pending approval from the EU commission, will further

The production plant at Mongstad is an important hub for the refining and export of Norwegian crude oil.


StatoilHydro operates 2,000 full-service service stations under the Statoil brand in Scandinavia and 100 fully automated outlets. We also operate Statoil service stations in Poland, Russia, Estonia, Lithuania and Latvia.

In 2007, we bought into the Mestilla biodiesel plant in Lithuania. StatoilHydro is responsible for marketing the biofuel products from the plant.

strengthen our position in Scandinavia and put us in an even better position to follow up consumers' needs and consumption patterns.

### Leading supplier of biofuels

We have continued our efforts to build a position as the leading supplier of biofuels during 2007. Biofuels are now available at more than 1,300 service stations in seven different countries. Biofuels may help reduce emissions of greenhouse gases in the transport sector. We want to further develop our biofuel strategy in order to ensure that also the processing and procurement of biomass are performed in a sustainable manner.

**OIL PRICES**

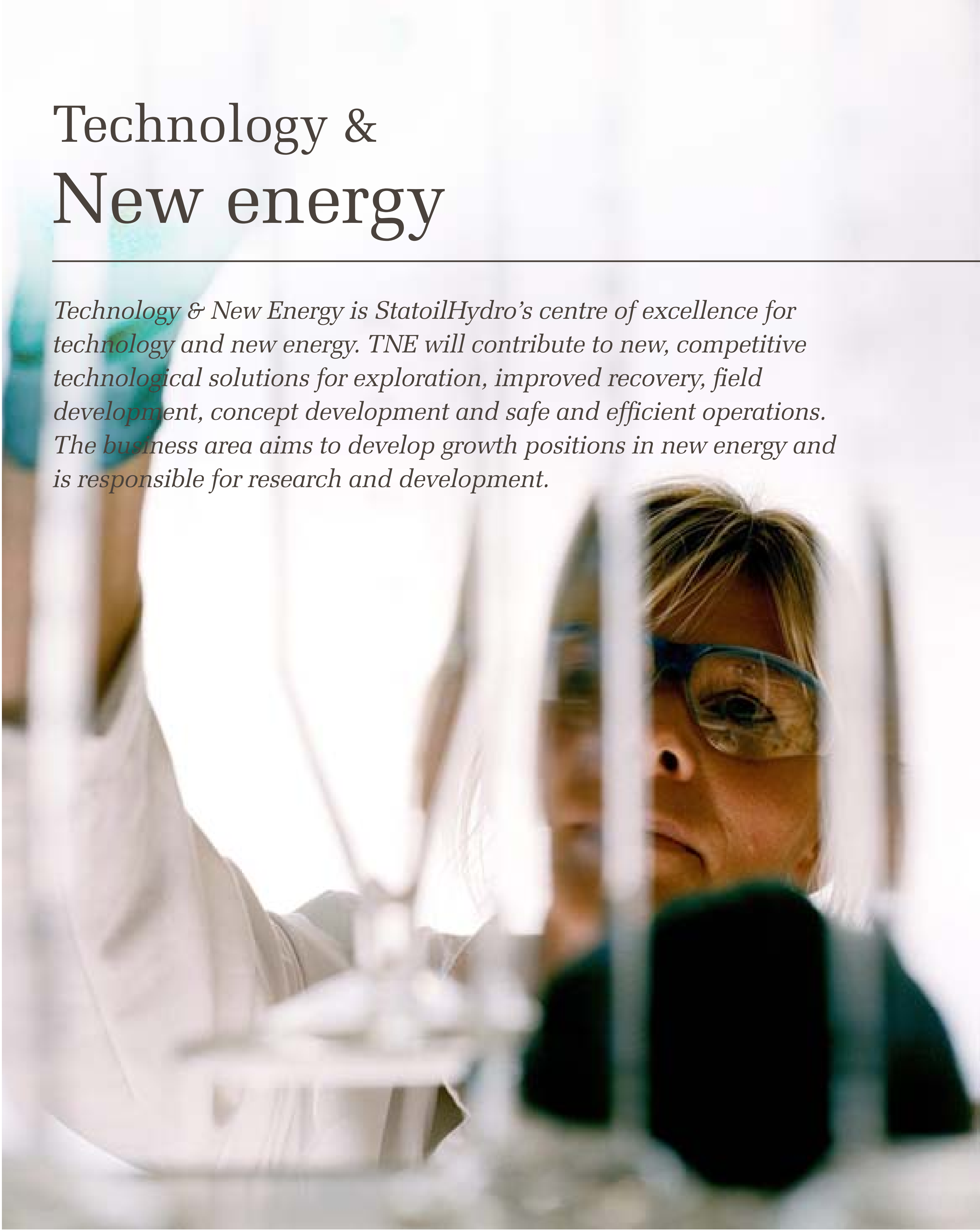
| (USD per barrel) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Lowest: | 38.21 | 55.89 | 96.02 |
| Highest: | 67.32 | 78.69 | 96.02 |
| Average: | 54.52 | 63.2 | 70.5 |


Police officer Kristine Ellefsen from Fyllingsdalen police station fills the tank of her police car with "bio E 85".

StatoilHydro's refinery in Kalundborg in Denmark refines crude oil and condensate into petrol, jet fuel, diesel, propane, heating oil and fuel oil.

# Technology &
# New energy

*Technology & New Energy is StatoilHydro's centre of excellence for technology and new energy. TNE will contribute to new, competitive technological solutions for exploration, improved recovery, field development, concept development and safe and efficient operations. The business area aims to develop growth positions in new energy and is responsible for research and development.*



StatoilHydro is the largest operator in water deeper than 100 metres, and the company has considerable experience in handling the challenges related to operating in harsh environments.

Still, there is a need to rapidly leverage new technology to increase the resource base and maximise production. TNE's research centres are located in Trondheim, Bergen and Porsgrunn, Norway, and in Calgary, Canada.

Selected advances made during the last few years are summarized below.

### Exploration

Much progress has been made in the geological understanding and geophysical imaging of Atlantic margin deep-water plays and prospects, including those occurring beneath thick layers of salt. Advances are also being made in extending electromagnetic seabed logging from 2D to 3D and combining seabed logging with seabed seismic. Both techniques are designed to lower the risk of dry holes by differentiating between petroleum and water-bearing prospects prior to drilling. Another innovation is the development of a disposable rig-less exploration tool, which burrows its way down to a prospect. This development may assist in obtaining low-cost, real-time geological information in advance of drilling.

### Increased Oil Recovery (IOR)

We are obtaining some of the petroleum industry's highest reservoir recovery factors on the NCS by combining geoscientific and engineering capabilities and boldly introducing new technology. We have already increased hydrocarbon production from a number of NCS fields (e.g., Gullfaks) using conventional time-lapse 4D seismic - a technology in which we are an industry leader - and we have come far in terms of developing a 4D seabed seismic monitoring system (with Optoplan) based on fibre optic technology.

Other IOR advances are being made in drilling and well technology. For example, "through tubing drilling and completion" technology permits offshoot wells (sidetracks) to be drilled sideways from their parents to access isolated pockets of untapped oil and gas in mature fields. Optimal directional well positioning permits the penetration of more distant parts of a reservoir and the drilling of production wells that do not follow simple paths. Moreover, the completion and remote control of smart wells (including multilaterals) help increase ultimate recovery factors.

### Subsea field development and long-distance transport

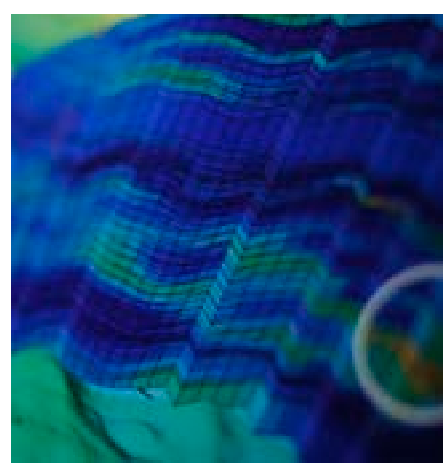
We are the leading company in subsea field development and the second largest in terms of subsea wells. We are also witnessing a gradual transition from topside to seabed facilities. These advances should facilitate ultra-deep water field developments and pave the way for Arctic operations, when coupled with long-distance multiphase transport and pressure boosting.

In 2007 we achieved three subsea development milestones: the start of production at the Ormen Lange and Snøhvit fields and the installation of the first full-scale subsea separation facility at Tordis, making it the world's first commercial field with seabed processing. Removing produced sand and water from the Tordis well stream and re-injecting it into the subsurface is expected to improve the recovery factor from 49% to 55%.

### Gas solutions

Besides the start-up of the Snøhvit LNG plant, StatoilHydro has completed a specification for larger LNG trains using

The world's first full-scale seabed facility for the injection of water and sand from the well stream was installed on the Tordis field in the North Sea on 14 August 2007.



Our willingness to invest in new technology has made us a frontrunner in the area of improved oil recovery.

In the Tres Hermanos oil field in Mexico, StatoilHydro is collaborating with the Mexican state oil company Pemex to close down three of four batteries of flares in order to reduce emissions of carbon dioxide and methane to the atmosphere.

StatoilHydro, Gassnova, Dong Energy, Shell and Vattenfal have signed an agreement to build a full-scale carbon capture plant at our refinery at Mongstad.

its proprietary mixed fluid cascade liquefaction process (MFC©). Progress is also being made on the design of an offshore floating LNG plant for developing gas fields that cannot be easily or economically exploited using conventional offshore technology.

Progress has also been made in the conversion of natural gas into high quality liquid fuels (diesel) and other fluids. StatoilHydro, in association with its partners PetroSA and Lurgi, has developed its own GTL process technology, which is currently being demonstrated in a plant at Mossel bay, South Africa.

### Carbon capture at Mongstad

The Norwegian government and StatoilHydro have reached agreement on the construction of a full-scale $CO_2$ capture plant at the company's Mongstad refinery. A first development stage, capable of capturing 100,000 tonnes of $CO_2$ annually, is scheduled to be ready in 2011, one year after the start-up of the planned combined heat and power station (CHP). This stage consists of a test centre partnered by StatoilHydro, Dong Energy, Vattenfall, Shell and Gassnova SF. The second stage will involve a full-scale facility capable of capturing $CO_2$ from both the CHP station and other appropriate emission sources at or around the refinery.

### European test centre

The establishment of the European $CO_2$ test centre at Mongstad has the following objectives:

- Demonstrate/qualify and scale-up of high-risk technologies / technology improvements in post-combustion $CO_2$ capture (Carbonate)
- Make incremental technology improvements in a generic and flexible amine test unit
- Build knowledge among the partners for full-scale project realization (equipment, solutions and results should be fully up-scalable)
- Execute a test plant for $CO_2$ capture technology applicable to both gas and coal-fired power stations, balancing and taking into account the needs (application, geography) of the individual partners
- Measure and compare test results against reference cases to achieve strategic ambitions
- Build and share knowledge and competence concerning $CO_2$ capture technology between the partners
- Provide knowledge about the capabilities and develop good relations with $CO_2$ capture technology vendors

### New Energy

Technology development in New Energy aims to support the long term strategy, while short term business growth is based primarily on application of existing technology. Within wind power, the main development focus is on wind mills for offshore applications. Our Hywind floating wind mill technology, with a 2.3 MW capacity, has been successfully model tested.

Complementary offshore wind technologies are available through our equity positions in the Norwegian companies Sway AS and ChapDrive AS.

Looking ahead at possible future processes for synthetic ("second generation") biofuels, StatoilHydro has completed a technology assessment of forest biomass-to-liquids (BTL) processes. The study, done in collaboration with Norske Skog ASA, has been completed and will form the basis for further evaluations of BTL technologies.

Hydrogen, itself a long term option, is also the basis for on-going sales of water electrolysis technology, where StatoilHydro holds a strong market position. Product development based on our electrolyser technology continues, aiming at emerging markets for on-site hydrogen generation based on renewable energy.

Through the New Energy investment and venture activities, we have gained insight into leading-edge technologies within wave power, tidal power, and fuel cell development.

### StatoilHydro's 2008 R&D portfolio

Our 2008 R&D portfolio has been re-structured into five programmes, which responds to the technology strategy:

- *Exploration* (global screening techniques for rapidly identifying prospective basins; better geophysical imaging in complex geological settings, prediction and identification of deep-water plays, petroleum systems analysis)
- *Improved oil recovery* (geophysical identification of remaining oil, improved reservoir models and recovery processes; autonomous well management and new drilling concepts)
- *New development solutions* (production from low-pressure fields; subsea field development and long-distance flow assurance; technology for offshore heavy oil processing and transport)
- *Oil and gas value chains* (next generation of LNG plants; unconventional oil and gas processing; pipeline solutions for deep-water and Arctic areas; improved thermal recovery of extra heavy oil)
- *New energy and new ideas* (carbon capture and storage; renewable energy sources and carriers; HSE management systems; trend-breaking technologies)

Wind turbines and hydrogen supply ten households with electricity on the island of Utsira off the coast of Rogaland in south-western Norway. The goal of the project is to demonstrate an independent energy system in which surplus power is stored as chemical energy in the form of hydrogen.

# Projects

*The Projects business area is responsible for planning and executing all development projects and major modifications. It is also responsible for securing the required rig capacity. Our remit is to ensure that these projects are developed in a predictable manner - delivered on time and cost and in compliance with stringent HSE standards.*

In October, we completed the Ormen Lange project, one of the biggest and most demanding industrial projects in Norway. For the next thirty years, this field will supply the UK with a considerable proportion of its gas needs.

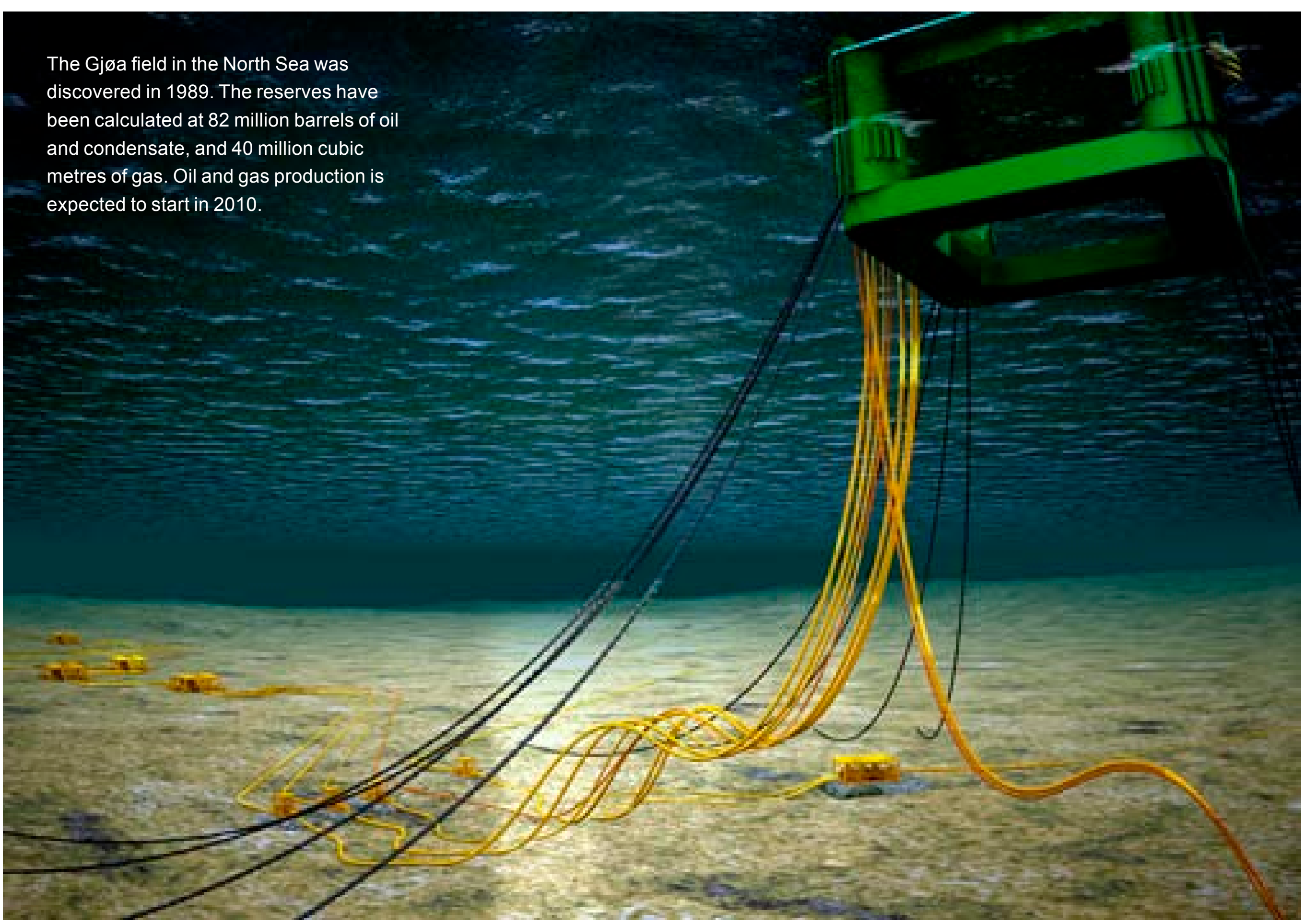
**Snøhvit**

Snøhvit is the northernmost gas liquefaction plant in the world and the first to be built in an Arctic climate. The plant came on stream in September, and in October we could celebrate the first shipment of LNG from the plant at Melkøya. The LNG plant has struggled with operational challenges and there are still uncertainties related to the timing of regular and stable operations. The subsea production facilities at the Snøhvit field are operated from the Melkøya plant, approximately 145 km from the field.

**Ormen Lange/Langeled**

In October, three and a half years after the first construction work started, the Ormen Lange/Langeled project was declared open. Gas exports to the UK started from one of the largest and most demanding industrial projects ever carried out in Norway. At full production, Ormen Lange is expected to meet 20 percent of the UK's gas requirements.

The field development concept includes subsea installations at depths down to 1,100 meters, combined with an onshore plant at Nyhamna in Aukra



The Gjøa field in the North Sea was discovered in 1989. The reserves have been calculated at 82 million barrels of oil and condensate, and 40 million cubic metres of gas. Oil and gas production is expected to start in 2010.

municipality in Norway, for processing and exporting the gas. The gas is exported through the world's longest subsea pipeline, Langeled, 1200 kilometres to Easington on the east coast of Britain. The gas can also be transported via the riser platform on the Sleipner field in the North Sea to customers on the European continent.

**Technologically challenging**

The development of Ormen Lange has been challenging. Pipelines and installations had to be placed on the extremely steep and uneven area of the seabed where the Storegga Slide took place 8,000 years ago.

The subsea installations must be able to withstand the exceptional currents that are characteristic in this part of the Norwegian Sea, as well as sub-zero temperatures on the seabed, and extreme wind and wave conditions.

StatoilHydro has been operator during the development phase of Ormen Lange, and operatorship was handed over to Shell in December 2007.

**Statfjord Late Life project**

Our Statfjord Late Life project will enable us to increase the gas recovery rate from the Statfjord field from 58 to 74 percent. Gas exports from Statfjord to the UK market started on 12 October through the new Tampen Link pipeline. The reconstruction of the Statfjord processing facilities for gas production will continue throughout 2008 and 2009.

**Tordis IOR**

In December, the Tordis IOR project was completed and production started. This is the first field to be developed with subsea separation technology. The project will increase the recovery rate from the Tordis field from 49 to 55 percent

**International projects**

Executing projects in international surroundings is becoming a more common part of our business. Over the last year, we have been involved in the preparation and development of several international projects. The offshore part of the Iranian South Pars field development phases 6, 7 and 8, the In Salah gas compression project in Algeria and the Canadian Leismer Demonstration Plant for integrated steam-assisted gravity drainage (SAGD) are all challenging projects that have progressed over the last year.

**STATOILHYDROS PROJECTS**

| | |
|---|---|
| Volve | Offshore NCS |
| Oseberg Delta | Offshore NCS |
| Alve | Offshore NCS |
| Yttergryta | Offshore NCS |
| Tyrihans | Offshore NCS |
| Troll O2 Template | Offshore NCS |
| Heidrun Drilling Unit Upgrade | Modifications NCS |
| Tune Low Pressure Production | Modifications NCS |
| Sleipner B Compression | Modifications NCS |
| Statfjord C to Vigdis Water Injection | Modifications NCS |
| Troll C Low Pressure Production | Modifications NCS |
| Heimdal New Power generator | Modifications NCS |
| Brage Produced Water Re-injection | Modifications NCS |
| Snorre A redevelopment improved oil recovery (IOR) | Modifications NCS |
| Statfjord Late Life | Modifications NCS |
| Tampen Link | Onshore |
| Kollsnes Flash Gas and Condensate (KFGC) | Onshore |
| NOx Mongstad | Onshore |
| Energiverk Mongstad (EVM) | Onshore |
| Receiving terminal for LNG to Oslo | Onshore |
| South Pars Phase 6-8 (all phases) | International |
| InSalah Gas Compression | International |
| Hywind Demo | New energy |

The LNG plant on Melkøya.

# People and organisation

*In StatoilHydro, the way in which our results are achieved is as important as the results themselves. We will create value for our owners based on a clear performance framework defined by our values and principles for HSE, ethics and leadership.*

We offer our employees a stimulating working environment as well as opportunities for professional and personal development. Geologist Ali Jahanpanah and geophysicist Sharareh Manouchehri taking part in an in-house geology seminar in StatoilHydro.

Our ambition is to be a globally competitive company. We create a stimulating working environment and provide our people with good opportunities for professional and personal development. We seek to achieve this through developing a strong, value-based performance culture, clear principles for leadership and an effective management and control system. Corporate governance, our values, leadership model, operating model and corporate policies are described in the StatoilHydro Book, which has been made available for all employees in Norwegian and English.

### The Merger

The merger between Statoil and Hydro's oil and gas activities gave the new company access to highly qualified personnel. In order to achieve our goals and attain the planned growth, the company must be capable of attracting and retaining talented personnel with the right expertise and strong values in a competitive market. Surveys show that Statoil and Hydro, both individually and after the merger, were among the most preferred employers in Norway in 2007.

Emphasis has been placed on building on the best from both companies and on ensuring equal opportunities for all employees. The development of a common corporate culture has been given high priority. Furthermore, policies with respect to compensation and working conditions in the merged businesses have been harmonised in cooperation with employee representatives.

### Integration process

In the merger agreement between Statoil and Hydro, clear targets were established for completion of the integration process. The most important targets were a merger of equals, equal opportunities for all employees, building on the best from both companies, and a process characterised by transparency and dialogue. To follow up on these targets, a quarterly employee survey will be carried out to map their experiences and points of view.

The first quarterly survey shows that the process has been perceived as open and honest, and that the employees feel they have been well looked after during the entire process. Employees also find that they have been assigned tasks which allow them to make use of their expertise and skills to a great extent. In the employees' view, there is very little of a "them" and "we" attitude, and they believe that the company will succeed in achieving the ambitions of the merger. These positive results are supported by a survey carried out in cooperation with the Great Place to Work® Institute Norway, in which 86% of the employees awarded StatoilHydro top score in response to the question of whether the company is a great place to work.

The improvement potential is to ensure that we utilise he best expertise and working methods from both companies.

### Employees in StatoilHydro

At the end of 2007, StatoilHydro had 29,500 employees, 11,000 of whom work outside Norway. The merger resulted in almost 5,000 employees being transferred from Hydro to StatoilHydro. Between February and September 2007, an extensive staffing process was carried out. This gave the company the option of selecting the best for the job and the individual employees a good opportunity to influence their choice of a new job in the merged company.

StatoilHydro is an expertise-based company 55% of the employees in the

Apprentice Lars Olve and Morten Ringstad examine a new flame detector on the Sleipner field. StatoilHydro is one of the Norwegian companies with the highest number of apprentices.

Share of women in different groups in StatoilHydro in 2007:

- 40% women on the board of StatoilHydro ASA
- 26% of managerial positions in the StatoilHydro group
- 35% of the workforce in the StatoilHydro group
- 28% of the apprentices in StatoilHydro ASA

Hilde Nafstad works at StatoilHydro's trading and marketing office in the USA.

parent company have college or university education, and 21% have craft certificates.

StatoilHydro ASA is Norway's biggest company for apprentices and our training of skilled workers maintains a stable and high level. Since the merger, the number of apprentices has increased to 316, spread over the different discipline areas.

### Gender equality and diversity

Forty percent of the members of StatoilHydro ASA's new board are women.

Gender equality is an important part of our personnel policy. After the merger, the proportion of female employees in the group is 35%. The proportion of female managers is 26%. Among managers under the age of 45, the proportion of women is 34%.

Women are relatively well represented in the technical disciplines. In 2007, 22% of our staff engineers were women, and on average their earnings were 98% of the earnings of their male colleagues. Among staff engineers with up to 20 years' experience, the proportion of women was 33%. Wage levels are roughly the same for women and men with similar experience and corresponding positions.

The proportion of our skilled workers who are women is 18%. On average, female skilled workers have slightly lower basic salaries than male skilled workers. This is due to differences in jobs and in number of years of experience.

In the group as a whole, women earn 91% of men's earnings. This is due to differences in experience and in the proportion of women and men at different levels in the organisation.

One of the measures introduced to meet our long-term recruitment needs and ensure access to personnel with different experience and backgrounds is the group trainee programme. We received a total of 2,000 applications for the programme from 91 different countries in 2007. The selection of candidates was completed in February 2008.

### Flexible work arrangements

We have arrangements such as flexible working hours and remote work if the individual's job makes this possible without particularly detrimental effects for the company. Such arrangements have become more widespread after the merger as a result of the decision to largely maintain geographical locations from both companies.

As a result of the merger, approximately 300 employees signed commuting agreements with the company and a corresponding number moved to new office locations.

### Cooperation with unions

In StatoilHydro ASA, 69% of the employees are covered by collective agreements.

During the merger process, union members from Statoil and Hydro were represented on the Integration Planning Team which, among other things, was responsible for developing the new organisation and designing the staffing process. The climate of cooperation has been good and the process enjoyed broad support among employees.

The company finds it essential to have a good and confidence-based relationship to its employees and their representatives.

### Development and rewards

In 2008, all StatoilHydro employees will be included in the annual individual development process, People@StatoilHydro. The process is intended to ensure alignment between the company's business goals and the goals of individual employees. In addition, it is also intended to support the development of our employees and provide a clear picture of their performance and potential. Employees in StatoilHydro ASA are rewarded in relation to their position, expertise, performance and behaviour.

In management development, the focus has been on the start-up of the new management teams. A shared understanding of the business challenges, the company's values and the leadership principles has been an important theme. At year end 2007, more than 100 management teams had completed a structured process. The goal for 2008 is to complete this process throughout the organisation. Work has started on further developing the management development programme.

A separate programme has been established for the training of project managers in cooperation with the University of California, Berkeley.

A broad spectrum of learning programmes is offered through the StatoilHydro School of Business and Technology. Most of them are open to all employees in the company. In 2007, 6,225 courses were completed with a total of 53,067 participants. The total number of hours of tuition was 107,276. As part of the merger process, a number of courses were held in the fourth quarter 2007 in connection with the new company's joint systems and IT solutions.

#### Health and working environment

StatoilHydro works systematically to ensure a working environment that promotes job satisfaction and good health. There are risk factors in our business that can entail a health and safety risk, and we must have good systems for managing this risk. This is done through defining requirements when we design workplaces. We closely monitor physical, chemical and organisational factors in the working environment, and we have a system for following up groups that are exposed to risk. Special attention is devoted to chemical health hazards, and, in 2007, action plans were drawn up for the individual business areas.

The psychosocial working environment is important. A good balance must be achieved between work requirements, the opportunity the individual employee has for control and participation and support from colleagues and managers. We are focusing strongly on health and job satisfaction in the integration process. Prior to the merger, emphasis was placed on preparing managers to look after the interests of employees and on improving their insight into human reactions to change. This will be closely followed up in the time ahead.

The company's health service is adapted to suit its activities and to meet requirements in the different countries in which it operates. Medical emergency response capability is established where necessary.

StatoilHydro is an inclusive workplace enterprise. We actively monitor the working environment and make adaptations to prevent sickness absence. In connection with sickness absence, employees are followed up with a view to help them return to work as soon as possible. We are concerned with ensuring that employees have a stimulating working environment and are subject to a good personnel policy in all phases of their professional careers.

Sickness absence in StatoilHydro in 2007 was 3.5%. It has remained stable and low at 3.5% for the last three years. The average sickness absence in Norway in the third quarter of 2007 was 6.0%.

#### Safety

Safe and efficient operations are our number one priority. Our technical safety condition monitoring and the safe behaviour programme have been widely recognized.

Accidents pose a great threat to our business. Basic understanding of risks and the risk influencing factors is essential to safe operations.

The total numbers of serious HSE incidents in our operations were stable in 2007. The numbers of serious gas leakages on our installations and plants declined slightly in 2007.

StatoilHydro had three fatal accidents in 2007. During the mooring of the LPG vessel "Goodwood" at Mongstad harbour, two members of the crew were hit by a towing line and seriously injured. One of them died in the hospital the same day. A member of the winch crew on the crane barge "Saipem 7000" was hit by a hydraulic hose, fell overboard and drowned at the Tordis field. A truck driver died after a traffic accident in Sweden.

We firmly believe that all accidents can be prevented and our goal remains zero harm. We place a high focus on continually striving for better safety performance in all of our business activities.

In striving for improving our results we are proud to say that our safety behaviour programme now includes 35,000 people. The fundamental aspects of this programme are the five human safety barriers: correct priorities, compliance with requirements, open dialogue, continuous risk assessment and caring about each other.

In our work to reduce risks, we use a system for monitoring technical safety conditions. Together with daily focus on safe performance of our work operations, this makes us able to systematically work day-by-day to reduce the risk of major accidents. Although we did not achieve our 2007 HSE target we feel that we are on the right track and will seek improvements in the years to come.

Paul Tiffany of the University of California, Berkeley teaches StatoilHydro managers about project development and management at our project academy.

# Environment

*Our ambition is to provide energy to meet the growing demand that is needed for economic and social development while at the same time caring for the environment and actively combating global climate change. In 2007, we have seen that being a pioneer in implementing new technology can bring problems and setbacks. Problems with the cooling system on Snøhvit have resulted in more flaring and higher carbon dioxide emissions than expected. In addition, we experienced the biggest ever oil spill in connection with the loading of a tanker on the Statfjord A platform in the North Sea.*

All our activities, from exploration for oil and gas through construction and operation of facilities to end use of our products, have the potential to affect the environment and social communities. The impact may be due to emissions, discharges, land use and use of limited natural resources, threatening biodiversity, cultural heritage, human health and welfare. Impact on the environment is determined by the state and capacity of the area affected, type of activity, technology applied and operational standards.

**Environment and climate**

The UN Intergovernmental Panel on Climate Change (IPCC) has provided evidence that the world is already experiencing the effects of man-made impacts on the global climate. Climate change has become one of the most important issues on the political agenda all over the world.

StatoilHydro recognises that there is a link between the use of fossil fuels and man-made climate change and our climate policy takes into account:

- the need for proactively combating global climate change
- the need to increase the efforts on renewables and clean technology
- our ambition of maintaining StatoilHydro's position as industry leader on sustainable development

**Pioneer in carbon capture and storage**

Our experience from more than ten years of operation of carbon capture and storage (CCS) has been important in creating a world-wide recognition of CCS as crucial for combating global warming, and the policy and regulation to allow for large scale deployment.

The planning of large scale carbon capture at Mongstad CHP is well underway. The Mongstad carbon capture demonstration facility (TCM) is going ahead with new industrial partners taking over part of the ownership from the Norwegian State in the Joint Industry Partnership. This project is instrumental in developing carbon capture technologies at a new level.

Being a pioneer in implementing new technology can also bring problems and setbacks. At Snøhvit, the capacity of the LNG plant has temporary been limited to 60% due to difficulties with the cooling system, resulting in more flaring and emissions of carbon dioxide than planned. Emission permits for the additional emissions have been applied for. One result is that we are not able to account for planned emission reductions from capture and storage of carbon dioxide in 2007. The Halten carbon capture, storage and enhanced oil recovery project undertaken jointly with Shell International was terminated late in 2007 since it was not economically feasible under the current framework.

**Expertise and advisory activities**

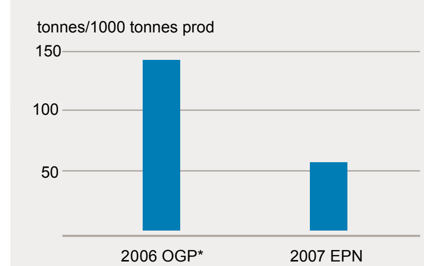
Carbon Capture and Storage was recognised by many countries in 2007 as a key option to combat global climate change. StatoilHydro has contributed with experience and expertise and been engaged in advisory activities related to EU directives for CCS approval and inclusion in the EU emission trading system. Achieving acceptance for CCS as eligible for CDM credits has been promoted, but due to resistance from some states this is still under consideration within the framework of the UNFCCC.

**Offshore wind power**

StatoilHydro is engaging in technology development and demonstration of offshore wind power. The potential for future offshore wind power production is large, but there are still technological and commercial challenges to scale this to an

European Commissioner for Energy Andris Piebalgs, former Norwegian Minister of Petroleum and Energy Odd Roger Enoksen and Margareth Øvrum, executive vice president for Technology & New Energy, visited the Sleipner field where carbon capture has been implemented for more than a decade.

CARBON DIOXIDE EMISSIONS




Emissions of $CO_2$ per produced volumes oil/gas (scm o e) from StatoilHydro operated activities on the NCS, compared with world industry average.

*International Association of Oil & Gas Producers (OGP) 2006

The offshore wind power sector has enormous potential, and we have invested in 25 promising companies in the energy sector.

In 2007, our sales of biofuel contributed to reducing carbon dioxide emissions by 167,000 tonnes compared with the use of the same amount of normal fuel.

industrial level. Through a StatoilHydro venture we have invested nearly NOK 1.2 billion in 25 promising companies in the energy sector, and are actively engaged in their development.

**Biofuels from 1999**

We started selling biofuels in Sweden in 1999, and this type of fuel is now available at service stations in Sweden, Denmark, Norway, Latvia, Lithuania, Estonia and Poland. Overall, our biofuels sales in 2007 helped reduce carbon dioxide emissions by 167,000 tonnes compared to the corresponding use of ordinary fossil fuels.

In August 2007, StatoilHydro acquired a 42.5% stake in a Lithuanian production facility, Mestilla, for rapeseed-based biodiesel production, and we have entered into collaboration with Petrobras in Brazil on sustainable biofuel production. Preliminary sustainability criteria for bio-fuel trading have been determined. We have started a comprehensive review of environmental and social challenges to ensure sustainability and quality in all parts of the life cycle of the product.

**Emissions trading and the Kyoto mechanisms**

In 2007 it was decided to include Norwegian oil and gas production in the EU emissions trading system (ETS) from 2008, and that Norway would adopt the ETS scheme from the same date. StatoilHydro has an emission trading organisation that handles the obligations relating to the ETS system for all facilities operated by StatoilHydro.

In addition, StatoilHydro works with business development through projects eligible for CDM credits according to the rules of the Kyoto Protocol. Our projects are based on StatoilHydro's technology and expertise in reduction of flaring, energy efficiency, combined heat and power plants and new energy solutions. The target related to these activities is commercial, but they also provide additional gains, such as technology transfer and reinforced cooperation with partners in other countries.

**Reducing carbon dioxide emissions**

Carbon dioxide emissions increased in 2007 compared to 2006 due to the delayed startup of carbon storage on Snøhvit and a somewhat reduced storage of carbon dioxide on the In Salah field in Algeria compared to planned levels. We expect lower emissions when these fields reach their target levels for storage of carbon dioxide and the combined heat and power plant in Mongstad is put into operation.

Carbon dioxide emissions have increased from 12.9 million tonnes in 2006 to 14.6 million tonnes in 2007. The main reason for the increased $CO_2$ emissions is the extraordinary flaring at the Snøhvit plant at Melkøya as a result of start-up problems.

The emissions of carbon dioxide per tonne of oil and gas produced from our operated fields correspond to 39% of the industry average. Changes in laws regulating greenhouse gas emissions could cause us to incur additional expenditure for pollution control equipment.

**Environmental management**

Our environmental management system is an integrated part of the overall management system, and is certified according to environmental standard ISO 14001. We identify the most important environmental aspects of each facility and set targets for improvement.

**Emissions to sea**

We monitor our emissions continuously, and the low contents of oil in discharged water from many of our facilities show that we are continuously improving. The average emissions of oil in water from StatoilHydro's installations on the NCS were less than 10 mg/l in 2007. Several modification projects for further reduction of these emissions are being implemented.

We perform extensive environmental monitoring, both through statutory environmental examinations and other measures, such as SERPENT (Scientific and Environmental partnership), which uses available ROV (remotely operated vehicles) capacity for environmental testing in connection with exploration drilling. The results from our environmental monitoring show that it is in the immediate proximity of our platforms that some of the substances we discharge can be found.

### Reduction of emissions from offshore loading of oil

StatoilHydro and the industry have for several years worked to reduce the emissions of non-methane VOC (volatile organic components) resulting from offshore loading of oil. In 2007, equipment was installed on one new ship, resulting in enough ship capacity with equipment for removal of non-methane VOC in place, but due to operational circumstances full capacity has not always been available. In addition the operational regularity of the equipment itself has not been fully satisfactory. In 2007, the reduction in emissions was 45,000 tonnes, which was 30% lower than the target. The industry is now exploring improvement initiatives.

In addition a total reduction of 17,800 tonnes of non-methane VOC from floating storage and production ships was achieved (Åsgard, Norne and Njord) in 2007.

### Water resource management

We aim to increase our water efficiency, minimise pollution and actively endeavour to improve the water situation in communities where we are located. This will be an important contribution to sustainable water resource management.

Requirements for sustainable water resource management have been included in our governing documents. Guidelines for fulfilling these requirements and supporting business decisions are under development, including for the use of the "Global water tool" issued by the World Business Council for Sustainable Development.

### Biological diversity

Biological diversity is a key element of sustainable development, and also a key component of our environmental policy. It is an established principle that we seek to maintain biological diversity and important ecosystems.

This has been a focus area in several of our international projects in 2007. Marine mammals and seabirds were mapped on the Belgica Bank off the coast of East Greenland, and observations were carried out of marine mammals and sea turtles in the Rovuma Basin in Mozambique in connection with the collection of 2D seismic data in 2007. The results were used as the basis for the environmental management of the operations. Addressing the issue of biodiversity is also a major challenge in our oil sands operations in Canada.

### Oil spill response and accidental discharges

In 2007, we established principles for oil spill response in relation to our operations. In addition, we have continued an extensive research and development portfolio for adaptation of our oil spill response to arctic areas.

On 12 December 2007, we experienced our biggest ever oil spill to date when approximately 4,400 standard cubic metres of oil were accidentally discharged into the sea during the loading of a tanker on the Statfjord A platform in the North Sea. An extensive emergency response organisation was rapidly mobilised, including four oil spill response vessels, monitoring by planes and helicopters and the taking of samples and observations in order to assess the harm to the environment. As soon as the weather conditions permitted, attempts were made to collect oil, but the oil slicks were thin and the oil quickly disintegrated into small droplets and mixed with the seawater. A few days after the oil spill, it was not possible to observe any remaining oil. We take a very serious view of this incident. Immediate measures were implemented and two comprehensive investigations have been carried out. Implementation of corrective actions based on the investigation findings is done or ongoing. To prevent similar accidents in future, learning from this incident throughout the organisation and across operating assets will be a key priority in 2008.

Biodiversity is a central element in StatoilHydro's environmental policy.

The Statfjord A oil spill was the biggest spill in the history of the company. We consider it very important to improve emergency response in future.

# Society

*We are committed to contributing to sustainable development based on our core activities in the countries where we work. We are committed to transparency, anti-corruption, respect for human rights and labour standards, both in our own operations and in those parts of the value chain where we have significant influence. We aim to achieve a mutually beneficial and respectful relationship between our company and society.*


On their way to one of the most successful exploration licences in Libya: Licence NC186 on the El-Sharara field in the Murzug basin. The Spanish oil company Repsol is operator and it has estimated the reserves proven so far to exceed one billion barrels of oil. StatoilHydro's partners in this licence are Repsol, Total and OMV.

It is StatoilHydro's responsibility to create value for both our shareholders and host countries. This is not only an ethical imperative; living up to these responsibilities is required to support long-term profitability and consistency in complex environments.

We are therefore committed to contributing to sustainable development based on our core activities in the countries where we work, by:

- Making decisions based on how they affect our interests and the interests of the societies around us.
- Ensuring transparency, anti-corruption, and respect for human rights and labour standards.
- Generating positive spin-offs from our core activities to help meet the aspirations of the societies in which we operate.

### Social Risk Management

In StatoilHydro we are committed to the zero harm philosophy. We make decisions based on how they affect our interests and the interests of the societies around us.

We therefore aim to understand and manage social risks by assessing needs and expectations, reducing and mitigating harmful impacts on the communities affected by our operations and on our own business, and identifying development opportunities relevant to our operations.

### Transparency and anti-corruption

Transparency and anti-corruption are cornerstones of good governance and a productive business environment, on which effective markets and sustainable development depend. In such environments the benefits from our industry will also be more readily shared by society as a whole. Transparency and anti-corruption are important principles that we are committed to and on which we will not compromise.

StatoilHydro's commitment to transparency and anti-corruption is solidly anchored in a number of international initiatives, including the OECD Guidelines for Multinational Enterprises and the United Nations tenth Global Compact principle on anti-corruption. StatoilHydro has further endorsed the Extractive Industries Transparency Initiative (EITI), and was the first major oil company to start disclosing all revenues and payments in the countries in which we operate. StatoilHydro is also an active participant - through the World Economic Forum's Partnering Against Corruption Initiative (PACI) - in aligning the work of major international anti-corruption initiatives (Global Compact, International Chamber of Commerce, and Transparency International) in order to enhance their overall impact. StatoilHydro also supports the work of Transparency International Norway through a corporate agreement, with whom we collaborated on the development of the Business Principles for Countering Bribery (BPCP).

### Human rights and labour standards

Respecting human rights and labour standards - both in our own operations and in those parts of our value-chain where we have significant influence - is a vital part of how we conduct our business to achieve a mutually beneficial and respectful relationship between our operations and society. No human rights violations are accepted in our operations, and would represent a breach of our policies and standards.

The Universal Declaration on Human Rights is a common ethical foundation. Our commitment is further rooted in our support of the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact principles covering human rights and labour standards, in addition to the principles on the environment and anti-corruption.

## Hydro agreements in Libya under Review

Statoil was informed on 26 September, 2007, of possible consultancy agreements and transactions associated with Hydro's operations in Libya, which as of 1 October 2007 have been transferred to StatoilHydro as part of the merger between Statoil and Hydro's petroleum business. Following a preliminary assessment by Statoil's corporate audit function, Chief executive Helge Lund resolved in consultation with the Statoil board to initiate an external review of the relevant aspects. The U.S. law firm Sidley Austin LLP is in the process of carrying out the review together with the Norwegian law firm Simonsen Advokatfirma DA, supported by StatoilHydro's corporate audit function. Other consultancy agreements relating to Hydro's international petroleum operations are also under review. Both Hydro and StatoilHydro are cooperating on securing the documentation and information required to establish the facts of the matter.

We continue to be an active participant in the Business Leaders' Initiative on Human Rights (BLIHR) and the Voluntary Principles on Security and Human Rights. StatoilHydro further supports the work of Amnesty International Norway, the Norwegian Centre for Human Rights at the University of Oslo, the Norwegian Refugee Council and the UNDP (Democratic Governance Thematic Trust Fund) through corporate agreements.

### Generating Positive Spin-offs

The oil and gas industry has a big potential for stimulating economic growth. However, the requirement for highly specialised skills and technology could mean that the direct benefits are confined to a relatively small minority, leaving others potentially excluded.

StatoilHydro aims to make sustainable investments that create and maximise shared value - investments that benefit both our shareholders as well as the host countries where we operate. We aim to be a partner of choice by creating local content and generating positive spin-offs from our core business in support of the development ambitions of host countries. We proactively recruit locally, demonstrating that we are a good employer that offers a safe working environment, attractive training opportunities and builds on local competence.

We promote local sourcing and work with local businesses as suppliers and contractors where they exist, and invest in developing sustainable and competitive local enterprises. We support education and skills building in the local community and amongst our suppliers and contractors in order to build lasting capacity and to help them develop the skills, standards and certifications required for them to work in the oil and gas industry.

### Social Investments

Our international business made social investments in the magnitude of USD 7.7 million in 2007. Social investments are part of our business and social responsibility plans for countries in which we operate. These investments are spread over different projects which all fall under our three priority areas: transparency and anti-corruption, human rights and labour standards, and local spin-offs. These investments support our core business by creating common interests with our stakeholders in the host countries in which we operate.

Social investments are based on commercial considerations and they aim to produce sustainable economic activity. We endeavour to avoid creating dependency and supporting unproductive projects.

### Overall Results

In 2007 we made progress in all of these areas. The merger put performing with integrity and social responsibility at the core of our internationalisation agenda, and the integration process of the two companies reinforced our capacity to deliver on these objectives. In collaboration with partners, we developed a framework for measuring the impacts of our operations and improving dialogue with host countries and other stakeholders.

We also improved our integrity and due diligence procedures to screen investments and suppliers for possible integrity and human rights violations. Furthermore, a human rights risk assessment tool has been piloted in five countries where we have operations. Compulsory ethics and anti-corruption training was also introduced, and we have invested in local training and recruitment and local supplier development in key countries, such as Algeria, Brazil, Russia and Venezuela. Finally, we continue to work with partners and collaborate in multi-stakeholder initiatives to advance joint standards and approaches in the industry and business community.

In 2007, both Statoil and Hydro were ranked as the most sustainable companies in their respective sectors on the Dow Jones Sustainability World Index. Statoil received this ranking for the fourth year in a row in the oil and gas sector, whereas Hydro received the same accolade in the basic resources sector for the second year running.

More information on this can be found in the 2007 Sustainability Report.

We cooperate with the Universities of Murmansk and Archangel. Many future oil workers and industry leaders are being educated at Archangel State Technical University.

Sleipner is essential in the recovery of resources on the Norwegian continental shelf.

# Our results

*The merger between Statoil and Hydro's oil and gas activities in October 2007 was a forceful response to increasing complexity and international competition in the industry.*

The merger was a success, and it represents a milestone in a year of historically high activity. Other important milestones in 2007 included the completion of the Ormen Lange project and the first tanker to leave the plant on Melrose with a cargo of liquefied natural gas (LNG) from the Snøhvit field. In addition, eight projects on the Norwegian continental shelf and five international projects became operational in 2007.

During 2007, we gained access to new growth opportunities. Among other things, we acquired North American Oil Sands Corporation, thus establishing a position in Canadian oil sands. Towards the end of the year, we were chosen as a partner in the development of the Shtokman offshore field.

The merged company has expanded its technological base and increased its expertise as regards implementing very demanding, large-scale projects.

In 2007, StatoiHydro recorded a solid profit for the year and we are in a good position to achieve future growth and value creation. The board proposes a combined ordinary and extraordinary dividend of NOK 8.50 per share to the annual general meeting.

# Directors' report 2007

The merger between Statoil and Hydro's oil and gas activities was a forceful reponse to increasing industry complexity and international competition. The merged StatoilHydro has an expanded technology base and stronger capabilities to execute larger and more demanding projects. The company has a broader global presence and a stronger portfolio of assets and resources . See previous sections for information about the nature and extent of our operations.

The successful execution and completion of the merger on 1 October 2007, was a key milestone in a year with a historic high activity level. The entitlement production of oil and gas increased by 3%, 15 new projects commenced production , an extensive exploration programme was executed, and the company gained access to new high quality projects and exploration acreage. StatoilHydro delivered a solid annual result and is well positioned for future growth and value creation.

**High activity level in new organisation**

StatoilHydro delivered a total oil and gas entitlement production in 2007 of 1.724 mmboe per day. The contribution from international operations was record high and accounted for 18% of the entitlement production. Solid performance, combined with high oil and gas prices, was partly offset by an increase in operating costs and a decrease in production on the Norwegian continental shelf (NCS). The net operating income for 2007 of NOK 137 billion was also affected by restructuring costs related to the merger totalling NOK 11.1 billion.

The company reached major milestones in several projects on the NCS. During autumn 2007, the Ormen Lange project started production and export of gas to the UK, and was officially inaugurated in October. Also in October, the first LNG was shipped from the Snøhvit LNG plant on Melkøya. The LNG plant has suffered from operational challenges and there are still uncertainties related to the timing of regular and stable operations. In addition, eight projects on the NCS and five international projects came on stream in 2007. The company also sanctioned 13 new projects for development, of which four are outside Norway.

In 2007 StatoilHydro delivered an extensive exploration programme. Of a total of 71 exploration wells, 47 were drilled outside of the NCS. The company participated in 36 discoveries, of which 18 were made internationally. During 2007, the company added 215 million boe in proved reserves from new discoveries and extensions. 325 million boe were added from revisions and improved recovery. In total, the company achieved a reserve replacement ratio of 86% in 2007.

During 2007, StatoilHydro gained access to new growth opportunities. In June, the company acquired North American Oil Sands Corporation and established a position in Canadian oil sands. The position in the deepwater US Gulf of Mexico was strengthened by accessing new exploration licences in ordinary lease sales. Towards the end of the year, the company was selected as a partner in the development of the offshore gas and condensate field Shtokman. In 2008, the company has to date strengthened its international foothold by signing an agreement to acquire the remaining 50% share and operatorship of the Brazilian Peregrino field as well as an additional position, the Kaskida discovery, in the US Gulf of Mexico. The transaction is subject to government approval and the acquisition of the Kaskida discovery is also subject to other parties not exercising preferential rights to purchase. As of 4 April, the company has been formally notified that two of such parties intend to exercise their preferential rights.

As part of the merger process, the company executed a thorough evaluation of the organisation and operations. A potential of more than NOK 6 billion of annual synergies has been identified. These synergies confirm the significant value creation potential of the merger.

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

### The StatoilHydro share

The group's share price increased from NOK 165.25 at the end of 2006 to NOK 169.00 at the end of 2007. The Board of Directors proposes an ordinary dividend of NOK 4.20 per share for 2007, as well as NOK 4.30 per share in special dividend for approval by the Annual General Meeting on 20 May 2008. The total dividend of NOK 8.50 per share proposed to be distributed to our shareholders is equivalent to a direct yield of approximately 5.0%, and we will distribute 61% of net income from 2007. Net income per share amounted to NOK 13.80 in 2007, a decrease of 13% compared to 2006.

### Group profit and loss analysis

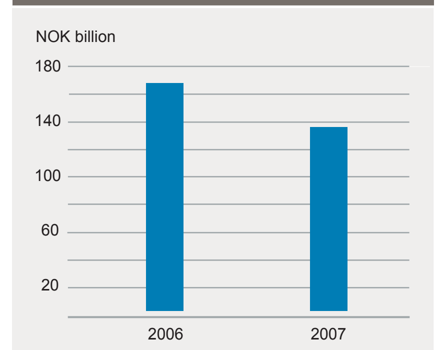
**Revenues and other income** totalled NOK 522.8 billion in 2007. This was NOK 1.3 billion more than in 2006. Most of the **revenues** stem from the sale of lifted crude oil, natural gas and refined products produced and marketed by StatoilHydro. We also market and sell the Norwegian State's share of oil from the NCS. All purchases and sales of the Norwegian State's production are recorded as Cost of goods sold and Sales, respectively.

From 2006 to 2007 realised oil prices measured in NOK increased by 2%. The increased oil prices contributed NOK 3.1 billion to the revenues, whereas the contribution from increased oil liftings was

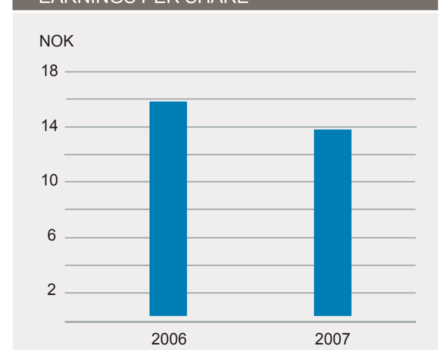
Consolidated statements of income - IFRS

| (in NOK millions) | 2007 | 2006 | Change |
|---|---|---|---|
| **Total revenues and other income** | **522,797** | 521,482 | 0 % |
| **Operating expenses** | | | |
| Cost of goods sold | **(260,396)** | (249,593) | 4 % |
| Operating expenses | **(60,318)** | (44,801) | 35 % |
| Selling, general and administrative expenses | **(14,174)** | (10,824) | 31 % |
| Depreciation, amortisation and impairment | **(39,372)** | (39,450) | (0 %) |
| Exploration expenses | **(11,333)** | (10,650) | 6 % |
| **Total operating expenses** | **(385,593)** | (355,318) | 9 % |
| **Net operating income** | **137,204** | 166,164 | (17 %) |
| **Net financial items** | **9,607** | 5,072 | 89 % |
| **Income before tax** | **146,811** | 171,236 | (14 %) |
| Income tax | **(102,170)** | (119,389) | (14 %) |
| **Net income** | **44,641** | 51,847 | (14 %) |

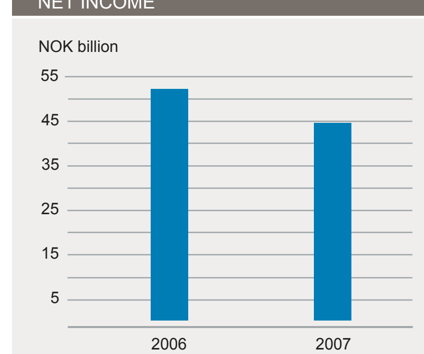
NET OPERATING INCOME



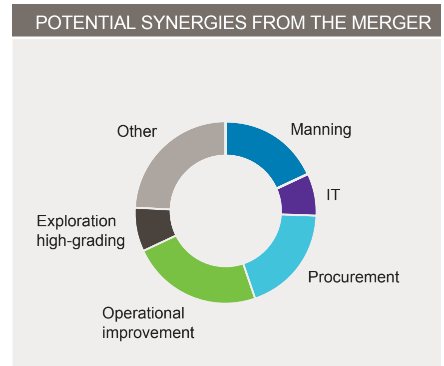

EARNINGS PER SHARE



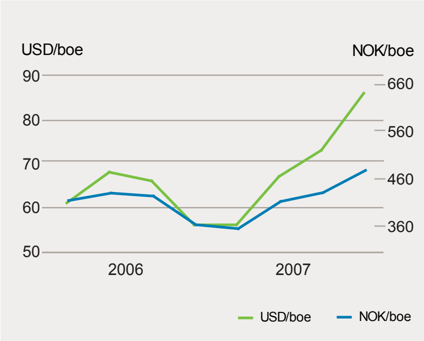

NET INCOME




POTENTIAL SYNERGIES FROM THE MERGER

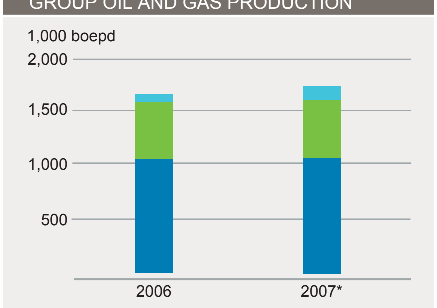


GROUP REALISED OIL PRICE




DISTRIBUTION OF PROVED RESERVES


GROUP OIL AND GAS PRODUCTION




* At USD 60/boe the PSA effect is estimated to 107 mboe/d, i.e. entitlement production would be reported at 1,732 mboe/d

NOK 5.0 billion. Overall gas sales contributed with NOK 3.6 billion to the change. This was off-set by a decrease in gas prices with a negative impact of NOK 10.4 billion.

The volumes of oil lifted will 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 oil from the fields. **Total oil liftings** increased from 1.048 mmboe per day in 2006 to 1.081 mmboe per day in 2007.

***Total natural gas sales*** were 42.0 bcm (1.48 tcf) in 2007 and 40.2 bcm (1.42 tcf) in 2006. The increase was mainly due to higher third party gas sales, and was partly offset by a net decrease in StatoilHydro entitlement sales volumes.

**Cost of goods sold** includes the cost of the oil and NGL production that we purchase from the Norwegian State pursuant to the Marketing Instruction. The cost of goods sold increased in 2007 to NOK 260.4 billion and was mainly due to higher oil prices measured in NOK.

**Operating expenses** include field production costs and transport systems related to the company's share of oil and natural gas production. Operating expenses were NOK 60.3 billion in 2007 compared to NOK 44.8 billion in 2006. The increase 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 oil and gas production*** increased from 1,708 mmboe per day in 2006 to 1,724 mmboe per day in 2007. The increase in entitlement production was driven by a 31% increase internationally, which was partly offset by a minor decrease on the NCS. Equity production of oil and gas increased from 1,778 mmboe per day in 2006 to 1,839 mmboe per day in 2007.

**Unit production** cost measured in NOK was NOK 44.1 (USD 8.12) per boe in 2007 compared to NOK 28.4 (USD 5.23) per boe in 2006. The increase was mainly due to restructuring costs, start-up of new fields, increased maintenance costs and general industry cost pressure. Adjusted for restructuring costs and other costs arising from the merger, the average production cost per boe for 2007 was NOK 35.7. This amount includes NOK 2.5 related to the cost of purchased gas for reinjection in support of oil production. Divided by equity volumes, the production cost measured in NOK was 41.4 per boe in 2007, an increase of NOK 14.1 per boe compared to 2006.

**Selling, general and administrative expenses** include expenses related to the selling and marketing of our products such as business development costs, payroll and employee benefits and amounted to NOK 14.2 billion in 2007 compared to NOK 10.8 billion in 2006. The increase was mainly due to restructuring costs and other costs arising from the merger, partly offset by a pre-tax gain in 2006 of NOK 0.6 billion from the sale of Statoil Ireland.

**Depreciation, amortisation and impairment** includes depreciation of production installations and transport systems, depletion of fields in production, amortisation of intangible assets and depreciation of capitalised exploration expenditure. It also includes write-downs of impaired long-lived assets. These expenses amounted to NOK 39.4 billion in 2007, compared to NOK 39.5 billion in 2006.

A decrease of NOK 3.3 billion in depreciation, amortisation and impairment expenses in 2007 compared to 2006 was offset by higher asset retirement costs of NOK 2.1 billion and the start-up of new fields in 2007. The impairments of Gulf of Mexico shelf fields and Front Runner amounted to NOK 4.9 billion in 2006, compared to impairments in 2007 of Lufeng, Front Runner, Thunder Hawk and GoM shelf fields amounting to NOK 1.2 billion.

**Exploration expenditures** are capitalised to the extent the exploration efforts are considered successful, or pending such assessment. Otherwise, such expenditures are expensed. The exploration expense consists of the expensed portion of our exploration expenditure in 2007 and write-offs of exploration expenditure capitalised in previous years. The exploration expense was NOK 11.3 billion in 2007 and NOK 10.7 billion in 2006.

In 2007, a total of 71 exploration and appraisal wells were completed, 24 on the NCS and 47 internationally. In addition, two exploration extension wells were completed in the same period. Thirty-four of the exploration and appraisal wells were confirmed discoveries, 16 on the NCS and 18 internationally. Both exploration extension wells were discoveries.

In 2006, a total of 73 exploration and appraisal wells were completed, 18 on the NCS and 55 internationally. Five exploration extension wells were completed during the same period. Thirty-two of the exploration and appraisal wells were confirmed discoveries, eight on the NCS and 24 internationally. Two exploration extension wells were discoveries.

**Net operating income** was NOK 137.2 billion in 2007, compared to NOK 166.2 billion in 2006. The decrease was mainly due to an increase in operating, selling and administrative expenses stemming in part from restructuring and other costs arising from the merger of NOK 11.1 billion, negative change in derivatives of NOK 10.0 billion, new fields coming on stream and increased activity levels. The restructuring costs and other costs arising from the merger have been recorded primarily under operating and general and administrative expenses, and have been allocated to the business areas where possible.

Restructuring costs and other costs arising from the merger primarily relate to pensions and early retirement costs and impairment of assets in Sweden.

In 2007 we reported a **Net financial items** income of NOK 9.6 billion, compared to a net financial items income of NOK 5.1 billion in 2006. The changes from year to year were principally the result of changes in currency gains and losses on the USD portions of our non-current financial liabilities outstanding and currency gains and losses on NOK hedging transactions. In both cases, currency gains and losses relate to changes in the USDNOK exchange rate, due to the weakening of the USD against the NOK.

Currency swaps are used for risk management purposes to hedge our long-term interest-bearing loans recorded in USD. As a result, the company's long-term debt portfolio is exposed to changes in the USDNOK exchange rate. The USD weakened by NOK 0.85 in relation to the NOK in 2007, compared with a weakening of NOK 0.51 in 2006.

Interest and other financial income amounted to NOK 2.3 billion in 2007, compared to NOK 3.7 billion in 2006.

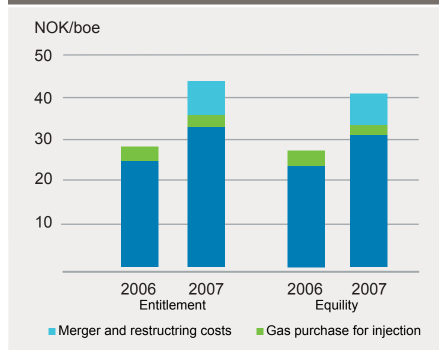
Interest and other financial expenses amounted to NOK 2.7 billion in 2007, compared to NOK 3.1 billion in 2006. The decrease in interest and other expenses was mainly due to a decrease in interest expenses on our long term loan portfolio, caused by currency effects and gains on interest rate swaps related to former Hydro long-term interest bearing loan contracts.

The Norwegian central bank's closing rate for USDNOK was 5.41 on 31 December 2007 and 6.26 on 31 December 2006. These exchange rates have been applied in StatoilHydro's financial statements.

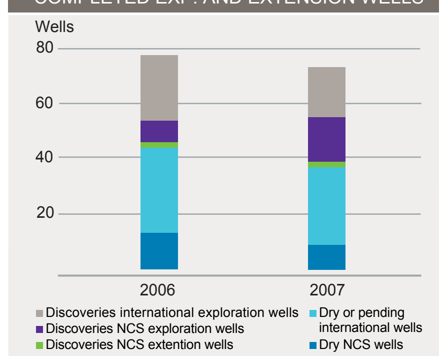
The effective **Income tax** rates were 69.6% and 69.7% in 2007 and 2006, respectively.

Adjusted for the non-recurring NOK 2.0 billion reduction of deferred tax liabilities relating to new tax rules for allocation of financial items with respect to the NCS and temporary differences in intercompany transactions, the tax rate in 2006 was 70.9%. The tax rate in 2007 was lower than the adjusted tax rate in 2006, mainly due to higher net financial income and the increased effect of uplift deduction on the NCS. The lower tax rate was

PRODUCTION UNIT COST




COMPLETED EXP. AND EXTENSION WELLS




| Exploration (in NOK million) | For the year ended 31 December 2007 | 2006 | Change |
|---|---|---|---|
| Exploration expenditure (activity) | **14,241** | 13,391 | 6% |
| Expensed, previously capitalised exploration expenditure | **1,660** | 1,447 | 15% |
| Capitalised share of current period's exploration activity | **(4,569)** | (4,188) | (9%) |
| Exploration expenses | **11,333** | 10,650 | 6% |

partly offset by relatively less income from outside the NCS being subject to lower taxation than the average tax rate.

The effective tax rate is calculated as income taxes divided by income before income taxes and minority interest. Fluctuations in the effective tax rates from year to year are principally the result of non-taxable items (permanent differences), changes in the components of income between Norwegian oil and gas production, taxed at a marginal rate of 78%; other Norwegian income, including the onshore portion of net financial items, taxed at 28%; and income in other countries taxed at the applicable income tax rates.

In 2007, the **Minority interest** in net profit was NOK 0.6 billion, compared to NOK 0.7 billion in 2006. The minority interest is primarily related to the Mongstad crude oil refinery.

**Net income** was NOK 44.6 billion in 2007, compared with NOK 51.9 billion in 2006. The decrease was mainly due to a lower operating income primarily due to restructuring costs and other costs arising from the merger, negative changes in derivatives and a higher tax rate, partly offset by higher net financial income.

The Board of Directors proposes an ordinary dividend of NOK 4.20 per share for 2007 to the Annual General Meeting, as well as NOK 4.30 per share in special dividend, making an aggregate total of NOK 27,085 million. The remaining net income in the parent company will be allocated to reserve for valuation variances and retained earnings with NOK 4,772 and NOK 12,012 million, respectively. The Company's distributable equity after allocations amounts to NOK 110.6 billion.

In accordance with Section 3-3 of the Norwegian Accounting Act, the board of directors confirms that the financial statements have been prepared on the basis of the going concern assumption.

### Cash flow operations and investments

Our primary source of cash flow consists of funds generated from operations. Net funds generated from operations for 2007 were NOK 93.9 billion, compared to NOK 88.6 billion in 2006. The increase of NOK 5.3 billion in cash flows from operating activities from 2006 to 2007 was mainly due to changes of NOK 12.4 billion in working capital, a decrease of NOK 8.6 billion in non-current items related to operating activities and a decrease of NOK 5.8 billion in taxes paid. These increases were partly offset by a decrease of NOK 21.5 billion in cash flows from underlying operations.

Gross investments, defined as additions to property, plant and equipment (including intangible assets and long term share investments) and capitalised exploration expenditure, amounted to NOK 75.0 billion in 2007, compared to NOK 64.3 billion in 2006. Gross investments in 2007 were NOK 31.1 billion, NOK 36.2 billion, NOK 2.1 billion and NOK 4.8 billion in Exploration & Production Norway, International Exploration & Production, Natural Gas and Manufacturing & Marketing, respectively.

### Return on average capital employed (ROACE)

ROACE was 17.9% in 2007, compared with 22.9% in 2006. The decrease was mainly due to higher operating expenses as well as higher capital employed, and it was partly offset by increased net financial income. Adjusted for the effects of restructuring costs and other costs arising from the merger, ROACE was 19.9% in 2007, compared with 22.9% in 2006.

### Research and development

New technology developed and implemented in 2007 contributed in different ways to the group's financial performance. Performance efficiency increased for seismic processing through improved computer tools. Remaining oil identified in the Statfjord formation on the Snorre field using advanced fluvial modelling tools developed by StatoilHydro. Hydrocarbon production from a number of NCS fields (including Gullfaks) increased using conventional time-lapse 4D seismic - a technology in which we are among industry leaders. We also made good progress in developing a 4D seabed seismic monitoring system based on fibre-optic technology.

Research and Development expenditures were NOK1,969 and NOK 1,616 million in 2007 and 2006, respectively.

R&D expenditures are partly financed by joint venture partners of StatoilHydro operated activities. Our share of the expenditures have been recognized as expenses.

### Risk

The results of our operations largely depend on a number of factors, most significantly those that affect the price we receive in NOK for our sold products. Specifically, such factors include the level of crude oil and natural gas prices; trends in the exchange rate between the USD, in which the trading price of crude oil is generally stated and to which natural gas prices are frequently related, and NOK, in which our accounts are reported and a substantial portion of our costs are incurred; our oil and natural gas production volumes, which in turn depend on entitlement volumes under PSAs and available petroleum reserves, and our own, as well as our partners' expertise and co-operation in recovering oil and natural gas from those reserves; and changes in our portfolio of assets due to acquisitions and disposals.

Our results will also be affected by trends in the international oil industry, including possible actions by governments and other regulatory authorities in the jurisdictions in which we operate, or possible or continued actions by members of the Organization of Petroleum Exporting Countries (OPEC) that affect price levels and volumes; refining margins; increasing cost of oilfield services, supplies and equipment; increasing competition for exploration opportunities and operatorships, and deregulation of the natural gas markets, which may cause substantial changes to the existing market structures and to the overall level and volatility of prices.

The following table shows the yearly averages for quoted Brent Blend crude oil prices, natural gas contract prices, fluid catalytic cracking (FCC) margins and the USDNOK exchange rates for 2007 and 2006.

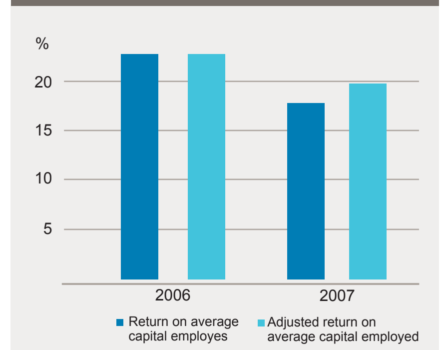
The illustration shows how certain changes in the crude oil price, natural gas contract prices, the FCC (refining) margins and the USDNOK exchange rate, if sustained for a full year, could impact our financial results, assuming activity at levels achieved in 2007.

The estimated sensitivity of each of the factors on our financial results have been estimated based on the assumption that all other factors would remain unchanged. The estimated effects on the financial results would differ from those that would actually appear in our consolidated financial statements because our consolidated financial statements would also reflect the effect on depreciation, trading margins, exploration expenses, inflation, potential tax system changes, and the effect of any hedging programmes in place.

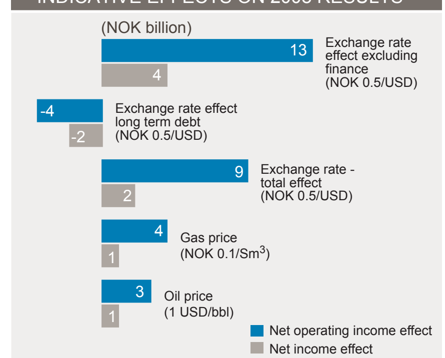
Our oil and gas price hedging policy is designed to assist our long-term strategic development and our attainment of targets by protecting financial flexibility and cash flows.

Fluctuating foreign exchange rates can have a significant impact on our operating results. Our revenues and cash flows are mainly denominated in or driven by US dollars, while our operating expenses and income taxes payable largely accrue in NOK. We seek to manage this currency mismatch by issuing or swapping long-term debt in USD. This debt policy is an integrated part of our total risk management programme. We also engage in foreign currency hedging in order to cover our non-USD needs, which are primarily in NOK. We manage the risk arising from our interest rate exposure through the use

RETURN ON AVERAGE CAPITAL EMPLOYED




INDICATIVE EFFECTS ON 2008 RESULTS




| Yearly average | 2007 | 2006 |
|---|---|---|
| Crude oil (USD/bbl Brent Blend) | 70.5 | 63.2 |
| Natural gas (NOK per scm)(1) | 1.69 | 1.94 |
| FCC margins (USD/bbl)(2) | 8.4 | 7.1 |
| USDNOK average daily exchange rate | 5.86 | 6.42 |

(1) From the Norwegian Continental Shelf.

(2) Refining margin.

of interest rate derivatives, primarily interest rate swaps, based on a benchmark for the interest reset profile of our long-term debt portfolio. In general, an increase in the value of the USD in relation to NOK can be expected to increase our reported earnings. However, because our outstanding debt is currently in USD, the benefit to StatoilHydro would be offset in the near term by an increase in the value of our debt, which would be recorded as a financial expense and, accordingly, would adversely affect our net income. A decrease in the exchange rate would have the opposite effect, and hence cause decreased earnings, which would be offset by financial income in the near term.

**Group outlook**

We expect to continue our high level of exploration activity in 2008 and we plan to drill approximately 70 exploration wells. On the NCS, a significant part of the drilling activity is expected to be in mature areas close to existing infrastructure. We also plan to drill several wells in frontier areas of the Norwegian Sea and in the Barents Sea. Internationally we plan to continue to pursue a high level of exploration activity combined with targeted business development consistent with our strategy to further grow our resource base. Rig capacity has been secured for the number of wells in the 2008 drilling programme, and we believe we are well positioned for further exploration drilling beyond 2008 based on our current drilling programme and rig commitments.

Our entitlement production estimate for 2008 is approximately 1.75 mmboe per day (at USD 75 per barrel). Additional equity volumes of 0.15 mmboe are estimated from our international operations in 2008 for a total estimated equity volume of 1.9 mmboe for 2008. We expect that production growth will continue both from the NCS and internationally and we anticipate equity production of 2.2 mmboe per day in 2012. It is considered possible to maintain NCS production at around 1.5 mmboe per day for the next ten years.

2007 was one of the most volatile periods in the product, gas liquid and crude oil markets. High prices were experienced during the year and we believe that prices will remain relatively high and volatile at least in the near term.

Changes in supply, demand and cost of alternative fuels will be reflected in the price formation of natural gas. Higher development costs in the industry combined with the fact that the transportation distances between new supply regions and markets are increasing therefore suggest that gas prices may increase over time to ensure development of sufficient supplies. However, a number of other factors may still cause lower prices. For instance, prices in the shorter term gas market may be adversely affected by seasonal demand variations at the same time as new capacity and new fields are coming on stream towards 2010. The value of natural gas will also be influenced by the price development and regulation in the power segment where gas is competing with coal, renewable- and nuclear energy. We have also seen that gas markets are moving from being pure regional markets to being more influenced by global supply and demand balances. LNG in the Atlantic basin, for instance, is responding to changes in prices between major markets in Europe, the US and Asia, taking advantage of arbitrage opportunities, creating higher volatility. Our views on these events make us in sum believe that we have increased value creation potential by combining the proximity of our infrastructure to favourable markets with advanced marketing competence and skills.

In 2008, we estimate organic capital expenditures for the group of approximately NOK 75 billion and approximately NOK 80 billion in 2009, assuming an exchange rate of USDNOK 6.0.

Unit production cost for equity volumes is estimated in the range of NOK 33 to 36 per barrel in the period from 2008 to 2012, excluding purchases of fuel and gas for injection.

It is our ambition to deliver a competitive ROACE compared with our peers.

These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future.

### People and the organisation

In StatoilHydro, the way in which our results are achieved is as important as the results themselves. We will create value for our owners based on a clear performance framework defined by our values and principles for HSE, ethics and leadership.

Our ambition is to be a globally competitive company. We create a stimulating working environment and provide our people with good opportunities for professional and personal development. We seek to achieve this through developing a strong, value-based performance culture, clear principles for leadership and an effective management and control system. Corporate governance, our values, leadership model, operating model and corporate policies are described in the StatoilHydro Book, which has been made available for all employees in Norwegian and English.

The merger between Statoil and Hydro's oil and gas activities gave the new company access to highly qualified personnel. In order to achieve our goals and attain the planned growth, the company must be capable of attracting and retaining talented personnel with the right expertise and strong values in a competitive market. Surveys show that Statoil and Hydro, both individually and after the merger, were among the most preferred employers in Norway in 2007.

Emphasis has been placed on building on the best from both companies and on ensuring equal opportunities for all employees. The development of a common corporate culture has been given high priority. Furthermore, policies with respect to compensation and working conditions in the merged businesses have been harmonised in cooperation with employee representatives.

StatoilHydro is an expertise-based company in which 55% of employees in the parent company have college or university education, and 21% have craft certificates.

Forty per cent of the members of StatoilHydro ASA's new board are women.

Gender equality is an important part of our personnel policy. After the merger, the proportion of female employees in the group is 35%. The proportion of female managers is 26%. Among managers under the age of 45, the proportion of women is 34%.

Women are relatively well represented in the technical disciplines. In 2006, 22% of our staff engineers were women. Among staff engineers with up to 20 years experience, the proportion of women was 33%. Wage levels are roughly the same for women and men with similar experience and corresponding positions.

### Health, Safety and the Environment

Safe and efficient operations are our first priority. Our goal is zero harm to people, and we firmly believe that all accidents can be prevented. Continuous improvement for better safety results has high attention in all our businesses.

Accidents pose a major threat to our people and our business. We work systematically to understand and mitigate risks critical to operating safely and reliably. We continue to invest substantially in two comprehensive programmes for monitoring of technical safety conditions and for safe behaviour respectively. They are important instruments to improve safety and have been widely recognized also outside our company.

StatoilHydro was involved in three fatal accidents in 2007. The total frequency of serious incidents (SIF) in our operations was stable in 2007. The number of serious gas leakages on our installations and plants was slightly reduced in 2007.

StatoilHydro works systematically to ensure a working environment that promotes job satisfaction and good health. We closely monitor physical, chemical and organisational factors in the working environment. We have a system in place for following up groups or individuals that are exposed to risks in their working environment. Special attention is devoted to chemical health hazard, and action plans were developed for the individual business areas in 2007.

The merger integration process introduced fundamental change to large parts of our organisation. Before the merger, preparing our leaders to understand and manage change were key areas of attention. Leaders were encouraged to engage in the interests of individual employees and improve the insight into human reactions to change among their people. Health and job satisfaction continue to be areas of strong focus in the integration process. These aspects will be closely followed also going forward.

Sickness absence in StatoilHydro in 2007 was 3.5% and has remained stable at this same low level for the last three years. The average sickness absence in Norway in the third quarter of 2007 was 6.0%.

**Environment and climate**

StatoilHydro's environmental management system is an integrated part of the overall management system. We are certified according to the environmental standard ISO 14001. We identify the most important environmental aspects of all facilities and set targets for improvement.

The group-wide indicators to measure environmental performance are oil spills, emissions of carbon dioxide and nitrogen oxides, energy consumption and the recovery rate for non-hazardous waste.

We work actively to limit the environmental impacts of our operations and combat global climate change. The current emissions of $CO_2$ per ton of oil and gas produced from StatoilHydro-operated fields correspond to 39% of the oil and gas industry average. Improved energy efficiency remains a key focus area.

We have more than ten years of operating experience from carbon capture and storage (CCS) at the Sleipner field. This project has contributed to the emerging international recognition of CCS as part of the industrial toolbox to mitigate global warming. It has also been instrumental in promoting policies and regulatory processes to allow for large scale deployment of CCS. The ongoing work on the Mongstad $CO_2$ capture demonstration facility (TCM) is instrumental to develop a new generation of $CO_2$ capture technologies. This is the basis also for planning of large scale $CO_2$ capture at Mongstad CHP which is now underway.

Pioneering development and implementation of new technology can be challenging. At the Snøhvit LNG plant, difficulties with the cooling system have resulted in more start-up problems than anticipated. Consequently, the plant has been operated at reduced capacity resulting in more flaring and higher emissions of $CO_2$ than planned. Emission permits for the additional emissions have been applied for.

We continuously monitor our emissions. In 2007, the average discharges of oil in water from StatoilHydro's NCS installations were less than 10 mg/l. These low levels show that we are doing increasingly well. Several modification projects for further reductions are being implemented. In 2007, we established corporate wide principles for oil spill response in relation to our operations. We also continued an extensive research and development portfolio aimed at adapting our oil spill response to arctic areas.

On 12 December 2007, we experienced our biggest ever oil spill when approximately 4,400 standard cubic metres of oil were accidentally discharged into the sea during the loading of a tanker on the Statfjord A platform in the North Sea. We take a very serious view of this incident. Immediate measures were implemented and two comprehensive investigations have been carried out. Implementation of corrective actions based on the investigation findings is done or ongoing. To prevent similar accidents in future, learning from this incident throughout the organisation and across operating assets will be a key priority in 2008.

The environmental reporting also includes:

- HSE accounting for 2007 (chapter 6.7)
- Environment (chapter 5.9)
- The sustainability report (Separate publication, including web)

**Society**

It is StatoilHydro's responsibility to create value for both our shareholders and host countries. This is not only an ethical imperative; living up to these responsibilities is required to support long-term profitability and consistency in complex environments.

We are therefore committed to contribute to sustainable development based on our core activities in the countries where we work, by:

- Making decisions based on how they affect our interests and the interests of the societies around us.

- Ensuring transparency, anti-corruption, and respect for human rights and labour standards.
- Generating positive spin-offs from our core activities to help meet the aspirations of the societies in which we operate.

In 2007 we made progress in all of these areas. In collaboration with partners, we developed a framework for measuring the impacts of our operations and improving dialogue with host countries and other stakeholders. We also improved our integrity due diligence procedures to screen investments and suppliers for possible integrity and human rights violations. Furthermore, a human rights risk assessment tool has been piloted in five countries where we have operations. Compulsory ethics and anti-corruption training was also introduced, and we have invested in local training and recruitment and local supplier development in key countries, including in Algeria, Brazil, Russia and Venezuela amongst others. Finally, we continue to work with partners and collaborate in multi-stakeholder initiatives to advance joint standards and approaches in the industry and business community.

In 2007 both Statoil and Hydro were ranked as the most sustainable companies in their respective sectors on the Dow Jones Sustainability World Index. Statoil received this ranking for the fourth year in a row in the oil and gas sector, whereas Hydro received the same accolade in the basic resources sector for the second year running. We are convinced that good results over time along several performance axes will contribute to ensuring access to new resources and long-term return.

**Board developments**

Up until 30 September 2007, the board of directors of Statoil ASA consisted of Jannik Lindbæk (chair), Kaci Kullman Five (deputy chair), Finn A. Hvistendahl, Grace Reksten Skaugen, Knut Åm, Ingrid Wiik, Marit Arnstad, Lill-Heidi Bakkerud, Claus Clausen and Morten Svaan. Following the merger of Statoil with Norsk Hydro ASA's oil and gas activities on 1 October 2007, the board of directors of StatoilHydro ASA consisted of the President and CEO of Norsk Hydro ASA Eivind Reiten (chair), Marit Arnstad (deputy chair), Kjell Bjørndalen, Roy Franklin, Elisabeth Grieg, Grace Reksten Skaugen, Kurt Anker Nielsen, Lill-Heidi Bakkerud, Claus Clausen and Morten Svaan. Geir Nilsen and Ragnar Fritsvold are employee-elected observers. On 4 October 2007, Eivind Reiten decided to resign as chair of the board and from that date Marit Arnstad was acting chair until 1 April 2008.

On 30 January 2008, the corporate assembly elected Svein Rennemo as new chair of the board with effect from 1 April 2008, in accordance with the nomination committee's recommendation. Mr Rennemo has been chief executive officer of Petroleum Geo Services AS since 2002, a position he left on 1 April 2008.

The board held 25 meetings in 2007 and there was 93 % meeting attendance at the board meetings. The Audit Committe held seven meetings with 99% meeting attendance. Pr. 31 December 2007 the members of the Audit Committee were Kurt Anker Nielsen (chair), Marit Arnstad, Roy Franklin and Morten Svaan. The Compensation Committee held 8 meetings with 100% meeting attendance. Pr. 31 December 2007 the members of the Compensation Committee were Grace Reksten Skaugen (acting chair), Elisabeth Grieg and Kjell Bjørndalen.

The board gives recognition to all employees for their efforts during an eventful year. Executing the merger in parallel with maintaining the company's operations and business development efforts have put the organisation under an extraordinary work load. StatoilHydro's workforce has demonstrated competence, knowledge and attitudes that will be decisive for the company's success in the coming years.

Stavanger, 8 APRIL 2008

THE BOARD OF DIRECTORS OF STATOILHYDRO ASA

SVEIN RENNEMO
CHAIR

MARIT ARNSTAD
DEPUTY CHAIR

LILL-HEIDI BAKKERUD

KJELL BJØRNDALEN

CLAUS CLAUSEN

ROY FRANKLIN

KURT ANKER NIELSEN

ELISABETH GRIEG

GRACE REKSTEN SKAUGEN

MORTEN SVAAN

HELGE LUND
PRESIDENT AND CEO

# The Board of Directors

**Svein Rennemo (born 1947).**
**Chair of the board since 1 April 2008.**
Svein Rennemo is a Norwegian citizen and he lives in Norway.Economist from the University of Oslo. During the period 1972 -1982, he was an analyst and monetary policy and economics advisor with Norges Bank (the Norwegian central bank), the OECD Secretariat in Paris and the Ministry of Finance. He has held various management positions in Statoil from 1982 to 1994, latterly as head of the petrochemical division. Mr Rennemo worked for Borealis from 1994 to 2001, first as deputy CEO and CFO and from 1997 as CEO. Today, Mr Rennemo is chair of the board of Integrated Optoelectronics AS. He has also been CEO of Petroleum Geo Services AS since 2002, a position he left on 1 April 2008. Mr. Rennemo has no loans in the company.

**Marit Arnstad (born 1962).**
**Deputy chair.**
Ms Arnstad is a Norwegian citizen and she lives in Norway. She graduated in law at the University of Oslo and was Minister of Petroleum and Energy from 1997 to 2000. Member of the Storting for the Centre Party during the periods 1993 to 1997 and 2001 to 2005. Head of the party's parliamentary group from 2003 to 2005. Higher Executive Officer of the Ministry of the Environment, assistant advocate with the law firm Advokatfirmaet Wiersholm, Mellbye og Bech. Advisor with the law firm Advokatfirmaet Schjødt. Chair of the board of directors of the Norwegian University of Science and Technology (NTNU) and member of the boards of Adresseavisen ASA, NTE Nett AS, Aker Seafood ASA and Acta ASA. Ms Arnstad was a member of the board of Statoil from June 2006 and became acting chair of StatoilHydro on 4 October 2007. She has no loans in the company and is a member of the board's audit committee.

**Kjell Bjørndalen (born 1946).**
**Board member.**
Kjell Bjørndalen is a Norwegian citizen and he lives in Norway. He was president of the Norwegian United Federation of Trade Unions (Fellesforbundet) and a member of the secretariat of the Norwegian Confederation of Trade Unions (LO) until October 2007. He is a member of the boards of ABN AMRO Kapitalforvaltning AS and Bank 1 Oslo. Kjell Bjørndalen has no loans in the company. He has been a member of the board of StatoilHydro and of the board's compensation committee since 1 October 2007.

**Roy Franklin (born 1953).**
**Board member.**
Roy Franklin is a UK citizen and he lives in the UK. Bachelor of Science in geology from the University of Southampton in the UK. Has broad experience from management positions in several countries, including positions with BP, Paladin Resources plc and Clyde Petroleum plc. He was head of Brindex, the Association of British Independent Oil Exploration Companies, and a member of the joint British oil industry and government task force Pilot from 2002 to 2005. He is chair of the boards of Bateman Litwin NV, Novera Energy Ltd, a leading British company in the field of renewable energy, and Keller Group plc, a London-based international engineering company. Board member of the Australian oil and gas company Santos Ltd. In 2004, he was awarded an OBE for his work for the British oil and gas industry. Mr Franklin has no loans in the company. He has been a member of the board of StatoilHydro and of the board's audit committee since 1 October 2007.

**Elisabeth Grieg (born 1959).**
**Board member.**
Elisabeth Grieg is a Norwegian citizen and she lives in Norway. Chair of the board of Grieg Shipping Group, co-owner of the Grieg Group and chief executive of Grieg International AS. President of the Norwegian Shipowners' Association and member of the boards of Star Shipping AS, Grieg International AS, Grieg Maturitas AS, Grieg Foundation and SOS Children's Villages in Norway. Member of the corporate assembly and election committee of Orkla ASA, and of the Council of Det Norske Veritas. A member of the board of Norsk Hydro ASA from 2001 to 2007, she became a member of the board of StatoilHydro from 1 October 2007. Elisabeth Grieg partly owns the family company Grieg Maturitas AS, which indirectly holds 20% of the ownership of AON Grieg. AON Grieg acted as a broker for Norsk Hydro and for Statoil in 2007 and in total received NOK 17,676,216 in fees from Norsk Hydro and Statoil in 2007. Her husband, Stig Grimsgaard Andersen, was a board member in AON Grieg in 2007. In addition, Grieg Maturitas AS and other family companies hold indirectly and directly 75% of the ownership of Grieg Logistics. Her husband, Stig Grimsgaard Andersen, is a board member in Grieg Logistics. Grieg Logistics has provided logistics/transportation services to Statoil, to Hydro's oil and gas activities and to StatoilHydro in 2007 and has received in total fees of NOK 102,159,731. Ms Grieg has no loans in the company. Ms Grieg is a member of the board's compensation committee.

**Kurt Anker Nielsen (born 1945).**
**Board member.**
Kurt Anker Nielsen is a Danish citizen and he lives in Denmark. Has held management positions in Novo A/S and Novo Nordisk A/S, including the positions of CFO and managing director. Deputy chair of the board of Novozymes A/S and a member of the boards of Novo Nordisk A/S, Novo Nordisk Fonden, ZymoGenetics Inc, Vestas Wind Systems A/S and Life Cycle Pharma A/S. Mr Nielsen is the chair of the boards of Reliance A/S and Collstrups Mindelegat. Member of the board of Norsk Hydro ASA from 2004 to 2007, became a member of the board of StatoilHydro from 1 October 2007. Mr Nielsen has no loans in the company. He is chair of the board's audit committee.

**Grace Reksten Skaugen (born 1953).**
**Board member.**
Grace Reksten Skaugen is a Norwegian citizen and she lives in Norway. She has a doctorate in laser physics from the Imperial College of Science and Technology at the University of London and an MBA from the Norwegian School of Management (BI). Self-employed consultant, head of Corporate Finance in Enskilda Securities in Oslo from 1994 to 2002. Has also worked with venture capital and shipping in Oslo and London and carried out research in microelectronics at Columbia University in New York. Chair of the boards of Entra Eiendom AS and Ferd Holding, member of the boards of the Swedish listed companies Investor AB and Atlas Copco AB. Member of the board of Statoil from 2002 and a member of the board of StatoilHydro from 1 October 2007. Grace Reksten Skaugen has no loans in the company. Ms Skaugen is a member of the board's compensation committee.

**Lill-Heidi Bakkerud (born 1963).**
**Board member.**
Lill-Heidi Bakkerud is a Norwegian citizen and she lives in Norway. Represents the employees in the board, and is a full-time employee representative as head of the trade union Industry Energy (IE). A qualified process/chemistry worker, she has worked as a process technician at the petrochemical plant in Bamble and on the Gullfaks field in the North Sea. She is a member of IE's executive committee and holds a number of offices as a result of this. Elected by the employees as member of the board of Statoil from 2004. She was also a board member during the period 1998 to 2002. Has been a member of StatoilHydro's board from 1 October 2007. Lill-Heidi Bakkerud has no loans in the company.

**Claus Clausen (born 1954).**
**Board member.**
Claus Clausen is a Norwegian citizen and he lives in Norway. An employee representative. Mr Clausen graduated as an engineer from Bergen College of Engineering. Worked for Statoil since 1991. Has held various positions in the process discipline since 1997. Today, he is discipline manager for process in operational technology on the Statfjord field. Deputy leader of the Nito branch in Stavanger. Member of the works council for the Exploration & Production Norway business area in StatoilHydro. Elected by the employees as a member of the board of Statoil from 2006, board member of StatoilHydro from 1 October 2007. Claus Clausen has no loans in the company.

**Morten Svaan (born 1956).**
**Board member.**
Morten Svaan is a Norwegian citizen and he lives in Norway. Represents the employees on the board, and was chief employee representative for Nifo/Tekna from 2000 to 2004. He has a PhD in chemistry from the Norwegian University of Science and Technology and studied business economics at the Norwegian School of Management (BI). Has worked for Statoil since 1985. He is presently working on health, safety and the environment (HSE) for the Technology & New Energy business area, focusing on security and emergency response. Mr Svaan has an employee loan in the company on the terms and conditions that apply to all employees at his employment level. As of 31 December 2007, the amount of the loan was NOK 61,000. Member of the board of Statoil from June 2004, and of StatoilHydro from 1 October 2007. Mr Svaan is also a member of the board's audit committee.

**Ragnar Fritsvold (born 1948).**
**Observer.**
Ragnar Fritsvold is a Norwegian citizen and he lives in Norway. An employee-elected observer on the board of StatoilHydro since 1 October 2007. Elected as employee representative to the board of Norsk Hydro ASA in May 2007. He joined Hydro in 1979, and he is now a staff engineer in StatoilHydro and a full-time employee representative. He was leader of the Hydro branch of the Norwegian Society of Chartered Scientific and Academic Professionals Norway (Tekna) from 1999 to 2007.

**Geir Nilsen (born 1955).**
**Observer.**
Geir Nilsen is a Norwegian citizen and he lives in Norway. Employee-elected observer on the board of StatoilHydro since 1 October 2007. Employed as maintenance manager, he represents employees who are members of the Norwegian Confederation of Trade Unions (LO). Mr Nilsen was elected to the board of Hydro by the employees, and was a board member from 2003 to 2007.

# The corporate executive committee

**Helge Lund, (born 1962).**
**Chief Executive Officer (CEO).**
President and CEO of StatoilHydro since 1 October 2007. President and CEO of Statoil since 2004. MA in business economics from the Norwegian School of Economics and Business Administration in Bergen and Master of Business Administration (MBA) from INSEAD in France. Came to Statoil from the position of CEO in Aker Kværner ASA. Held central management positions in the Aker RGI system from 1999. Has been political advisor to the parliamentary group of the Norwegian conservative party, a consultant with McKinsey & Co and Deputy Managing Director of Nycomed Pharma AS. No external offices.

**Eldar Sætre (born 1956).**
**Chief Financial Officer (CFO).**
CFO of StatoilHydro since 1 October 2007. CFO of Statoil from October 2003. MA in business economics from the Norwegian School of Economics and Business Administration in Bergen. Has worked for Statoil since 1980. Has held several management positions in the group in the fields of accounting and finance. Member of the board of directors of Strømberg Gruppen AS.

**Tore Torvund (born 1952).**
**Executive vice president, Exploration & Production Norway.**
Executive vice president in StatoilHydro since 1 October 2007. Executive vice president in Hydro's Oil and Energy division from February 2000. MA in engineering (petroleum technology) from the Norwegian Institute of Technology (NTH) in Trondheim. Responsible for Hydro's exploration and operations activities on the Norwegian continental shelf from 1990 to 2000. Various management positions in Hydro's exploration and production division in connection with the development of fields in the North Sea. Employed by the French oil company Elf Aquitaine 1977 - 1982, working in Stavanger and Paris. Chair of the Board of the Norwegian Oil Industry Association (OLF).

**Peter Mellbye (born 1949).**
**Executive vice president, International Exploration & Production.**
Executive vice president in StatoilHydro since 1 October 2007. Executive vice president in Statoil from March 1992. Cand. polit. degree from the University of Oslo. Has worked for Statoil since 1982 and has held central management positions. Executive vice president of Natural Gas from 1992 to 2004. Worked for the Ministry of Trade and the Norwegian Trade Council before joining Statoil. Member of the board of directors of the Energy Policy Foundation of Norway (EPF).

**Rune Bjørnson (born 1959).**
**Executive vice president, Natural Gas.**
Executive vice president in StatoilHydro since 1 October 2007. Executive vice president in Statoil from 2004. Cand. polit. degree from the University of Bergen. Has worked for Statoil from 1985. Has held various management positions in the Natural Gas business area and was vice president in Statoil UK from 2001 to 2003. No external offices.

**Jon Arnt Jacobsen (born 1957),**
**Executive vice president, Manufacturing & Marketing.**
Executive vice president in StatoilHydro since 1 October 2007. Executive vice president in Statoil from September 2004.
MA in business economics from the Norwegian School of Management (BI) in Oslo and Master of Business Administration(MBA) from the University of Wisconsin. Senior Vice president Group Finance in Statoil from 1998 to 2004. Earlier employment includes 13 years in Den norske Bank including General Manager and Head of DnB's Singapore branch. No external offices.

**Margareth Øvrum (born 1958).**
**Executive vice president, Technology & New Energy.**
Executive vice president in StatoilHydro since 1 October 2007. Executive vice president in Statoil from September 2004. MA in engineering from the Norwegian Institute of Technology (NTH) in Trondheim, specialising in technical physics. Has worked for Statoil since 1982. Has held central management positions in Statoil, including executive vice president for health, safety and the environment and executive vice president for Technology & Projects. She was the company's first female platform manager, on the Gullfaks field. Has been vice president for operations for Veslefrikk and vice president of operations support for the Norwegian continental shelf. Member of the board of directors of Elkem and of the supervisory board of Storebrand ASA.

**Morten Ruud (born 1952).**
**Executive vice president, Projects.**
Executive vice president in StatoilHydro since 1 October 2007. Vice president in Hydro's Oil and Energy division from 1993 and senior vice president for Projects in Hydro from 1 January 2004. MA in engineering from the Norwegian Institute of Technology (NTH) in Trondheim and also has a Master's degree in Mechanical Engineering. Held leading positions in the Oseberg project from 1982 to 1989, head of the Brage project from 1989 to 1992 and the Troll Oil project from 1992 to1996. Responsible for Operations on the Norwegian continental shelf from 1996 to 1997 and International Exploration and Production from 1997 to 2004.

**Hilde Merete Aasheim (born 1958).**
**Executive vice president, Staff functions and corporate services.**
Executive vice president in StatoilHydro since 1 October 2007. Executive vice president in Hydro from 2005. MA in business economics from the Norwegian School of Economics and Business Administration in Bergen and a state authorised public accountant. Worked for Hydro from October 2005. Responsible for the staff area, which comprise people and organisation , communication, health, safety and the environment, integrity and social responsibility, information management and technology, management systems and global business services. Held key management positions in Elkem from 1986 to 2005. Member of corporate executive committee in Elkem for a number of years . Board member in Veidekke ASA.

# Segment performance and analysis

The following table details certain financial information for our four business segments. When combining business segment results, we eliminate intercompany sales. These include transactions recorded in connection with our oil and natural gas production in the Exploration & Production Norway (EPN) or International Exploration & Production (INT) segments and also in connection with the sale, transport or refining of our oil and natural gas production in the Manufacturing & Marketing (M&M) or Natural Gas (NG) segment. EPN produces oil, which it sells internally to Oil Sales, Trading and Supply in the M&M segment, which then sells the oil in the market. EPN also produces natural gas, which it sells internally to our NG business area, also for sale in the market. A large share of the oil and a small share of the natural gas produced by INT is also sold in the same way as the oil and the natural gas produced by EPN. The remaining oil and gas from INT is sold directly in the market. We have established a market price-based transfer pricing policy whereby we set an internal price at which our EPN business area sells oil and natural gas to the M&M and the NG segment. Management has recently decided to update the transfer price formula for natural gas pro-

| | Year ended December 31, | |
|---|---|---|
| **(in million, except per share amounts)** | **2007** | **2006** |
| Exploration and Production Norway | | |
| Total revenues | **179,244** | 179,199 |
| Net operating income | **123,150** | 135,140 |
| Non-current assets | **153,559** | 152,328 |
| International E&P | | |
| Total revenues | **41,601** | 32,602 |
| Net operating income | **12,161** | 3,917 |
| Non-current assets | **109,731** | 98.553 |
| Natural Gas | | |
| Total revenues | **73,434** | 97,069 |
| Net operating income | **1,562** | 21,693 |
| Non-current assets | **40,271** | 35,167 |
| Manufacturing and Marketing Group | | |
| Total revenues | **428,043** | 411,990 |
| Net operating income | **3,776** | 7,280 |
| Non-current assets | **28,891** | 26,735 |
| Other and eliminations | | |
| Total revenues | **(199,525)** | (199,378) |
| Net operating income | **(3,445)** | (1,866) |
| Non-current assets | **20,976** | 19,865 |
| StatoilHydro group | | |
| Total revenues | **522,797** | 521,482 |
| Net operating income | **137,204** | 166,164 |
| Non-current assets | **353,428** | 332,648 |

duced by EPN and marketed and sold by NG to better reflect fundamental changes since the previous formula was set in 2002 in the markets for competing energies, i.e. crude oil, for developments in natural gas markets and for changes in the natural gas sales contracts portfolio. The change will be effective from 1 January 2008 and will be reflected in our financial reporting going forward, without restating prior periods.

For sales of oil from EPM to M&M, the transfer price of oil is the applicable market reflective price minus a margin of NOK 0.70 per barrel. The transfer price of sales of natural gas from EPN to NG is NOK 0.32 per standard cubic metre, adjusted quarterly by the average USD oil price over the previous six months in proportion to USD 15 per barrel. The average transfer price for natural gas per standard cubic metre was NOK 1.39 in 2007 and NOK 1.35 in 2006.

The table shows certain financial information for our four segments, including intercompany eliminations for each of the years in the two-year period ending 31 December 2007. Deferred Non-Current Tax Assets are excluded from Non-Current Assets by business area, and included in Non-Current Assets under Other and Eliminations.

## Exploration and Production Norway

Discovering new resources is a top priority. In 2007, we completed 24 exploration wells, 16 of which were discoveries. In addition, we completed two exploration extensions, of which both resulted in discoveries. Total exploration expenses were NOK 3.6 billion in 2007, compared with NOK 3.5 billion in 2006.

Six exploration wells have been completed so far in 2008. Four of these are discoveries: Gamma, Marulk, M-structure and Obesum. In addition one exploration extension is completed, Fram C-Øst, which was a discovery.

We are focused on increased oil and gas recovery, and we invest in order to increase recovery rates for our fields. The continued drilling of new production wells is of major importance in countering the natural decline in production from mature fields on the NCS. In 2007, we drilled 66 new production wells and we plan to drill approximately 80 wells in 2008.

Our production of oil and gas on the NCS averaged 1.417 mmboe per day in 2007, compared to 1.474 mmboe per day in 2006. Our total production was negatively affected by incidents that caused interruptions to production on the NCS and lower gas off-take in Europe than expected, which was partly offset by new projects coming on stream.

In total, eight projects came on stream on the NCS in 2007, four on new fields and four reconfiguration/increased oil recovery projects. These projects make a substantial contribution to our production and transport capacity. Both Ormen Lange and Snøhvit came on stream in October and production also commenced from the Statfjord Late Life project, Tordis subsea processing, Skinfaks/Rimfaks IOR, Huldra Tail-end and Njord gas export. In addition, nine new projects were sanctioned in 2007. Volve started producing in February 2008.

The total capital expenditure of NOK 31.1 billion in 2007 was higher than in previous years, as a result of many projects under development.

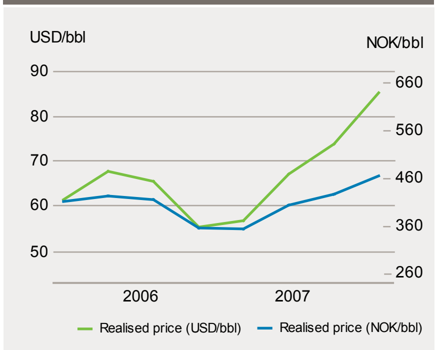
Restructuring costs and other costs relating to the merger amounting to NOK 5.5 billion were charged to income in 2007.

### Profit and loss analysis

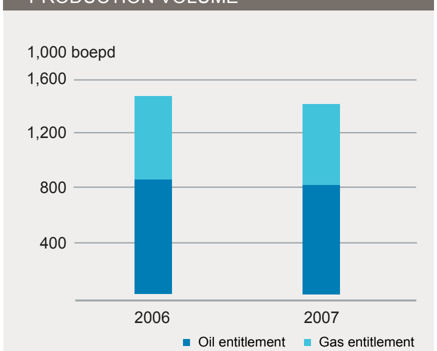
We generated **total revenues** of NOK 179.2 billion both in 2007 and 2006.

An increase of 11% in the average oil price in USD of oil sold by E&P Norway to Manufacturing and Marketing contributed NOK 13.3 billion, and a 2% increase in the average transfer price in NOK of natural gas sold by E&P Norway to Natural Gas, contributed NOK 1.1 billion. This was offset by a negative currency exchange rate deviation of NOK 12.0 billion due to a 9% decrease in the USD NOK exchange rate. Lifted volumes of crude oil decreased by 3%, making a negative contribution of NOK 3.8 billion, and there was a 2% decrease in lifted volumes of natural gas, making a negative contribution of NOK 0.9 billion. In addition, other income increased by NOK 2.4 billion, mainly as a result of higher income

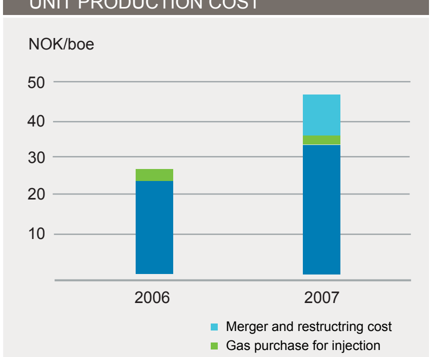
REALISED PRICE




PRODUCTION VOLUME




UNIT PRODUCTION COST




| (in NOK millions) | 2007 | 2006 | Change |
|---|---|---|---|
| Total revenues and other income | **179,244** | 179,199 | 0 % |
| Operating, general and administrative expenses | **29,426** | 19,641 | 50 % |
| Depreciation, amortisation and impairment | **23,030** | 20,938 | 10 % |
| Exploration expenses | **3,638** | 3,480 | 5 % |
| Total expenses | **56,094** | 44,059 | 27 % |
| Net operating income | **123,150** | 135,140 | (9 %) |
| Operational data: | | | |
| Oil price (USD/bbl) | **70.9** | 63.6 | 11 % |
| Production cost per boe | **43.3** | 27.0 | 60 % |
| Liftings: | | | |
| Oil (1,000 bbl/day) | **831** | 856 | (3 %) |
| Natural gas (1,000 boe/day) | **599** | 610 | (2 %) |
| Total oil and natural gas liftings (1,000 boe/day) | **1,430** | 1,467 | (3 %) |
| Production: | | | |
| Entitlement oil (1,000 bbl/day) | **818** | 864 | (5 %) |
| Entitlement natural gas (1,000 boe/day) | **599** | 610 | (2 %) |
| Total entitlement oil and natural gas production (1,000 boe/day) | **1,417** | 1,474 | (4 %) |

from derivatives and higher processing income.

**The average daily lifting of oil** in 2007 was 831 mbbl per day, compared to 856 mbbl per day in 2006.

**Average daily entitlement oil production** in 2007 was 818 mbbl per day, compared to 864 mbbl per day in 2006. The reduced production was largely caused by the shutdown of production on the Kvitebjørn field from 1 May 2007 in order to enable safe drilling operations, as well as to a natural decline on the Oseberg field. Kvitebjørn started up again on 16 January 2008, and it is currently producing at full capacity, although it is expected to be shut down again for approximately three months from late June 2008 to allow for repair work on the damaged gas export pipeline. The reduction in production was partly offset by increased production from the Kristin field, which has now reached plateau level.

**The average daily entitlement gas production** was 599 mboe in 2007 (equal to 95.2 mmcm or 3.36 mmcf), compared to 610 mboe in 2006 (equal to 97.0 mmcm or 3.42 mmcf).

**The unit production cost** was USD 8.09 per boe in 2007 and USD 4.21 per boe in 2006. The unit of production cost measured in NOK was NOK 46.26 per boe in 2007 and NOK 26.93 per boe in 2006. The production cost mainly consists of operating plant costs.

The 60% increase from 2006 to 2007 is due to both an increase in costs of 65% and a decrease in production of 4%. Indirect operating costs increased by NOK 5.5 billion due to restructuring costs as a result of the merger in 2007. Operating plant costs increased by NOK 3.2 billion, due to both higher activity and increased pressure on costs in the industry.

**Operating, general and administrative expenses** were NOK 29.4 billion in 2007 and NOK 19.6 billion in 2006. Operating costs amounted to NOK 29.1 billion in 2007 and NOK 19.2 billion in 2006. The general and administrative cost elements in 2007 and 2006 largely consisted of research and development costs.

The increase of NOK 9.8 billion in operating, general and administrative expenses from 2006 to 2007 was mainly due to an increase in other expenses of NOK 6.3 billion, mainly due to restructuring costs as a result of the merger in 2007 and an increase of NOK 3.2 billion in operating plant costs, which was largely due to an increase in well maintenance costs of NOK 0.9 billion, higher operation and maintenance costs of NOK 0.8 billion, higher production fees, mainly due to the introduction of nitrogen oxide charges of NOK 0.4 billion in 2007, Grane Gas purchases totalling NOK 0.3 billion, higher business development costs of NOK 0.3 billion and higher head office research and development costs of NOK 0.2 billion. In addition, processing costs increased by NOK 0.4 billion from 2006 to 2007.

**Depreciation, depletion and amortisation** expenses were NOK 23.0 billion in 2007 and NOK 20.9 billion in 2006. The NOK 2.1 billion increase from 2006 to 2007 was mainly due to higher depreciation costs as a result of asset retirement costs and higher depreciation offshore due to changes in the portfolio of producing fields.

**Exploration expenditure** (including capitalised exploration expenditure) in 2007 amounted to NOK 5.7 billion, compared to NOK 4.6 billion in 2006. The increase in exploration expenditure from 2006 to 2007 was mainly due to increased drilling and seismic activity as well as a significant increase in the area fee. Drilling expenditure increased by approximately NOK 0.4 billion, while the increase in seismic activity amounted to NOK 0.3 billion. The increase in area fee was due to new regulations on the NCS and it contributed approximately NOK 0.4 billion to the increased costs.

**Exploration expenses** in 2007 were NOK 3.6 billion, compared to NOK 3.5 billion in 2006.

In 2007, 24 exploration and appraisal wells and two exploration extension wells were completed. Of these, 16 exploration and appraisal wells and both exploration extension wells resulted in discoveries. In 2006, 18 exploration and appraisal wells and five exploration extension wells were completed, of which eight appraisal and exploration wells and two exploration extension wells were discoveries.

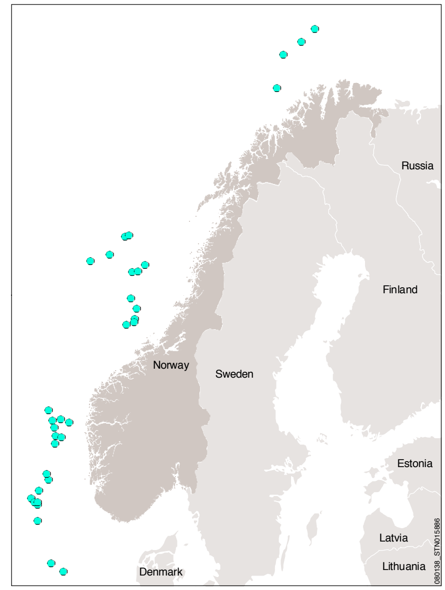
Drilling of five exploration and two exploration extension wells was ongoing at year end 2007.

The reconciliation of exploration expenditure with exploration expenses is shown in the table below.

**Net operating income** in 2007 was NOK 123.2 billion, compared to NOK 135.1 billion in 2006. The NOK 11.9 billion decrease in 2007 was mainly due to price and volume effects, NOK 5.5 billion in restructuring and other costs arising from the merger, higher operating costs of NOK 3.2 billion, mainly due to higher operation and maintenance costs and well maintenance, increased depreciation, mainly due to higher asset retirement costs, which contributed NOK 2.1 billion to the decrease, an increase in other operating expenses of NOK 1.0 billion and processing and transportation costs increasing by NOK 0.4 billion in 2007.

### Outlook

We expect to continue our high exploration activity in 2008 and we plan to drill approximately 35 exploration wells on the NCS. A significant part of the drilling




| Exploration (in NOK million) | 2007 | 2006 |
|---|---|---|
| Exploration expenditure (activity) | **5,749** | 4,649 |
| Expensed, previously capitalized exploration expenditure | **50** | 177 |
| Capitalized share of current period’s exploration activity | **(2,161)** | (1,346) |
| Exploration expenses | **3,638** | 3,480 |

activity is expected to take place in mature areas close to existing infrastructure. We also plan to drill several wells in frontier areas of the Norwegian Sea and in the Barents Sea. We have secured rig capacity for our drilling operations in 2008.

Measures have been initiated to further improve both regularity on our installations and our drilling efficiency. The full effect of these improvement programmes is not expected to be realised in 2008, but will be essential if we are to reach our production ambition in 2012.

There are uncertainties regarding production on Snøhvit. The LNG plant has suffered from operational challenges and there are still uncertainties related to the timing of regular and stable operations. Gas exports from Kvitebjørn and Visund will be halted during the repair of the Kvitebjørn gas pipeline in mid-2008.

## International Exploration & Production

The strategy of International Exploration & Production (INT) is to access new resources through world-class exploration and focused business development and to move resources effectively into production through our proven project execution and operational experience from the NCS.

International exploration activities were at a record level in 2007. During the year, we drilled 58 wells, 47 of which were completed. Eighteen wells have been announced as discoveries at year-end. Several wells are still under evaluation. The total exploration expenses were NOK 7.7 billion in 2007, compared with NOK 7.2 billion in 2006.

Acquisitions in 2007 included the purchase of 100% of the shares in North American Oil Sands Corporation and the acquisition of the UK heavy oil fields Mariner, Mariner East and Bressay. Our interests in these fields are 44.44%, 62% and 81.63%, respectively. In addition, a separate agreement has been concluded with the Canadian companies Silverstone and Wilderness for an acquisition of a 30% interest in the Broch discovery in block 9/16.

We signed a framework agreement with Gazprom to become a partner in the Shtokman development phase 1, giving us a 24% equity interest in Shtokman Development Company. In 2007, we divested ourselves of small mature producing assets in the shelf of the US Gulf of Mexico and in the UK.

In 2007, our international entitlement production increased significantly to 307 mboe per day from 234 mboe per day in 2006. The average daily equity production of oil and gas was 422 mboe per day in 2007, compared to 304 mboe in 2006. The difference between entitlement and equity volumes is the result of deductions for among other things, royalty and the host government's share of profit oil under the terms of most PSA regimes.

The total capital expenditure of NOK 36.2 billion in 2007 was higher than in previous years, triggered by many projects under development in addition to the acquisition of new assets to secure longer term growth, such as NAOSC in Canada and the UK heavy oil fields.

Restructuring costs and other costs relating to the merger totalling NOK 1.3 billion were charged to income in 2007.

#### Profit and loss analysis

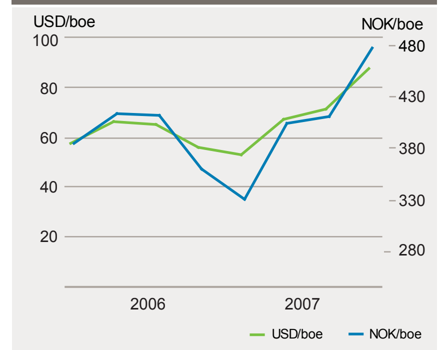
We generated **total revenues** of NOK 41.6 billion in 2007, compared to NOK 32.6 billion in 2006. The increase was mainly related to a 32% increase in lifted volumes, which contributed NOK 9.8 billion, and a 4% increase in realised oil prices in NOK, which contributed NOK 1.3 billion, partly offset by a 29% decrease in the realised gas price measured in NOK, which contributed negatively in the amount of NOK 1.5 billion.

**The average daily oil lifting** was 250 mbbl in 2007, compared with 191 mbbl in 2006.

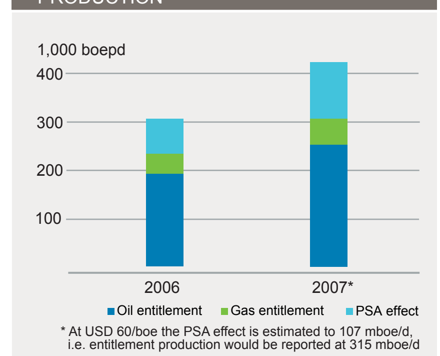
**The average daily entitlement production of oil** was 252 mbbl in 2007, compared with 194 mbbl in 2006. The 30% increase in average daily oil production from 2006 to 2007 was mainly related to the ramp-up of production from Dalia, the West and East Azeri part of the ACG field and In Amenas, which started production in the fourth quarter of 2006, the start-up of new fields, such as Rosa and Marimba, which came on stream in the second and third quarters of 2007, respectively, as well as increased production

| (in NOK millions) | 2007 | 2006 | Change |
|---|---|---|---|
| Total revenues and other income | **41,601** | 32,602 | 28 % |
| Operating, general and administrative expenses | **10,642** | 7,145 | 49 % |
| Depreciation, amortisation and impairment | **11,103** | 14,370 | (23 %) |
| Exploration expenses | **7,695** | 7,170 | 7 % |
| Total expenses | **29,440** | 28,685 | 3 % |
| Net operating income | **12,161** | 3,917 | 210 % |
| Operational data: | | | |
| Oil price (USD/bbl) | **69.1** | 60.9 | 13 % |
| Production cost per barrel in USD | **5.87** | 5.84 | 1 % |
| Liftings: | | | |
| Oil (1,000 bbl/day) | **250** | 191 | 31 % |
| Natural gas (1,000 boe/day) | **55** | 40 | 37 % |
| Total oil and natural gas liftings (1,000 boe/day) | **305** | 232 | 32 % |
| Production: | | | |
| Entitlement oil (1,000 bbl/day) | **252** | 194 | 30 % |
| Entitlement natural gas (1,000 boe/day) | **55** | 40 | 37 % |
| Total entitlement oil and natural gas production (1,000 boe/day) | 307 | 234 | 31 % |

REALIZED OIL AND GAS PRICE




PRODUCTION




from Terra Nova, which was shut down for most of 2006. This was partly offset by lower entitlement production under the PSAs in Angola.

**The average daily entitlement production of gas** was 55 mboe in 2007 (equivalent to 9.35 mmcm or 330 mmcf), compared to 40 mboe in 2006 (equivalent to 6.80 mmcm or 240 mmcf). The 37% increase in daily gas production was mainly related to the start-up of new fields, such as Shah Deniz in the first quarter 2007 and the Eastern Gulf fields in the US GoM (Q, San Jacinto and Spiderman) in the third and fourth quarter 2007.

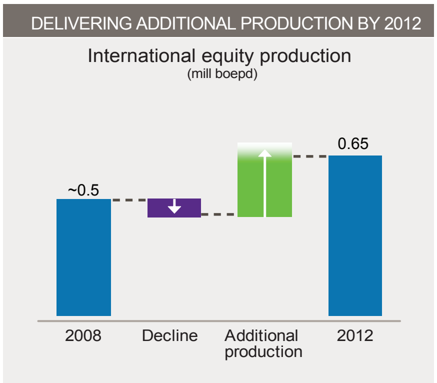
**The average daily equity oil and gas production** was 422 mboe per day in 2007, compared with 304 mboe in 2006.

The unit of production cost based on entitlement volumes was USD 5.87 per boe in 2007 and USD 5.84 per boe in 2006. Measured in NOK, it was 34.41 per boe in 2007 and 37.50 per boe in 2006. The 8% decrease in unit of production cost measured in NOK from 2006 to 2007 was mainly due to a decrease in the USD/NOK exchange rate.

**The unit of production cost based on equity volumes** was USD 4.27 per boe in 2007 and USD 4.50 per boe in 2006. Measured in NOK it was 25.04 per boe in 2007 and 28.87 per boe in 2006.

**Operating, general and administrative expenses**. Due to increased royalty and extraction tax in Venezuela and Canada, increased transport costs, new fields in production, increased costs related to the acquisition of NAOSC, pension and general operating costs, total operating, general and administrative expenses increased by NOK 3.5 billion from 2006 to 2007, of which restructuring costs and other costs arising from the merger amounted to NOK 1.3 billion.

**Depreciation, depletion and amortisation expenses** were NOK 11.1 billion in 2007, compared with NOK 14.4 billion in




2006. The 23% decrease in 2007 compared to 2006 was mainly due to the NOK 4.9 billion impairment write-down effect on depletion, depreciation and amortisation accounts of US GoM shelf fields and Front Runner in our US portfolio in 2006. This decrease was partly offset by impairment write-downs of NOK 1.2 billion for Lufeng, Front Runner, Thunder Hawk and US GoM shelf fields in 2007. A change in the proved reserves estimates in 2007, which forms the basis for the unit of production depreciation, and increased depreciation from new assets coming on stream also contributed to the increase.

**Exploration expenditure** was NOK 8.5 billion in 2007, compared with NOK 9.5 billion in 2006. The decrease was mainly due to higher drilling activity in 2006.

Exploration expenses were NOK 7.7 billion in 2007, compared with NOK 7.2 billion in 2006. Increased exploration expenses were mainly related to higher expensing of exploration costs capitalised in previous years, partly offset by a decrease in exploration expenditure related to slightly lower drilling activity in 2007 than in 2006.

In total, 47 exploration and appraisal wells were completed in 2007 and, at year end, 18 were considered to be discoveries or confirmed discoveries. At year end, 14 wells were pending final evaluation. In 2006, 55 exploration and appraisal wells were completed, 24 of which were considered discoveries.

**Net operating income** in 2007 was NOK 12.2 billion compared to NOK 3.9 billion in 2006. In addition to the price and volume effects, the increase was mainly related to a NOK 3.3 billion decrease in depreciation, amortisation and impairment expenses, which was offset by a NOK 3.5 billion increase in operating, general and administrative expenses, of which restructuring and other costs arising from the merger amounted to NOK 1.3 billion, and a NOK 0.5 billion increase in exploration expenses.

### Outlook

International equity production is expected to continue growing to a level of 650,000 boe per day in 2012. Assuming an oil price of USD 75/bbl, we estimate an adverse PSA impact on equity production of approximately 240,000 boe per day. Seventy-five per cent of the new fields contributing to our 2012 production are sanctioned. Other fields planned for start-up in 2008 include Saxi Batuque and Gimboa in Angola, Agbami in Nigeria and ACG phase III in Azerbaijan.

We plan to continue to pursue a high exploration activity combined with targeted business development consistent with our strategy in order to further expand our resource base. We expect to continue to develop resources effectively into production through our proven project execution and operational experience from the NCS.

Approximately 35 exploration and appraisal wells are expected to be drilled in 2008, of which approximately 10 to12 wells are expected to be drilled in high impact basins.

Rig capacity has been secured for the 2008 drilling programme, and we believe we are well positioned for exploration drilling beyond 2008 based on our current drilling programme and rig commitments.

## Natural Gas

We are currently the second largest supplier of natural gas to Europe, with a market share of approximately 15% in Europe, including the volumes from the State's Direct Financial Interest. Gas exports from the NCS were again at a high level in 2007 and the level of NCS gas exports is expected to grow. In 2007, StatoilHydro sold 35.6 bcm entitlement gas. In addition, we sold 31.2 bcm NCS gas on behalf of the SDFI. Most of the gas was sold to Continental energy providers under long-term contracts. Our market share in 2007 was approximately 20-25% in Germany and France and approximately 15% in the UK.

In 2007, the first gas was delivered from the Shah Deniz field in Azerbaijan to Turkey, where the bulk of the gas is sold. At plateau level, Shah Deniz stage 1 is expected to produce around 8.6 bcm gas annually. A potential stage 2 of the Shah Deniz field is under development.

Important strategic milestones for us in 2007 included the opening of the Tampen Link pipeline, the start-up of the

Ormen Lange field and the first LNG shipment from Snøhvit.

Two significant factors strongly influenced our financial results: the external sales price and the internal transfer price. In 2007, natural gas prices fell compared with the high level in 2006. Our average natural gas price for European piped gas was NOK 1.69/cubic metre in 2007.

All of the gas from the NCS sold by the Natural Gas business area is purchased from Exploration & Production Norway. The internal transfer price formula is linked to the oil price for Brent Blend. High oil prices throughout 2007 have led to relatively high internal gas prices. In combination with the relatively low external sales prices for gas, our margins decreased significantly in 2007. In addition, losses on the fair value of derivatives also affected our results in 2007.

The total capital expenditure of NOK 2.1 billion in 2007 was lower than in previous years, due to fewer projects being under development. In addition, three LNG vessels and associated LNG companies were transferred from Exploration & Production Norway to Natural Gas in 2007, amounting to NOK 2.4 billion.

Restructuring costs and other costs relating to the merger totalling NOK 1.3 billion were charged to income in 2007.

### Profit and loss analysis

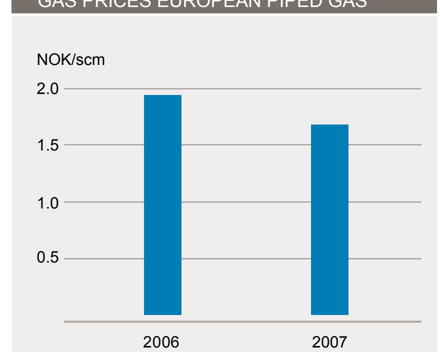
**The total revenues** in the Natural Gas business mainly come from gas sales under long-term gas sales contracts and tariff revenues from transportation and processing facilities. Natural Gas generated revenues of NOK 73.4 billion in 2007, compared with NOK 97.1 billion in 2006. The 24% decrease from 2006 to 2007 was mainly due to declining natural gas prices measured in NOK in 2007 and negative changes in the fair value of derivatives.

**The total natural gas sales** were 42.0 bcm (1.48 tcf) in 2007 and 40.2 bcm (1.42 tcf) in 2006. The 4% increase from 2006 to 2007 in gas volumes sold was mainly due to increased third-party gas sales, but this was partly offset by a net decrease in StatoilHydro entitlement sales volumes. The decrease in entitlement sales volumes mainly relates to production problems on Kvitebjørn throughout 2007, and it was partly offset by the start-up of Ormen Lange in October 2007.

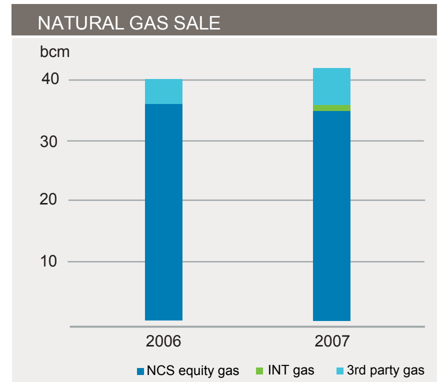
Of the total natural gas sales in 2007, we sold 35.6 bcm (1.26 tcf) of entitlement gas, which included 0.8 bcm (0.03 tcf) of gas from Shah Deniz in Azerbaijan. The average gas price for our European gas sales was NOK 1.69 per scm in 2007, compared to NOK 1.94 per scm in 2006, a decrease of 13%. The decrease in price from 2006 to 2007 was mainly due to a

| (in NOK millions) | 2007 | 2006 | Change |
|---|---|---|---|
| Total revenues and other income | **73,434** | 97,069 | (24 %) |
| Cost of goods sold | **56,650** | 61,342 | (8 %) |
| Operating, selling and administrative expenses | **13,377** | 12,609 | 6 % |
| Depreciation, amortisation and impairment | **1,845** | 1,425 | 29 % |
| Total expenses | **71,872** | 75,376 | (5 %) |
| Net operating income | **1,562** | 21,693 | (93 %) |
| Operational data: | | | |
| Natural gas sales (StatoilHydro entitlement) (bcm) | **35.6** | 35.9 | (3 %) |
| Natural gas sales (third-party volumes) (bcm) | **6.4** | 4.3 | 51 % |
| Natural gas sales (bcm) | **42.0** | 40.2 | 3 % |
| Natural gas price (NOK/scm) | **1.69** | 1.94 | (13 %) |
| Transfer price natural gas (NOK/scm) | **1.39** | 1.35 | 2 % |
| Regularity at delivery point | **100%** | 100% | 0 % |


GAS PRICES EUROPEAN PIPED GAS




NATURAL GAS SALE



decrease in prices for oil products (such as gas oil and fuel oil) and other competing energy sources, as well as lower gas prices on the National Balancing Point (NBP) in the UK. The sales of natural gas from In Salah are reported by the International Exploration & Production business area.

**Cost of goods sold** decreased by 8% from 2006 to 2007, from NOK 61.3 billion to NOK 56.7 billion. The decrease in cost of goods sold mainly relates to a decrease in the third party purchase price of natural gas. This was partly offset by a slight increase in the transfer price paid to E&P Norway and an increase in third party purchase volumes from 2006 to 2007.

**Operating, selling and administrative expenses** increased by 6% from 2006 to 2007. This was mainly related to early retirement cost accruals and increased accruals for removal costs.

**Net operating income** for 2007 was NOK 1.6 billion, compared with NOK 21.7 billion in 2006. The decrease of NOK 20.1 billion was mainly due to a 13% decrease in prices for piped natural gas, which reduced income by NOK 9.5 billion, and negative changes amounting to NOK 10.3 billion in the fair value of derivatives.

### Outlook

We believe there is sufficient supply in Europe, Asia and North America to meet demand expectations in the short term. In the longer term, however, the market balance is more uncertain and will depend on a number of factors, such as how demand responds to gas and energy prices, the development of LNG projects and potential new Russian supplies coming on stream.

We believe that the future gas prices will provide efficient signals both to users of gas and owners of potential gas projects. Higher costs in the industry also suggest that sales prices may increase over time, thus ensuring sufficient supplies.

The short term gas market is affected by new capacity and new fields coming on stream. We have also seen that LNG in the Atlantic basin is responding to changes in prices between major markets, taking advantage of arbitrage opportunities. The UK gas market has become more liquid and is able to absorb volumes from Ormen Lange without severe impacts on prices. Our view on these events is that we have value creation potential through increased gas exports due to the proximity of our infrastructure to favourable markets.

In the long term, we continue to have a positive view of gas as an energy source for Europe. Indigenous production of gas in the EU is expected to decline, while demand for gas is expected to increase, particularly due to the lower carbon footprint of natural gas compared with oil and coal. The trend for LNG as a link between continental markets is expected to continue as more LNG will come on stream, making gas a commodity that is priced more on a global basis in the long term.

In 2008, we plan to continue to seek added value through balancing, trading and optimisation, maximising the value of our gas sales portfolio and developing the next generation gas business. Key activities are expected to include planning with a view to utilising the expansion capacity at Cove Point, further preparation for a Shah Deniz stage 2 and focusing on maintaining a low cost level. Mitigation activities to meet our contractual obligations continue in 2008.

The upgrading of the Kårstø gas plant and the expected start-up of the Aldbrough storage facility are both projects of great importance to us in 2008. Aldbrough is expected to start commercial operations in late 2008. The storage facility will provide us with a new tool for trading and optimisation activities.

## Manufacturing & Marketing

In 2007, we continued to focus on streamlining the portfolio through investments and divestments, standardisation and simplification throughout the business area in order to create more value as well as an efficient and value chain-focused organisation.

The total capital expenditure of NOK 4.8 billion in 2007 was higher than in previous years, triggered by high activity in projects and modifications at our refineries.

Restructuring costs and other costs

relating to the merger totalling NOK 1.2 billion were charged to income in 2007.

### *Oil sales, trading and supply*

With average crude and condensate sales of 2.1 mmbbl per day in 2007, we still rank as one of the world's largest net sellers of crude. Of our daily sales of 2.1 mmbbl, approximately 1.0 mmbbl were our own equity volumes, 0.5 mmbbl were third party volumes and 0.6 mmbbl were SDFI volumes. Including NGL, the average sales volume was 2.4 mmbbl per day in 2007 compared with 2.3 mmbbl per day in 2006.

Even though the NCS production of crude oil is decreasing, we are still continuing to strengthen our global trading positions and have increased our flexibility by trading in third party volumes. The average daily third party crude volume sold in 2007 of 524 mbbl was an increase of approximately 25% from 2006.

### *Manufacturing*

Mongstad continued to have good regularity (97.8%) in 2007, but Tjeldbergodden had a planned but extended turnaround and a 30-day shutdown due to an interruption in gas deliveries during July and August. Kalundborg also had a planned but extended turnaround in parts of the refinery that lasted for 62 days. The Kalundborg plant came on stream again in June.

### *Energy and retail*

We have maintained our leading energy and retail positions, and have the leading or second largest share in most of the markets in which we operate.

In 2007, we sold our energy and retail business on the Faeroe Islands and entered into a purchase agreement with ConocoPhillips for the Scandinavian JET retail network of 271 unmanned service stations. The purchase is subject to approval by the EU Commission.

We also strengthened our position as the leading supplier of biofuels in 2007. Biofuels are now available at more than 1,300 service stations in seven different countries.

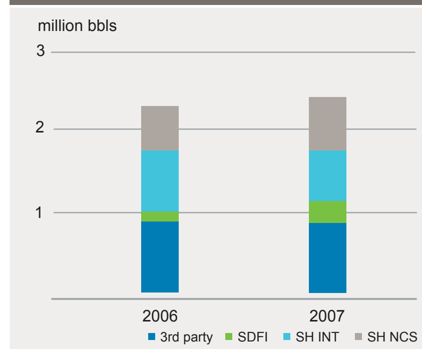
### Profit and loss analysis

**Total revenues and other income** increased from NOK 412 billion in 2006 to NOK 428 billion in 2007. The increase from 2006 to 2007 was mainly due to higher prices and volumes for crude and gas oil products. The average oil price increased by 12% from USD 63.2/bbl in 2006 to USD 70.50/bbl in 2007, which was partly offset by the weakening of the average USD exchange rate by almost 9% from USD/NOK 6.42 in 2006 to USD/NOK 5.86 in 2007.

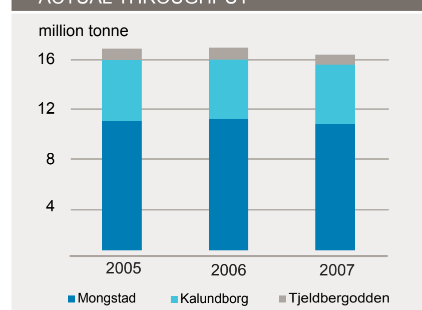
**Cost of goods sold** increased from NOK 383 billion in 2006 to NOK 402 billion in 2007. This was primarily due to increased crude oil prices and volumes purchased.

| (in NOK millions) | 2007 | 2006 | Change |
|---|---|---|---|
| Total revenues and other income | **428,043** | 411,990 | 4 % |
| Cost of goods sold | **401,804** | 383,362 | 5 % |
| Operating, selling and administrative expenses | **19,630** | 19,068 | 3 % |
| Depreciation, amortisation and impairment | **2,833** | 2,280 | 24 % |
| Total expenses | **424,267** | 404,710 | 5 % |
| Net operating income | **3,776** | 7,280 | (48 %) |
| Operational data: | | | |
| FCC margin (USD/bbl) | **8.4** | 7.1 | 18 % |
| Contract price methanol (EUR/tonne) | **317** | 300 | 6 % |

TRADED VOLUMES PER DAY OF OIL

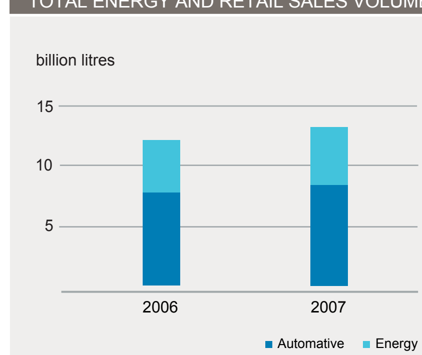



ACTUAL THROUGHPUT*

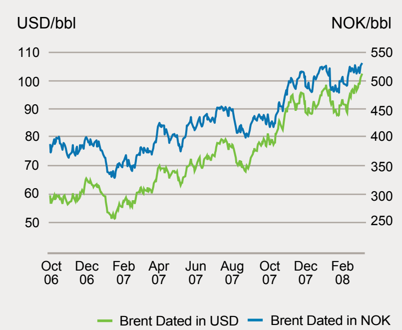



* Actual throughput of crude oils, condensates, feed and blendstock (excl. crude export)

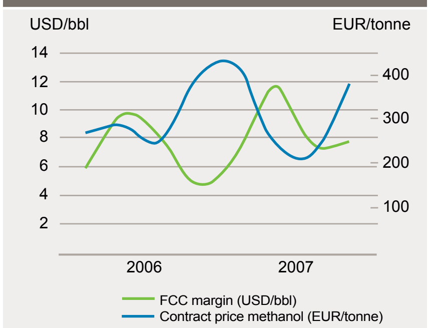
TOTAL ENERGY AND RETAIL SALES VOLUME



BRENT DATED IN USD AND NOK




FCC REFINING*




*FCC Refining margin and Contract price on methanol

**Operating, selling and administrative expenses** increased by 3% in 2007 compared with 2006, mainly due to provisions for pension liabilities of NOK 0.7 billion largely related to early retirement. The whole amount is included in the restructuring costs relating to the merger and charged to income.

**Depreciation, amortisation and impairment** totalled NOK 2.8 billion in 2007, compared with NOK 2.3 billion in 2006. The increase was mainly due to an increase in impairment loss in Energy & Retail Sweden, from NOK 0.2 billion in 2006 to NOK 0.95 billion in 2007, NOK 0.5 billion of which is included in restructuring costs relating to the merger and charged to income.

In 2007, **net operating income** was NOK 3.8 billion, compared with NOK 7.3 billion in 2006. The difference was mainly due to increased early retirement pension costs of NOK 0.7 billion, negative currency effects of NOK 0.7 billion, a decrease in trading results of NOK 0.6 billion, a gain of NOK 0.6 billion in 2006 on the sale of our retail business in Ireland, and impairment loss and provisions of NOK 0.5 billion due to weak market conditions and restructuring of the retail business in Sweden.

### *Oil Sales, trading and supply*

In 2007, net operating income was NOK 1.3 billion, compared with NOK 2.2 billion in 2006. The decrease in 2007 was mainly due to NOK 0.7 billion in currency losses, lower trading results of NOK 0.6 billion compared with 2006 and a deferred gain on inventories, which was partly offset by gains on operational storage.

### *Manufacturing*

In 2007, net operating income was NOK 3.3 billion, compared with NOK 4.4 billion in 2006. The decrease in 2007 was mainly due to lower regularity and higher operating costs due to turnaround activities. The lower USD/NOK exchange rate and lower capacity utilisation also contributed negatively. Margins were good at Mongstad, but they were lower than expected at Kalundborg due to high crude differentials and the delay in the fuel reduction project. The average contract price for methanol increased by 6% from EUR 300/tonne in 2006 to EUR 317/tonne in 2007.

### *Energy and retail*

Net operating income was NOK 0 billion in 2007, compared with NOK 0.6 billion in 2006. We experienced increased revenues during 2007, mainly due to an increase of 8% in transport fuel volumes at our outlets, from 7.7 billion to 8.3 billion litres, together with an increase in margins. During the same period, margins on convenience products rose by 15%. The decrease in total net income was mainly due to increased impairment loss and provisions of NOK 0.6 billion in 2006 and NOK 1.1 billion in 2007, due to weak market conditions and restructuring of our retail business in Sweden. There was also a net gain of NOK 0.6 billion in 2006 related to the sale of our retail business in Ireland.

## Outlook

### *Oil sales, trading and supply*

The year 2007 was one of the most volatile periods in the product, gas liquids and crude oil markets. High prices were experienced during the year and we believe that prices will remain high and volatile at least in the near term.

### *Manufacturing*

The outlook for the refinery industry continues to be good and high utilisation is expected. Significant new refining capacity, however, is expected to come on stream over the next few years. Combined with lower global economic growth, this new capacity is expected to have a negative impact on margins in the industry. However, profitability will very much depend on our ability to utilise the available feedstock and deliver the optimal product qualities. The average crude oil is getting heavier and more sour, while product specifications have become more stringent. Both factors require additional processing flexibility and capacity. Fuel oil conversion is expected to increase, and bio-components are expected to increase their market share. After heavy cost-cutting in the 1990s, recent high margins have increased the focus on reliability and utilisation. Combined with high pressure in the labour and contractor markets, the cost trend has changed, and maintenance and upgrading is expected to require continued management attention. The high energy costs could also make new energy efficiency initiatives more attractive.

Methanol prices are expected to return to a moderate level as new capacity in stranded gas areas becomes available. Europe is expected to continue to be a net importer of methanol, and European producers will therefore have a geographical advantage.

### *Energy and retail*

The main growth in Energy and retail is expected to come from transport fuel, largely due to growth in diesel, and convenience, with a new indoor food range concept and lean operation.

Subject to EU Commission approval, the acquisition of Jet in Scandinavia will allow us to strengthen our Scandinavian retail position.

We have entered the St. Petersburg market in Russia, reinforcing our long-term ambition of sales growth in Eastern Europe. We already have a strong foothold in the Baltic countries and are expanding in Poland.

We believe that use of heavy oil products in the stationary carries sector will gradually be replaced by either gas carriers (LNG and LPG), or other non-fossil energy carriers.

## Eliminations and other operations

#### The years ended 31 December 2007 and 2006

Other operations consist of the activities of Corporate Services, Corporate Centre, Group Finance and the two corporate technical service providers, Technology and New Energy and Projects. In connection with our other operations, we recorded a loss before financial items, income taxes and minority interest of NOK 3.4 billion in 2007, compared with a loss of NOK 1.9 billion in 2006. The increase is primarily due to provisions made related to early retirement and pension benefits.

# Corporate governance

Good corporate governance is a prerequisite for a sound and sustainable company. It must build on openness and equal treatment of all shareholders. Our governing structures and controls help to ensure that we run our business in a justifiable and profitable manner to the benefit of our employees, shareholders, partners, customers and society.

StatoilHydro is a public limited company with a governance structure based on Norwegian law. StatoilHydro's main share listing is on the Oslo stock exchange (Oslo Børs). It is also listed on the New York Stock Exchange (NYSE).

StatoilHydro's board of directors endorses the "Norwegian Code of Practice for Corporate Governance" (updated on 4 December 2007). The company's compliance with and, if applicable, deviation from the Code of Practice is commented on and these comments made available. A complete report on corporate governance in StatoilHydro, sequenced as the Norwegian code of practice stipulates, is found on our website.

StatoilHydro is required to disclose any significant ways in which its corporate governance practices differ from those applicable to US companies under the NYSE listing standards. A statement of difference, pursuant to Rule 303A.11 of the NYSE Listed Company Manual, is found on our website.

| Norwegian Code of Practice for Corporate Governance | See information |
|---|---|
| Implementation and reporting on corporate governance | Corporate governance chapter in our annual report (page 88-94) and in dedicated section on our website: http://www.statoilhydro.com/cg |
| Business | Our corporate strategy is outlined on page 4, and the strategies for each business unit are presented in more detail on page 20.<br>The articles of association are found on page 88-89 |
| Equity and dividends | "Dividend policy" on page 95 |
| Equal treatment of shareholders | under "Major shareholders" on page 96-97 |
| Freely negotiable shares | StatoilHydro has one class of shares, and all shares are freely negotiable |
| General meetings | page 89 |
| Nomination committee | page 92 |
| Corporate assembly and board of directors: composition and independence | page 90-92, our board members are presented on page 70-73 |
| The work of the board of directors | "Directors report", page 60-70 |
| Risk management and internal control | "controls and procedures" on page 93-94 and section 5.2.1 "risk management" in 20-F |
| Remuneration of the board of directors | Norwegian annual Report and Accounts 2007 (NGAAP), note 3 |
| Remuneration of the executive management | Norwegian annual Report and Accounts 2007 (NGAAP), note 3 |
| Information and communications | page 95-96 |
| Take-overs | Corporate governance section on our website |
| Auditor | "External auditor" on page 92-93 |

## Ethics Code of Conduct

Our ability to create value is dependent on high ethical standards. Ethics is treated as an integral part of our business activities, and we act within the law and comfortably within our own ethical principles. The group requires high ethical standards of everyone who acts on its behalf and it will maintain an open dialogue on ethical issues, internally and externally. The StatoilHydro Ethics Code of Conduct describes the requirements that apply to StatoilHydro's business practices. The Code's target group is all employees and members of the board of directors of StatoilHydro and its subsidiaries. The Ethics Code of Conduct is accessible at our website.

Together with StatoilHydro's values statement, the Ethics Code of Conduct constitutes the basis and framework for the performance culture StatoilHydro intends to develop.

Business partners are also expected to have ethical standards that are compatible with StatoilHydro's standards.

## Articles of association for StatoilHydro ASA

### Summary of our Articles of Association

*Name of the Company*

Our registered name is StatoilHydro ASA. We are a Norwegian public limited company.

*Registered office*

Our registered office is in Stavanger, Norway, registered with the Norwegian Register of Business Enterprises under number 913 609 016.

*Object of the company*
The object of our company is, either by us or through participation in or together with other companies, to carry out exploration, production, transportation, refining and marketing of petroleum and petroleum derived products, as well as other businesses.

*Share capital*
Our share capital is NOK 7,971,617,757.50 divided into 3,188,647,103 ordinary shares.

*Nominal value of shares*
The nominal value of each ordinary share is NOK 2.50.

*Board of directors*
Our articles of association provide that our board of directors shall be composed of ten directors. The board, including the chair and the deputy chair, shall be elected by the Corporate Assembly.

*Corporate Assembly*
We have a corporate assembly of 18 members who are elected for two-year terms. The general meeting elects 12 members with four alternates and six members with alternates are elected by and among the employees.

*Annual general meeting*
Our annual general meeting is held no later than 30 June each year upon at least two weeks written notice.

The meeting will deal with the Annual Report and accounts, including distribution of dividends, and any other matters as required by law or our articles of association.

*Marketing of petroleum on behalf of the Norwegian State*
Our articles of association provide that we are responsible for marketing and selling petroleum produced under the SDFI's shares in production licenses on the NCS as well as petroleum received by the Norwegian State as royalty together with our own production. Our general meeting adopted an instruction in respect of such marketing on 25 May 2001.

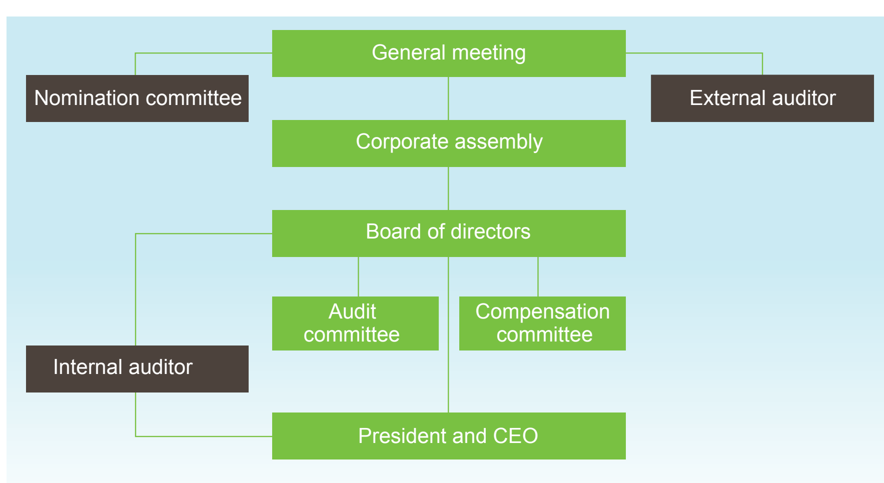
*Nomination Committee*
The general meeting decided to amend our articles of association on 7 May 2002 in order to establish a nomination committee (in the articles of association referred to as the "election committee"). The tasks of the election committee are to make recommendations to the general meeting regarding the election of and fees to shareholder-elected members and deputy members of the corporate assembly, and to make recommendations to the corporate assembly regarding the election of and fees to shareholder-elected members and deputy members of the board of directors.

The full Articles of Association can be found at our website.

## General meeting of Shareholders

The annual general meeting of shareholders (AGM) is the company's supreme body. Pursuant to StatoilHydro's articles of association and the Norwegian Public Limited Companies Act, the AGM:

- Elects the shareholders' representatives to the corporate assembly
- Elects the nomination committee (referred to as the election committee in the articles of association)
- Elects the external auditor and stipulates the auditor's fee
- Approves the board of directors' report in accordance with Norwegian requirements, the financial statements and the dividend, proposed by the board of



directors and recommended by the corporate assembly
- Deals with any other matters listed in the notice convening the meeting

Pursuant to the company's articles of association, the AGM must be held by the end of June each year.

Notice of the meeting and documents for the AGM are published on StatoilHydro's website together with the annual report and are sent by mail to the shareholders. Documentation from previous AGMs is available on StatoilHydro's website.

All shareholders are entitled to have their proposal discussed at the annual general meeting, if the proposal has been submitted in writing to the board of directors in due time to either be included in distributed notice of meeting or in a new notice of meeting to be distributed no later than two weeks before the general meeting is to be held. As a general rule, the general meeting cannot discuss matters that are not listed in the notice of meeting.

All shareholders who are registered in the Norwegian Central Securities Depository (VPS) will receive an invitation to the AGM. They are entitled to submit proposals and vote, in person or by proxy. The deadline for registration is four days prior to the AGM.

The chair of the AGM will normally be the chair of the corporate assembly. If there is a dispute concerning individual matters and the chair of the corporate assembly belongs to one of the disputing parties, or is for some other reason not perceived as being impartial, another person will be appointed to chair the AGM in order to ensure impartiality in relation to the matters to be considered.

Given the large number of shareholders and their wide geographical distribution, the number of shareholders who are able to attend the AGM in person will be limited. StatoilHydro therefore offers its shareholders an opportunity to follow the proceedings by webcast. The business of the AGM is conducted in Norwegian and translated simultaneously into English.

All of our ordinary shares carry an equal right to vote at general meetings. Except as otherwise provided, decisions which shareholders are entitled to make pursuant to Norwegian law or our articles of association may be made by a simple majority of the votes cast. In the case of elections, the persons who obtain the most votes cast are deemed elected. However, certain decisions, including resolutions to waive preferential rights in connection with any share issue, to approve a merger or demerger, to amend our articles of association or to authorise an increase or reduction in our share capital, must receive the approval of at least two-thirds of the aggregate number of votes cast as well as two-thirds of the share capital represented at a shareholders' meeting.

If we issue any new shares, including bonus share issues, our articles of association must be amended, which requires the same vote as other amendments to our articles of association. In addition, under Norwegian law, our shareholders have a preferential right to subscribe to issues of new shares by us. The preferential rights to subscribe to an issue may be waived by a resolution in a general meeting passed by the same percentage threshold required to approve amendments to our articles of association. The general meeting may, with a vote as described above, authorize the board of directors to issue new shares, and to waive the preferential rights of shareholders in connection with such issuances. Such authorization may be effective for a maximum of two years, and the par value of the shares to be issued may not exceed 50% of the nominal share capital when the authorization was granted.

The issuance of shares to holders who are citizens or residents of the United States upon the exercise of preferential rights may require us to file a registration statement in the United States under United States securities laws. If we decide not to file a registration statement, these holders may not be able to exercise their preferential rights.

#### *Rights of Redemption and Repurchase of Shares*

Our articles of association do not authorize the redemption of shares. In the absence of authorization, the redemption of shares may still be decided by a general meeting of shareholders by a two-thirds majority under certain conditions. However, the share redemption would, for all practical purposes, depend on the consent of all shareholders whose shares are redeemed.

A Norwegian company may purchase its own shares if an authorization to do so has been given by a general meeting with the approval of at least two-thirds of the aggregate number of votes cast as well as two thirds of the share capital represented at the general meeting. The aggregate par value of treasury shares held by the company must not exceed 10% of the company's share capital and treasury shares may only be acquired if the company's distributable equity, according to the latest adopted balance sheet, exceeds the consideration to be paid for the shares. The authorization by the general meeting cannot be given for a period exceeding 18 months.

#### *Distribution of Assets on Liquidation*

Under Norwegian law, a company may be wound-up by a resolution of the company's shareholders in a general meeting passed by both a two-thirds majority of the aggregate votes cast and two-thirds of the aggregate share capital represented at the general meeting. The shares rank equal in the event of a return on capital by the company upon a winding-up or otherwise.

#### *Electronic voting*

StatoilHydro will introduce electronic voting at its general meetings as soon as Norwegian legislation allows this.

### *Extraordinary general meetings*

Pursuant to Norwegian law, the corporate assembly, the chair of the corporate assembly, the auditor, or shareholders representing at least 5% of the share capital, may demand that an extraordinary general meeting be held in order to have a specific matter considered and decided. The board must ensure that the extraordinary general meeting is held within a month of such a demand being submitted.

In 2007, an extraordinary general meeting on 5 July was convened by the board of directors to obtain the shareholders' approval of the plan to merge Statoil and Norsk Hydro's oil and gas activities.

### Board of directors

Pursuant to StatoilHydro's articles of association, the board of directors consists of 10 members. The management is not represented on the board. A majority of the members of the board are deemed to be "independent" board members. As required by Norwegian company law, the company's employees are entitled to be represented by three board members. There are no board members service contracts that provide for benefits upon termination of office.

The board of directors of StatoilHydro ASA is responsible for the overall management of the StatoilHydro group, and for supervising the group's activities in general. The board of directors handles matters of major importance or of an extraordinary nature. However, it may require management to refer any matter to it. The board of directors appoints the president and chief executive officer (CEO), and stipulates the job instructions, powers of attorney and terms and conditions of employment for the president and CEO.

The board of directors has two sub-committees: the audit committee and the compensation committee.

## Board developments in 2007

The board held 25 meetings in 2007. Attendance at board meetings was 93%.

Up until 30 September 2007, the board of directors of Statoil ASA consisted of Jannik Lindbæk (chair), Kaci Kullman Five (deputy chair), Finn A. Hvistendahl, Grace Reksten Skaugen, Knut Åm, Ingrid Wiik, Marit Arnstad, Lill-Heidi Bakkerud, Claus Clausen and Morten Svaan. Following the merger of Statoil with Norsk Hydro ASA's oil and gas activities on 1 October 2007, the board of directors of StatoilHydro ASA consisted of the President and CEO of Norsk Hydro ASA Eivind Reiten (chair), Marit Arnstad (deputy chair), Kjell Bjørndalen, Roy Franklin, Elisabeth Grieg, Grace Reksten Skaugen, Kurt Anker Nielsen, Lill-Heidi Bakkerud, Claus Clausen and Morten Svaan. Geir Nilsen and Ragnar Fritsvold are employee-elected observers. On 4 October 2007, Eivind Reiten decided to resign as chair of the board and from that date Marit Arnstad was acting chair until 1 April 2008.

On 30 January 2008, the corporate assembly elected Svein Rennemo (60) as new chair of the board with effect from 1 April 2008, in accordance with the nomination committee's recommendation.

## Audit committee

The board elects up to four of its members to serve on the audit committee. The current members of the audit committee are Kurt Anker Nielsen (chair), Marit Arnstad, Roy Franklin and Morten Svaan. The audit committee is a sub-committee of the board of directors and its objective is to carry out more thorough assessments of specific matters in the StatoilHydro group and report to the board of directors. The audit committee is instructed to assist the board in its supervising of issues such as (1) the quality and integrity of the company's financial statements and related disclosures, (2) the external auditor's qualifications and independence, (3) the performance of the external auditor pursuant to the requirements of Norwegian law and the laws of those countries where the company is listed on the stock exchange, (4) the performance of the company's internal audit function, internal controls and risk management and risk audit function, (5) the company's compliance with legal and regulatory requirements, including the requirements relating to listing on stock exchanges and (6) compliance with the group's ethical rules, including the group's compliance activities relating to corruption.

The internal audit function reports directly to the board of directors and to the chief executive officer. The audit committee assists the board in overseeing this function. The audit committee also receives regular briefings and reports on internal control and ethical issues.

Under Norwegian law, our external auditor is elected by our shareholders at the annual general meeting. The audit committee makes a recommendation to the board of directors for the appointment of the external auditor based on its evaluation of the qualifications and independence of the auditor proposed for election or re-election. The audit committee meets at least six times a year, and it meets separately with the internal auditor and the external auditor on a regular basis.

The audit committee is also charged with reviewing the scope of the audit and the nature of any non-audit services provided by external auditors. The external auditors report directly to the audit committee on a regular basis. The audit committee also has procedures for receiving and dealing with complaints received by the company regarding accounting, internal controls or auditing matters and for the confidential, anonymous submission by employees of the company of concerns regarding accounting or auditing matters. The audit committee has the authority to engage independent advisers to assist it in carrying out its duties.

The audit committee held seven meetings in 2007. There was a 99% attendance at the committee's meetings.

The committee's mandate is available on our website.

### Audit committee financial expert

The board of directors has decided that a member of the audit committee, Kurt Anker Nielsen, qualifies as an "audit committee financial expert", as defined in Item 16A of Form 20-F. The board of directors has also concluded that Mr Nielsen is independent under the meaning of Rule 10A-3 under the Securities Exchange Act.

### Exemptions from the listing standards for audit committees

StatoilHydro relies on the exemption provided in Rule 10A-3(b)(1)(iv)(C) from the independence requirements of the Securities Exchange Act with respect to Morten Svaan, a member of the audit committee who is also one of three members of the board of directors of StatoilHydro elected by the employees in accordance with Norwegian companies legislation. Mr Svaan is a non-executive employee of the company. StatoilHydro does not believe that its reliance on this exemption will materially adversely affect the ability of the audit committee to act independently or to satisfy the other requirements of Rule 10A-3 relating to audit committees.

### Compensation committee

The compensation committee is a sub-committee of the board of directors that assists the board in connection with (1) the further development of StatoilHydro's rewards philosophy and strategy in general, and, more specifically, with respect to compensation of the CEO, (2) devising internally consistent and externally competitive overall compensation programmes in order to attract, retain and reward the CEO and key executives for their performance in relation to the achievement of financial goals, values and leadership approach, and (3) by providing guidance, direction and monitoring of StatoilHydro's compensation programmes seen in relation to the long-term interests of the shareholders.

The committee comprises three board members. At year end 2007, the committee members were Grace Reksten Skaugen (acting chair), Elisabeth Grieg and Kjell Bjørndalen.

The committee held eight meetings in 2007. There was a 100% attendance at the committee's meetings.

The committee's mandate is accessible on our website.

## Corporate assembly

The corporate assembly's duties include supervising the board of directors and the president and CEO in their management of the company. On the basis of proposals from the board of directors, the corporate assembly makes decisions on matters involving substantial investments measured in relation to the total resources of the company, and on matters regarding the rationalisation or restructuring of operations that will result in a major change in the workforce. The corporate assembly is responsible for electing the board of directors.

| Name | Place of Residence | Age | Position |
|---|---|---|---|
| Olaug Svarva | Oslo, Norway | 50 | Chair, shareholder elected |
| Idar Kreutzer | Oslo, Norway | 45 | Deputy chair, shareholder elected |
| Erlend Grimstad | Oslo, Norway | 40 | Shareholder elected |
| Greger Mannsverk | Kirkenes, Norway | 46 | Shareholder elected |
| Steinar Olsen | Stavanger, Norway | 58 | Shareholder elected |
| Benedicte Berg Schilbred | Tromsø, Norway | 61 | Shareholder elected |
| Ingvald Strømmen | Ranheim, Norway | 57 | Shareholder elected |
| Inger Østensjø | Stavanger, Norway | 54 | Shareholder elected |
| Rune Bjerke | Oslo, Norway | 47 | Shareholder elected |
| Gro Brækken | Snarøya, Oslo | 55 | Shareholder elected |
| Benedicte Schilbred Fasmer | Godvik, Norway | 42 | Shareholder elected |
| Kåre Rommetveit | Hjellestad, Bergen | 62 | Shareholder elected |
| Anne Synnøve Hebnes | Stavanger, Norway | 35 | Employee representative |
| Per Helge Ødegård | Porsgrunn, Norway | 45 | Employee representative |
| Arvid Færaas | Vormedal, Norway | 45 | Employee representative |
| Einar Arne Iversen | Molde, Norway | 45 | Employee representative |
| Tore Amund Fredriksen | Porsgrunn, Norway | 54 | Employee representative |
| Per Martin Labråthen | Brevik, Norway | 46 | Employee representative |
| Stein Bredal | Finnøy, Norway | 57 | Employee representative, observer |
| Anne K.S. Horneland | Hafrsfjord, Norway | 51 | Employee representative, observer |

The corporate assembly held four meetings in 2007.

Below is a list of the members of the corporate assembly as of 31 December 2007.

## Management

The president and CEO has overall responsibility for day-to-day operations in StatoilHydro. The president and CEO is responsible for developing StatoilHydro's business strategy and presenting it to the board of directors for decision, for development and execution of the business strategy, and for nurturing a performance-driven, value-based culture.

The president and CEO appoints the corporate executive committee (CEC). Members of the CEC have a collective duty to safeguard and promote the corporate interests of StatoilHydro and to provide the president and CEO with the best possible basis for setting the company's direction, making decisions and ensuring execution and follow-up of business activities. In addition, each of the CEC members heads separate business areas or staff functions.

## Nomination committee

StatoilHydro's nomination committee (referred to as the election committee in the articles of association ) is elected by the general meeting of shareholders in accordance with the articles of association. The committee is independent of both the board and the company's management.

The duties of the nomination committee are:

- to present recommendations to the AGM regarding the election of shareholder-elected members to the corporate assembly
- to present recommendations to the corporate assembly regarding the election of shareholder-elected members to the board of directors
- to present a proposal for the remuneration of members of the board of directors and the corporate assembly.

Members of the nomination committee are elected for a term of two years. The nomination committee held 28 meetings in 2007.

The members of the nomination committee are:

Olaug Svarva (chair). Managing Director, Folketrygdfondet

Benedicte Schilbred Fasmer, Divisional Director, Sparebanken Vest

Tom Rathke, Managing Director, Vital Forsikring and Executive Vice President, DnB NOR

Bjørn Ståle Haavik, Director General, Ministry of Petroleum and Energy

The rules of procedure for the nomination committee and a form for proposing candidates are accessible on our website.

## Independent Registered Public Accounting Firm

Our independent registered public acounting firm is independent in relation to StatoilHydro and is appointed by the general meeting of shareholders. The auditor's fee must be approved by the general meeting.

Pursuant to the rules of procedure, the board's audit committee is responsible for ensuring that the company is subject to an independent and effective external and internal audit.

When evaluating the independent auditor, emphasis is placed on the firm's competence, capacity, local and international availability and the size of the fee.

The board's audit committee evaluates and makes a recommendation regarding the choice of independent auditor, and it is responsible for ensuring that the independent auditor meets the requirements of the authorities in Norway and in the countries where StatoilHydro is listed on the stock exchange. The independent auditor is subject to the provisions of US securities legislation, which stipulate that a responsible partner may not lead the engagement for more than five consecutive years.

The board's audit committee considers all reports from the independent auditor before they are considered by the board of directors. The audit committee holds regular meetings with the external auditor without the company's management being present.

### Audit Committee Pre-approval Policies and Procedures

All services provided by the independent auditor must be pre-approved by the audit committee. Provided that the suggested types of services are permissible under SEC guidelines, pre-approval is usually granted in a regular audit committee meeting. The chairman of the audit committee has been given the authority to pre-approve services acording to policies established by the audit committee specifying in detail types of services qualifying, provided that any services pre-approved in this manner are presented to the full audit committee at its next meeting. Some pre-approvals may therefore be granted on an ad hoc basis by the chairman of the audit committee if an urgent reply is deemed necessary.

### Remuneration to external auditor in 2007

Ernst & Young is the company's external auditor, whereas Deloitte audited Norsk Hydro's oil and gas business for 2006. The table below itemises the expensed remuneration to the external auditor in 2007 and 2006, respectively.

All fees included in the table were approved by the audit committee.

*Audit Services* are defined as the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of StatoilHydro, and to issue reports on the IFRS's statutory financial statements. It also includes other audit services which are those services that only the independent auditor reasonably can provide, such as auditing of non-recurring transactions and application of new accounting policies, audits of significant and newly implemented system controls and limited reviews of quarterly financial results.

*Audit Related Services* include those other assurance and related services provided by auditors, but not restricted to those that can only reasonably be provided

| (in NOK million) | Audit fee | Audit related fee | Total |
|---|---|---|---|
| **2007** | | | |
| Ernst & Young - Norway | 18.6 | 7.4 | 26.0 |
| Ernst & Young - outside Norway | 26.2 | 1.1 | 27.3 |
| Total | 44.8 | 8.5 | 53.3 |
| **2006** | | | |
| Ernst & Young - Norway | 15.9 | 4.2 | 20.1 |
| Ernst & Young - outside Norway | 19.9 | 2.4 | 22.3 |
| Total | 35.8 | 6.6 | 42.4 |

by the external auditor signing the audit report, that are reasonably related to the performance of the audit or review of the company's financial statements such as acquisition due diligence, audits of pension and benefit plans, consultations concerning financial accounting and reporting standards.

In addition to the figures in the table above audit fee and other fees to Deloitte amounting to NOK 39.4 and NOK 5.6 million for 2007 and 2006, respectively and audit fees to Ernst & Young related to StatoilHydro-operated licenses amounting to NOK 6.1 and NOK 4.0 million for 2007 and 2006, respectively.

There were no other fees paid to Ernst & Young.

The change in audit fee and audit related fee from 2006 to 2007 are mainly due to an increase in activity in connection with the merger with Norsk Hydro's oil and gas assets.

## Compensation to the governing bodies

Compensation paid to the board of directors, corporate executive committee, nomination committee and corporate assembly.

In 2007, remuneration totalling NOK 580,000 was paid to the members of the corporate assembly, NOK 3,255,344 to the members of the board of directors, NOK 348,000 to the members of the nomination committee and NOK 63,284,000 to the members of the corporate executive committee.

For detailed information about the remuneration of members of the board of directors paid out through the year 2007 and the members of the corporate executive committee as per 31 December 2007 reference is made to note 3 of the financial statements for StatoilHydro ASA for 2007.

**Ownership of StatoilHydro shares (including share ownership of "close associates")**

| | As of 31 December 2007 |
|---|---|
| **Members of the Corporate Executive Committee** | |
| Helge Lund | 5,980 |
| Eidar Sætre | 2,639 |
| Margareth Øvrum | 4,284 |
| Rune Bjørnson | 1,347 |
| Jon Arnt Jacobsen | 3,821 |
| Peter Mellbye | 4,401 |
| Tore Torvund | 33,368 |
| Morten Ruud | 5,087 |
| Hilde Aasheim | 117 |
| **Members of the Board of Directors** | |
| Marit Arnstad | 0 |
| Elisbeth Grieg | 33,108 |
| Kjell Bjørndalen | 0 |
| Grace Reksten Skaugen | 400 |
| Kurt Anker Nielsen | 0 |
| Roy Franklin | 0 |
| Lill-Heidi Bakkerud | 330 |
| Claus Clausen | 165 |
| Morten Svaan | 633 |
| Ragnar Fritsvold (observer) | 259 |
| Geir Nilsen (observer) | 453 |

## Share ownership

The number of StatoilHydro shares owned by the members of the board of directors and the executive committee, and/or owned by their close associates, is shown below. Each of them owns less than 1% of the StatoilHydro shares outstanding.

As of 31 December 2008, members of the Corporate Assembly owned a total of 3,529 shares.

## Controls and procedures

### Evaluation of disclosure controls and procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by Form 20-F. Based on that evaluation, the chief executive officer and chief financial officer have concluded that these disclosure controls and procedures are effective at a reasonable level of assurance.

In order to facilitate the evaluation, StatoilHydro established a disclosure committee in January 2008 to review material disclosures made by StatoilHydro for any errors, misstatements and omissions. The disclosure committee is chaired by the chief financial officer. It consists of the heads of Investor Relations, Accounting and Financial Control, Tax and General Counsel and may be supplemented by other internal and external personnel. The head of the Internal Audit is an observer at the committee's meetings.

In designing and evaluating our disclosure controls and procedures, our management, with the participation of the chief executive officer and chief financial officer, recognised that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance that the desired control objectives will be achieved, and that our management must necessarily exercise judgment in evaluating the cost-benefit aspects of possible controls and procedures. Because of the limitations inherent in all control systems, no evaluation of controls can provide absolute assurance that all control issues and any instances of fraud in the company have been detected.

### The management's report on internal control over financial reporting

The management of StatoilHydro ASA is responsible for establishing and maintaining adequate internal control of financial reporting. Our internal control of financial reporting is a process designed under the supervision of the chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of StatoilHydro's financial statements for external reporting purposes in accordance with International Financial Reporting Standards as adopted by the European Union (EU). The accounting policies applied by the group also comply with IFRS as issued by the International Accounting Standards Board (IASB).

We excluded from our assessment the internal control over financial reporting of Norsk Hydro's oil and gas operations (consolidated subsidiaries), which merged with Statoil ASA with effect from 1 October 2007, and whose financial statements reflect total assets and revenues that account for 24% and 14%, respectively, of the related amounts in the consolidated financial statement as of and for the year ended 31 December 2007.

Management has assessed the effectiveness of internal control over financial reporting based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that StatoilHydro's internal control over financial reporting as of 31 December 2007 was effective.

StatoilHydro's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly, reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded in the manner necessary to permit the preparation of financial statements in accordance with IFRS, and that receipts and expenditures are only carried out in accordance with the authorisation of management and the directors of StatoilHydro; and provide reasonable assurance regarding prevention or timely detection of any unauthorised acquisition, use or disposition of StatoilHydro's assets that could have a material effect on our financial statements.

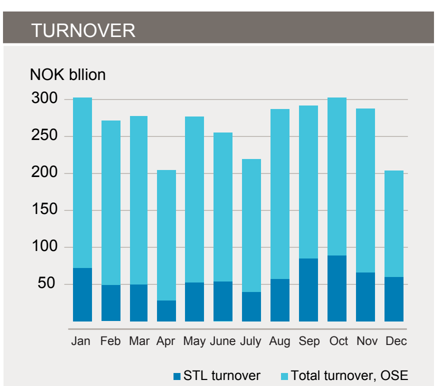
Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Moreover, projections of any evaluation of the effectiveness of internal control to future periods are subject to a risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

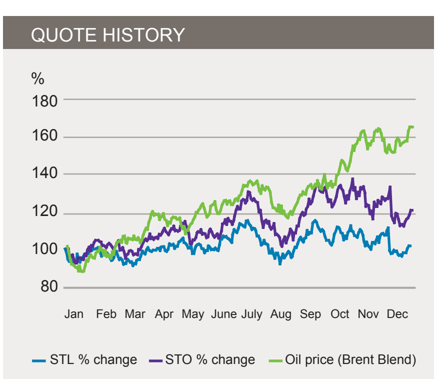
The effectiveness of internal control over financial reporting as of 31 December 2007 have been audited by Ernst & Young AS, an independent registered public accounting firm which also audits our consolidated financial statements included in this Annual Report. Their audit report on internal control over financial reporting is included in the financial statements section of this report.

### Changes in internal controls over financial reporting

No changes occurred in our internal control over financial reporting during the period covered by Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Shareholder information




The merger of Norsk Hydro ASA's oil and gas activities with Statoil ASA to form StatoilHydro ASA was completed on 1 October 2007. Following the merger, StatoilHydro ASA had 3,188,647,103 shares 1). StatoilHydro ASA has one class of shares, and each share confers one vote at the general meeting.

StatoilHydro is the biggest company listed on the Oslo stock exchange (Oslo Børs), and it is traded under the ticker code STL. At 31 December 2007, StatoilHydro represented 25% of the total value of all companies registered on Oslo Børs.

The group's share price increased from NOK 165.25 at the end of 2006 to NOK 169.00 at the end of 2007. The board of directors proposes an ordinary dividend of NOK 4.20 per share for 2007, as well as NOK 4.30 per share in special dividend for approval by the annual general meeting on 20 May 2008. The total dividend of NOK 8.50 per share proposed to be distributed to our shareholders is equivalent to a direct yield of approximately 5%, and we will distribute 61% of net income from 2007. Net income per share amounted to NOK 13.80 in 2007, a decrease of 13% compared to 2006.

On average, 16.5 million StatoilHydro shares were traded on the Oslo Børs every day in 2007, an increase of 31% on the previous year. StatoilHydro shares accounted for 21.8% of the total market value traded throughout the year (see the illustration).

At 31 December 2007, StatoilHydro had approximately 97,700 shareholders registered in the Norwegian Central Securities Depository (VPS), an increase corresponding to 43% on the year before. The number of American Depositary Receipts registered on the New York Stock Exchange increased by 70% during the course of the year, from 67.1 million to 113.8 million shares. The increase in the number of shareholders was primarily the result of the merger2).

#### Dividend policy

Our dividend policy reflects our intention to return to our shareholders, through cash dividends and share repurchases, an amount in the range of 45 to 50% of consolidated net income pursuant to IFRs. It is our ambition to grow the ordinary cash dividend measured in NOK per share. In any one year, however, the aggregate of cash dividends paid to shareholders and share repurchases may be higher or lower than 45 to 50% of net income, depending on StatoilHydro's evaluation of expected cash flow development, capital expenditure plans, financing requirements and appropriate financial flexibility.

Share repurchases are an integrated part of our dividend policy. On 15 May 2007, the annual general meeting of Statoil authorised the board of directors to acquire Statoil shares in the market. The authorisation applies to the acquisition of up to 50 million shares at a price of between NOK 50 and NOK 500 per share. Repurchased shares acquired under this authorisation may only be annulled through a capital reduction. This authorisation is valid until May 2008. StatoilHydro did not make use of this agreement in 2007, however, StatoilHydro's board of directors has proposed a new share repurchase authorisation for the 2008-2009 period, which is subject to approval by the annual general meeting on 20 May 2008.

For more information on dividend and the purchase of StatoilHydro shares, see 20-F articles 6.1.1 Dividends and 6.2.2 Purchase of StatoilHydro shares for subsequent cancellation.

#### Information and communications

We place great emphasis on keeping the stock market and the world at large informed about developments in the company's financial performance and future prospects. Information provided

1) One share in Norsk Hydro ASA entitled a shareholder to 0.8622 shares in StatoilHydro ASA.
2) According to Hydro's Annual Report, JPMorgan Chase & Co, as depositary of the Hydro ADRs, held interests of 67.7 million ordinary shares in Hydro as of 28 February 2007.

to the stock market must be characterised by transparency and equal treatment, and it must aim to provide shareholders with correct, clear, relevant and timely information that forms a basis for assessing the value of the company. The StatoilHydro share is listed on the stock exchanges in Oslo and New York, and the company distributes all price-sensitive information to Oslo Børs and the US Securities and Exchange Commission.

Our registrar manages our shares listed on the Oslo stock exchange on our behalf and provides the connection to the Norwegian Central Securities Depository (VPS). Major services provided by the registrar are investor services for private shareholders, the disbursement of dividend and assistance at our general meetings. DnB NOR is currently account registrar for StatoilHydro.

**Investor contact**

Our investor relations staff function (IR) coordinates the dialogue with our shareholders.

We place great emphasis on ensuring that relevant and timely information is distributed to the capital markets. Given the size and diversity of our shareholder base, the opportunities for direct shareholder interaction are limited to a certain extent. Our investor relations web pages are therefore specially designed for investors and analysts who wish to follow the company's progress - http://www.statoilhydro.com/ir

Our quarterly presentations are broadcast directly on the internet and the pertaining reports are made available together with other relevant information on the company's website.

StatoilHydro meets the requirements for the information symbol and English symbol issued by Oslo Børs.

**Ticker codes**

Oslo Børs STL
New York Stock Exchange STO
Reuters STL.OL
Bloomberg STL NO

**Major shareholders**

The Norwegian State is the largest shareholder in StatoilHydro. Its ownership interest is managed by the Ministry of Petroleum and Energy.

Statoil was partially privatised and listed on the stock exchange on 18 June 2001, when it became a public limited company. After the initial offering, the government retained 81.7% of the Statoil shares. In July 2004, the Norwegian Ministry of Petroleum reduced its ownership in Statoil to 75.47% through a sale to institutional and other investors. On 16 February 2005 the Norwegian Ministry of Petroleum and Energy sold 100 million Statoil shares through an off-exchange underwritten block sale. This represented 4.6% of our shares at that time. The shares were sold to a global investment bank and were passed on to institutional investors in Norway and abroad. In addition, 17.65 million shares were made available for sale to private investors, at the rate set in the institutional sale.

Following these transactions, the Norwegian state owned 70.9% of the shares

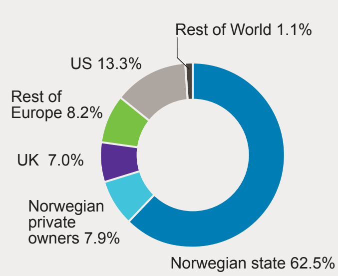
| StatoilHydro share | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Share price STL high (NOK) | **191,50** | 210.50 | 166.50 | 103.50 | 75.25 |
| Share price STL low (NOK) | **151.50** | 147.25 | 91.25 | 74.00 | 51.50 |
| Share price STL year-end (NOK) | **169.00** | 165.25 | 155.00 | 95.00 | 74.75 |
| Market value year-end (NOK billion) | **539** | 358 | 336 | 206 | 162 |
| Daily turnover (million shares) | **16.5** | 12.6 | 10.1 | 6.7 | 3.3 |
| Ordinary and diluted earnings per share (EPS) (NOK) 1) | **13.80** | 15.82 | 14.19 | 11.50 | 7.64 |
| P/E 1) 2) | **12.25** | 10.45 | 10.92 | 8.26 | 9.78 |
| Dividend paid per share (NOK) 3) | **8.50** | 9.12 | 8.20 | 5.30 | 2.95 |
| Pay-out ratio 4) | **61 %** | 57 % | 58 % | 46 % | 39 % |
| Dividend yield 5) | **5.0 %** | 5.5 % | 5.3 % | 5.6 % | 3.9 % |
| Net debt to capital employed 1) 6) | **12.4%** | 20.5 % | 15.1 % | 18.9 % | 22.6 % |
| Ordinary shares outstanding, weighted average | **3,195,866,843** | 3,230,849,707 | 2,165,740,054 | 2,166,142,636 | 2,166,143,693 |
| Ordinary shares outstanding, year-end | **3,188,647,103** | 3,208,800,400 | 2,189,585,600 | 2,189,585,600 | 2,189,585,600 |

1) Figures for 2003, 2004 and 2005 are USGAAP, only former Statoil figures.
2) Share price at year-end divided by EPS.
3) Proposed dividend for 2007. Including ordinary and special dividend.
4) Dividend paid per share divided by EPS.
5) Dividend paid per share divided by year-end share price.
6) The relationship between net interest-bearing debt and capital employed.

| Shareholders at 31 December | Type | Number of shares | Ownership interest |
|---|---|---|---|
| The Norwegian State (Ministry of Petroleum and Energy | | 1,992,959,739 | 62.50% |
| Bank of New York, ADR department | Nominee | 113,822,751 | 3.57% |
| State Street Bank | Nominee | 105,703,220 | 3.31% |
| Folketrygdfondet (Norwegian national insurance fund) | | 75,112,119 | 2.36% |
| JP Morgan Chase Bank | Nominee | 56,756,683 | 1.78% |
| Clearstream Banking | Nominee | 31,805,904 | 1.00% |
| The Northern Trust | Nominee | 29,318,375 | 0.92% |
| Mellon Bank | Nominee | 28,336,711 | 0.89% |
| Mellon Bank | Nominee | 18,227,541 | 0.57% |
| Vital Forsikring ASA | | 18,023,513 | 0.57% |
| JP Morgan Chase Bank | Nominee | 17,839,634 | 0.56% |
| State Street Bank | Nominee | 16,267,561 | 0.51% |
| The Northern Trust | Nominee | 12,362,347 | 0.39% |
| Investors Bank | Nominee | 11,967,612 | 0.38% |
| Investors Bank | Nominee | 11,816,247 | 0.37% |
| Svenska Handelsbank | Nominee | 11,313,411 | 0.35% |
| Fidlity Funds Europe | | 10,934,861 | 0.34% |
| State Street Bank | Nominee | 10,472,727 | 0.33% |
| DnB Nor Norge | | 9,961,835 | 0.31% |
| RBC Dexia Investors | Nominee | 9,389,955 | 0.29% |

Source: Norwegian Central Securities Depository (VPS)

DISTRIBUTION OF SHAREHOLDERS

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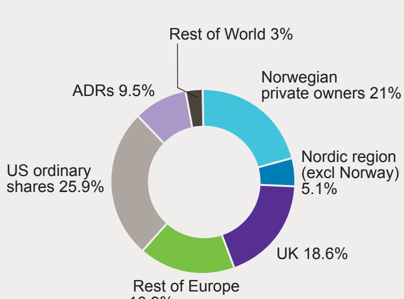



of Statoil prior to the merger with Hydro's oil and gas activities.

Pursuant to the agreed exchange ratio as part of the merger with Hydro's oil and gas activities, the State's ownership interest in StatoilHydro is currently 62.5%, or 1,992,959,739 shares. In accordance with the Storting's decision of 2001 concerning a minimum state shareholding of two-thirds in Statoil, the Government has expressed its intention to increase the state's shareholding in StatoilHydro over time to 67%.

As of 31 December 2007, the National Insurance Fund (Folketrygdfondet) owned 75,112,119 shares, or 2.4% of the total number of ordinary shares. The Norwegian State is the only person or entity known to us to own beneficially, directly or indirectly, more than 5% of our outstanding shares. We have not been notified of any other beneficial owner of 5% or more of our ordinary shares as of 25 March 2008.

In June 2001, in connection with the initial public offering of our ordinary shares, we established a sponsored American Depositary Receipt facility with the Bank of New York as depositary, pursuant to which American Depositary Receipts (ADRs) representing American Depositary Shares (ADSs) are issued.

StatoilHydro has one class of shares, and each share confers one vote at the general meeting. The Norwegian State does not have any different voting rights from the rights of other ordinary shareholders. Pursuant to the Norwegian Public Limited Liability Companies Act, a majority of more than two-thirds of the votes cast as well as of the votes represented at a general meeting is required to amend our articles of association. As long as the Norwegian state owns more than one-third of our shares, it will be able to prevent any amendments to our articles of association.

If the Norwegian State, acting through the Minister of Petroleum and Energy, increases its holding in excess of two-thirds of the shares in the company, it would have the sole power to amend our articles of association. In addition, as a majority shareholder, the Norwegian State has the power to control any decision at general meetings of our shareholders that requires a majority vote, including the election of the majority of the corporate assembly, which has the power to elect our board of directors and approve the dividend proposal by the board of directors.

The Norwegian State endorses the principles set out in "The Norwegian Code of Practice for Corporate Governance", and it has stated that it expects companies in which the State has ownership interests to adhere to the code. The principle of ensuring equal treatment of different groups of shareholders is a key element in the State's own guidelines. In companies in which the State is a shareholder together with others, the State wishes to exercise the same rights and obligations as any other shareholder and not act in a manner that has a detrimental effect on the rights or financial interests of other shareholders. In addition to the principle of equal treatment of shareholders, emphasis is also placed on transparency in relation to the State's ownership and on the general meeting being the correct arena for owner decisions and formal resolutions.

# StatoilHydro group – IFRS

**CONSOLIDATED STATEMENTS OF INCOME**

| (in NOK million) | Note | For the year ended 31 December 2007 | 2006 |
|---|---|---|---|
| REVENUES AND OTHER INCOME | | | |
| Revenues | | **521,665** | 518,960 |
| Net income (loss) from equity accounted investments | | **609** | 679 |
| Other income | | **523** | 1,843 |
| Total revenues and other income | 5 | **522,797** | 521,482 |
| OPERATING EXPENSES | | | |
| Cost of goods sold | | **(260,396)** | (249,593) |
| Operating expenses | | **(60,318)** | (44,801) |
| Selling, general and administrative expenses | | **(14,174)** | (10,824) |
| Depreciation, amortisation and impairment losses | | **(39,372)** | (39,450) |
| Exploration expenses | | **(11,333)** | (10,650) |
| Total operating expenses | | **(385,593)** | (355,318) |
| Net operating income | 5 | **137,204** | 166,164 |
| FINANCIAL ITEMS | | | |
| Net foreign exchange gains (losses) | | **10,043** | 4,457 |
| Interest income and other financial items | | **2,305** | 3,675 |
| Interest and other finance expenses | | **(2,741)** | (3,060) |
| Net financial items | 8 | **9,607** | 5,072 |
| Income before tax | | **146,811** | 171,236 |
| Income tax | 9 | **(102,170)** | (119,389) |
| Net income | | **44,641** | 51,847 |
| Attributable to: | | | |
| Equity holders of the parent company | | **44,096** | 51,117 |
| Minority interest | | **545** | 730 |
| | | **44,641** | 51,847 |
| Earnings per share for income attributable to equity holders of the company - basic and diluted | 10 | **13.80** | 15.82 |

**CONSOLIDATED BALANCE SHEETS**

| (in NOK million) | Note | At 31 December 2007 | At 31 December 2006 |
|---|---|---|---|
| ASSETS | | | |
| *Non-current assets* | | | |
| Property, plant and equipment | 11 | **278,352** | 272,163 |
| Intangible assets | 12 | **44,850** | 31,205 |
| Equity accounted investments | 13 | **8,421** | 8,556 |
| Deferred tax assets | 9 | **793** | 808 |
| Pension assets | 21 | **1,622** | 1,113 |
| Financial investments | 14 | **15,266** | 14,012 |
| Derivative financial instruments | 28 | **609** | 450 |
| Financial receivables | 14 | **3,515** | 4,341 |
| Total non-current assets | | **353,428** | 332,648 |
| *Current assets* | | | |
| Inventories | 15 | **17,696** | 15,256 |
| Trade and other receivables | 16 | **69,378** | 62,359 |
| Norsk Hydro ASA merger receivable | 3 | **0** | 18,687 |
| Derivative financial instruments | 28 | **21,093** | 21,323 |
| Financial investments | 17 | **3,359** | 1,032 |
| Cash and cash equivalents | 18 | **18,264** | 7,518 |
| Total current assets | | **129,790** | 126,175 |
| TOTAL ASSETS | | **483,218** | 458,823 |

## CONSOLIDATED BALANCE SHEETS

| (in NOK million) | Note | At 31 December 2007 | At 31 December 2006 |
|---|---|---|---|
| EQUITY AND LIABILITIES | | | |
| *Equity* | | | |
| Share capital | | **7,972** | 8,022 |
| Treasury shares | | **(6)** | (54) |
| Additional paid-in capital | | **41,370** | 44,684 |
| Additional paid-in capital related to treasury shares | | **(359)** | (3,605) |
| Retained earnings | | **140,909** | 122,153 |
| Other reserves | | **(12,611)** | (3,367) |
| StatoilHydro shareholders' equity | | **177,275** | 167,833 |
| Minority interest | | **1,792** | 1,574 |
| Total equity | 19 | **179,067** | 169,407 |
| *Non-current liabilities* | | | |
| Financial liabilities | 20 | **44,373** | 49,215 |
| Deferred tax liabilities | 9 | **67,477** | 72,084 |
| Pension liabilities | 21 | **19,092** | 11,028 |
| Other provisions | 22 | **43,845** | 42,173 |
| Derivative financial instruments | 28 | **1** | 66 |
| Total non-current liabilities | | **174,788** | 174,566 |
| *Current liabilities* | | | |
| Trade and other payables | 23 | **64,624** | 55,595 |
| Income taxes payable | 9 | **50,941** | 47,149 |
| Financial liabilities | 20 | **6,166** | 5,557 |
| Derivative financial instruments | 28 | **7,632** | 6,549 |
| Total current liabilities | | **129,363** | 114,850 |
| Total liabilities | | **304,151** | 289,416 |
| TOTAL EQUITY AND LIABILITIES | | **483,218** | 458,823 |

## CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE

| (in NOK million) | For the year ended 31 December 2007 | 2006 |
|---|---|---|
| Foreign currency translation differences | **(9,858)** | (3,817) |
| Actuarial gains (losses) on employee retirement benefit plans | **74** | (3,032) |
| Change in fair value of available for sale financial assets | **1,039** | (524) |
| Change in fair value of available for sale financial assets transferred to the Consolidated Statements of Income | **(113)** | 0 |
| Income tax on income and expense recognised directly in equity | **(175)** | 2,321 |
| Income and expense recognised directly in equity | **(9,033)** | (5,052) |
| Net income for the period | **44,641** | 51,847 |
| Total recognised income and expense for the period | **35,608** | 46,795 |
| Attributable to: | | |
| Equity holders of the parent company | **35,063** | 46,065 |
| Minority interest | **545** | 730 |
| | **35,608** | 46,795 |

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (in NOK million) | For the year ended 31 December 2007 | 2006 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Income before tax | **146,811** | 171,236 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Depreciation, amortisation and impairment | **39,372** | 39,450 |
| Exploration expenditures written off | **1,660** | 1,447 |
| (Gains) losses on foreign currency transactions and balances | **(559)** | (1,197) |
| (Gains) losses on sales of assets and other items | **(188)** | (2,371) |
| Termination benefits | **8,633** | 0 |
| Changes in working capital (other than cash and cash equivalents): | | |
| • (Increase) decrease in inventories | **(2,434)** | (2,850) |
| • (Increase) decrease in trade and other receivables | **(6,493)** | 1,060 |
| • (Increase) decrease in net current financial derivative instruments | **1,307** | (12,450) |
| • Increase (decrease) current financial investments | **(2,327)** | 5,810 |
| • Increase (decrease) in trade and other payables | **10,447** | (3,496) |
| Taxes paid | **(102,422)** | (108,174) |
| • (Increase) decrease in non-current items related to operating activities | **119** | 128 |
| Cash flows provided by operating activities | **93,926** | 88,593 |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | **(63,785)** | (45,177) |
| Exploration expenditures capitalised | **(4,569)** | (4,188) |
| Changes in other intangibles | **(7,186)** | (10,507) |
| Change in long-term loans granted and other long-term items | **(652)** | (726) |
| Proceeds from sale of assets | **1,080** | 3,423 |
| Cash flows used in investing activities | **(75,112)** | (57,175) |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in NOK million) | For the year ended 31 December 2007 | 2006 |
|---|---|---|
| FINANCING ACTIVITIES | | |
| New long-term borrowings | **1,723** | 97 |
| Repayment of long-term borrowings | **(2,876)** | (2,270) |
| Distribution to minority shareholders | **(327)** | (741) |
| Dividend paid* | **(25,695)** | (17,756) |
| Treasury shares purchased | **(217)** | (1,012) |
| Norsk Hydro ASA merger balance | **18,687** | (10,025) |
| Net short-term borrowings, bank overdrafts and other** | **797** | 329 |
| Cash flows used in financing activities | **(7,908)** | (31,378) |
| Net increase (decrease) in cash and cash equivalents | **10,906** | 40 |
| Effect of exchange rate changes on cash and cash equivalents | **(160)** | 42 |
| Cash and cash equivalents at the beginning of the period | **7,518** | 7,436 |
| Cash and cash equivalents at the end of the period | **18,264** | 7,518 |
| Interest paid | **3,709** | 3,611 |
| Interest received | **2,256** | 2,296 |

* Dividend paid in 2007 includes NOK 6.1 billion charged to Hydro Petroleum from Norsk Hydro ASA under the terms of the merger plan.

** Regarding redemption of shares held by the state, StatoilHydro has paid the state NOK 2.4 billion in 2007.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. ORGANISATION

StatoilHydro ASA, formerly Den Norske Stats Oljeselskap AS, was founded in 1972 and is incorporated and domiciled in Norway.

The shareholders of Statoil ASA and Norsk Hydro ASA (Hydro) approved at extraordinary General Meetings on 5 July 2007 a merger between Statoil ASA and the oil and gas activities of Norsk Hydro ASA (Hydro Petroleum). The merger was effective 1 October 2007 and Statoil ASA's name changed to StatoilHydro ASA as of that date.

StatoilHydro's business consists principally of the exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products.

StatoilHydro ASA is listed on the Oslo Stock Exchange (Norway) and the New York Stock Exchange (USA). The address of its registered office is Forusbeen 50, N-4035 Stavanger, Norway.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

The consolidated financial statements of StatoilHydro ASA and its subsidiaries (the "Group") 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).

**Basis of preparation**

The financial statements are prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out below. These policies have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2006 (subject to certain exemptions allowed by IFRS 1) for the purpose of the transition to IFRS. See note 31 IFRS transition.

Given that both Statoil ASA and Norsk Hydro ASA were under the control of the Norwegian State, the merger between former Statoil ASA and Hydro Petroleum, resulting in StatoilHydro ASA, was accounted for as a business combination between entities under common control. Management concluded that for a merger of entities under common control, the most meaningful portrayal for accounting purposes is to combine StatoilHydro and Hydro Petroleum using the carrying amounts of assets and liabilities and restating the financial statements for all periods presented as if the companies had always been combined. Consistent with this accounting treatment, the financial statements of Hydro Petroleum have been adjusted to conform to the accounting policies of Statoil ASA.

Operating expenses in the statements of income are presented as a combination of function and nature in conformity with industry practice. Cost of goods sold and Depreciation, amortisation and impairment losses are presented in separate lines by their nature, while Operating expenses and Selling, general and administrative expenses as well as Exploration expenses are presented on a functional basis. Significant expenses such as salaries, pensions, etc. are presented by their nature in the notes to the financial statements.

**Early adoption of standards and interpretations**

The group has elected to adopt the following standards, amendments and interpretations in advance of their effective dates: IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009); IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009); IFRIC 11 IFRS 2: *Group and Treasury Share Transactions* (effective 1 March 2007); IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008).

**Standards and interpretations in issue not yet adopted**

At the date of these financial statements, other than the standards and interpretations adopted by the group in advance of their effective dates as described above, the following standards and interpretations were in issue but not yet effective:

The amendments to IAS 1 Presentation of Financial Statements issued in September 2007, which will be effective for annual periods beginning on or after 1 January 2009. This revised IAS introduces some changes to the statement of recognised income and expense. Any restatements or reclassifications will require an additional balance sheet including the restatements for the earliest balance sheet period presented. There will be no effect on the Group's reported net income or equity.

The revised version of IFRS 3 Business Combinations will be applicable to business combinations occuring in accounting periods beginning on or after 1 July 2009. There will be no effect on the group's reported net income or equity on adoption.

The amended version of IAS 27 Consolidated and Separate Financial Statements issued in January 2008 is effective for periods beginning on or after 1 July 2009. The group has not completed its evaluation of the effect of the future adoption of this amendment.

The amendments to IAS 32 and IAS 1 issued in February 2008 are effective for annual periods beginning on or after 1 January 2009 and the group has not completed its evaluation of the effect of the future adoption of these amendments.

The amendment to IFRS 2 *Share-based payment* issued in January 2008, IFRIC 12 *Service Concession Arrangements* (effective 1 January 2008) and IFRIC 14 IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction* (effective 1 January 2008) are not relevant to the group.

**Basis of consolidation**

***Subsidiaries***

The consolidated financial statements include the accounts of StatoilHydro ASA and its subsidiaries. Subsidiaries are entities controlled by the company. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases.

All intercompany balances and transactions, including unrealised profits and losses arising from intragroup transactions, have been eliminated in full. Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the group and is presented separately within equity in the consolidated balance sheet.

**Jointly controlled assets, associates and joint venture entities**

Interests in jointly controlled assets are recognised by including the Group's share of assets, liabilities, income and expenses on a line-by-line basis. Interests in jointly controlled entities are accounted for using the equity method. Investments in companies in which the Group does not have control, but has the ability to exercise significant influence over operating and financial policies, are classified as associates and are accounted for using the equity method.

**StatoilHydro as operator of jointly controlled assets**

Indirect operating costs such as employee benefits are accumulated in cost pools. These costs are allocated to business areas and StatoilHydro operated jointly controlled assets (licenses) on an hours incurred basis. Costs allocated to the other partner's share of operated jointly controlles assets reduce the costs in the Group statement of income. Only StatoilHydro's share of the statement of income and balance sheet items related to StatoilHydro operated jointly controlled assets are reflected in the consolidated statement of income and balance sheet

**Foreign currency**

***Functional currency***

A group entity's functional currency is the currency of the primary economic environment in which the entity operates.

***Foreign currency translation***

In preparing the financial statements of the individual entities, transactions in foreign currencies (those other than functional currency) are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate at the balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of income. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

**Translation of financial statements of foreign operations**

For the purpose of the consolidated financial statements, the statement of income and balance sheet of each entity are translated into Norwegian kroner (NOK), which is the presentation currency of the consolidated financial statements.

The assets and liabilities of foreign subsidiaries (whose functional currencies are other than NOK) are translated into NOK at the foreign exchange rate at the balance sheet date. The revenues and expenses of foreign subsidiaries are translated using average monthly foreign exchange rates, which approximates the foreign exchange rates on the dates of the transactions. Foreign exchange differences arising on translation are recognised directly as a separate component of equity in the Statement of recognised income and expense.

**Business combinations and goodwill**

In order for a business combination to exist, the acquired asset or group of assets must constitute a business (an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors), which generally consists of inputs, processes and outputs. This requires judgment to be applied on a case by case basis as to whether the acquisition meets the definition of a business combination. Acquired licences for which no decision has been made to develop are treated as asset purchases, whereas acquisitions of licences for which a development decision has been made are assessed under the criteria described above to establish whether the transaction represents a business combination or an asset purchase.

Business combinations, except for transactions between entities under common control (see Basis of preparation above), are accounted for using the purchase method of accounting. The purchased identifiable tangible and intangible assets, liabilities and contingent liabilities are measured at their fair values at the date of purchase. Any excess of the cost of purchase over the net fair value of the identifiable assets purchased is recognised as goodwill.

Goodwill on acquisition is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill may also arise upon investments in jointly controlled entities and associates, being the surplus of the cost of investment over the Group's share of the net fair value of the identifiable assets. Such goodwill is recorded within investments in jointly controlled entities and associates, and any impairment of the goodwill is included in income from jointly controlled entities and associates.

**Revenue recognition**
Revenues associated with sale and transportation of crude oil, natural gas, petroleum and chemical products and other merchandise are recognised when title passes to the customer, which is normally at the point of delivery of the goods based on the contractual terms of the agreements.

Revenues from the production of oil and gas properties in which the Group have an interest with other companies are recognised on the basis of volumes lifted and sold to customers during the period (the sales method). Where the Group has lifted and sold more than the ownership interest, an accrual is recorded for the cost of the overlift. Where the Group has lifted and sold less than the ownership interest, costs are deferred for the underlift.

Revenue is presented net of customs, excise taxes and royalties paid in-kind on petroleum products.

Sales and purchases of physical commodities, which are not settled net, are presented on a gross basis as revenue and cost of goods sold in the statement of income. Activities related to trading and commodity-based derivative instruments are reported on a net basis, with the margin included in Revenue.

**Transactions with the Norwegian State**
The Group markets and sells the Norwegian State's share of oil and gas production from the NCS. The Norwegian State's participation in petroleum activities is organised through the State's direct financial interest (SDFI). All purchases and sales of SDFI oil production are recorded as cost of goods sold and revenue, respectively. The Group sells, in its own name, but for the Norwegian State's account and risk, the State's production of natural gas. This sale and related expenditures refunded by the State, are recorded net in the Group's financial statements. Such refundable expenditures relate to activities incurred to secure market access, transportation, processing capacity and investments made to maximise profitability from the sale of natural gas.

**Employee benefits**
Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Group. The accounting policy for share-based payments and pension obligations is described below.

**Share-based payments**
The Group operates an employee bonus share program. The cost of equity-settled transactions (bonus share awards) with employees is measured by reference to the estimated fair value at the date at which they are granted and is recognised as an expense over the vesting period of two years. The awarded shares are accounted for as salary expense, see note 6 Remuneration, and recorded as an equity transaction (included in additional paid-in capital).

**Research and development**
The Group undertakes research and development both on a funded basis for licence holders, and unfunded projects at its own risk. The Group's share of the licence holders funding and the total costs of the unfunded projects are development costs that are considered for capitalisation.

Development costs which are expected to generate probable future economic benefits are capitalised as intangible assets if, and only if, all of the following have been demonstrated: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; the ability to measure reliably the expenditure attributable to the intangible asset during its development. All other research and development expenditure is expensed as incurred.

Subsequent to initial recognition, capitalised development costs are reported at cost less accumulated amortisation and accumulated impairment losses.

**Income tax**
Income tax in the statement of Income for the year comprises current and deferred tax expense. Income tax is recognised in the statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years. Uncertain tax positions and potential tax exposures are analysed individually and the best estimate of the probable amount for liabilities to be paid (unpaid potential tax exposure amounts, including penalties) and virtually certain amount for assets to be received (disputed tax positions for which payment has already been made) in each case is recognised within current tax or deferred tax as appropriate. Interest income and interest expenses relating to tax issues are estimated and recorded in the period in which they are earned or incurred, and are presented as financial items in the statement of income.

Deferred tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases, subject to the initial recognition exemption. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. However, the existence of unused tax losses is strong evidence that future taxable profits may not be available. In order to recognise a deferred tax asset based on future taxable profits, convincing evidence is required taking into account the existence of contracts, production of oil or gas in the near future based on volumes of proved reserves, observable prices in active markets, expected volatility of trading profits and similar facts and circumstances.

A special petroleum tax is levied on profits derived from petroleum production and pipeline transportation on the NCS. The special petroleum tax is currently levied at a rate of 50 per cent. The special tax is applied to relevant income in addition to the standard 28 per cent income tax, resulting in a 78 per cent marginal tax rate on income subject to petroleum tax. The basis for computing the special petroleum tax is the same as for income subject to ordinary corporate income tax, except that onshore losses are not deductible against the special petroleum tax, and a tax-free allowance, or uplift, is granted at a rate of 7.5 per cent per year. The uplift is computed on the basis of the original capitalised 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. Uplift benefit is recorded when the deduction is included in the current year tax return and impacts taxes payable. Unused uplift may be carried forward indefinitely.

**Oil and gas exploration and development expenditure**
The Group uses the “successful efforts” method of accounting for oil and gas exploration costs. Expenditures to acquire mineral interests in oil and gas properties and to drill and equip exploratory wells are capitalised as exploration and evaluation expenditure within intangible assets until the well is complete and the results have been evaluated. If, following evaluation, the exploratory well has not found proved reserves, the previously capitalised costs are tested for impairment. Geological and geophysical costs and other exploration expenditures are expensed as incurred.

Unproved oil and gas properties are assessed for impairment on a quarterly basis or when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Exploratory wells that have found reserves, but classification of those reserves as proved depends on whether a major capital expenditure can be justified, may remain capitalised for more than one year. The main conditions are that either firm plans exist for future drilling in the license or a development decision is planned in the near future. Impairment of unsuccessful wells is reversed, as applicable, to the extent that the events or circumstances that triggered the original impairment have changed.

Expenditures to drill and equip exploratory wells that find proved reserves are capitalised and depreciated using the unit of production method based on proved developed reserves expected to be recovered from the well. Development expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised as producing oil and gas properties within property, plant and equipment and are depreciated using the unit of production method based on proved developed reserves expected to be recovered from the area during the concession or contract period. Capitalised acquisition costs of proved properties are depreciated using the unit of production method based on total proved reserves. Pre-production costs are expensed as incurred.

**Property, plant and equipment**
Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs.

Exchanges of assets are measured at the fair value of the asset given up unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will flow to the group, the expenditure is capitalised. Inspection and overhaul costs associated with major maintenance programs are capitalised and amortised over the period to the next inspection. All other maintenance costs are expensed as incurred.

Depreciation of production installations and field-dedicated transport systems for oil and gas is calculated using the unit of production method based on proved developed reserves expected to be recovered from the area during the concession or contract period. Depreciation of other assets and of transport systems used by several fields is calculated on the basis of their estimated useful lives, using the straight-line method. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. For exploration and production (E&P) assets the Group has established separate depreciation categories for platforms, pipelines, and wells as a minimum.

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and changes in useful lives are accounted for prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in other income or operating expenses, respectively, in the period the item is derecognised.

**Leases**

Leases in terms of which the Group assumes substantially all the risks and rewards of the ownership are recorded as finance leases within Property, plant and equipment and Financial liabilities. All other leases are classified as operating leases and the costs are charged to income on a straight line basis over the lease term, unless another basis is more representative of the benefits of the lease to the Group.

Assets recorded under finance leases are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, and subsequently reduced by accumulated depreciation and any impairment losses. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

**Intangible assets**

Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment losses. Intangible assets include expenditure on the exploration for and evaluation of oil and natural gas resources, goodwill and other intangible assets. Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised separately from goodwill at its fair value if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets relating to expenditure on the exploration for and evaluation of oil and natural gas resources are not amortised. These assets are subject to impairment testing when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount; and are reclassified to property, plant and equipment when the decision to develop a particular area is made. Other intangible assets are amortised on a straight-line basis over their expected useful lives. The expected useful lives of the assets are reviewed on an annual basis and changes in useful lives are accounted for prospectively.

**Impairment**

***Intangible assets and property, plant and equipment***

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped based on the level that there are separately identifiable and largely independent cash inflows. Normally, separate cash-generating units are individual oil and gas fields or plants. For capitalised exploration expenditure, the cash-generating units are individual wells.

If assets are determined to be impaired, the carrying amounts of those assets are written down to the recoverable amount which is the higher of fair value less costs to sell and value in use.

Impairments are reversed as applicable to the extent that the conditions for impairment are no longer present.

***Goodwill***

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised, firstly against goodwill and then pro-rata to the other assets of that unit. Impairments of goodwill are not reversed in future periods.

**Financial assets**
Financial assets are initially recognised at fair value when the Group becomes a party to the contractual provisions of the asset. For additional information on fair value methods, refer to “Measurement of fair value” below. Financial assets are derecognised from the balance sheet when the contractual rights to the cash flows either expire or are transferred.

Financial assets are presented as current if the asset is expected to be recovered within 12 months after the balance sheet date, whereas assets expected to be recovered more than 12 months after the balance sheet date are classified as non-current.

The Group classifies its financial assets at initial recognition according to the following categories; financial investments at fair value through profit or loss; loans and receivables; and as available-for-sale (AFS) financial assets.

*Non-current financial investments* comprise unlisted securities, commercial papers, bonds and listed securities.

Unlisted securities are classified as AFS. AFS financial assets are carried on the balance sheet at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income.

Non-current commercial papers, bonds and listed securities are managed together as an investment portfolio by the Group’s captive insurance company and are held to comply with specific regulations for capital retention. The investment portfolio is managed and evaluated on a fair value basis in accordance with an investment strategy and is accounted for using the fair value option with gains and losses recognised through profit or loss.

*Current financial investments* comprise short-term investments and are in the category of fair value through profit or loss.

Financial investments at fair value through profit or loss are assets classified as held for trading and other assets designated at inception. Assets are carried on the balance sheet at fair value with gains or losses recognised in the income statement.

*Non-current loans and receivables* comprise long term interest bearing receivables and are classified as financial receivables in the Balance sheet.

Trade and other receivables are in the category of loans and receivables.

Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Trade and other receivables are carried at the original invoice amount, less an allowance made for doubtful receivables. Provision is made when there is objective evidence that the Group will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents comprise cash in hand; current balances with banks and similar institutions; and short-term highly liquid investments that are readily convertible to known amounts of cash and have a maturity of three months or less from the date of acquisition.

***Impairment of Financial assets***
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

For assets carried at amortised cost, if there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the carrying amount of the asset is reduced. Any subsequent reversal of an impairment loss is recognised in the income statement.

If an available-for-sale financial asset is impaired (significant or prolonged decline), the difference between cost and fair value is transferred from equity to the income statement. Impairments of debt instruments are reversed to the income statement as applicable. Impairments of equity instruments classified as available-for-sale are not reversed.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses.

**Financial liabilities**
Interest-bearing debenture bonds, bank loans and other debt classified as financial liabilities, are initially recognised at fair value when the Group becomes party to the contractual provisions of the instrument. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any

discount or premium on settlement. Financial liabilities are derecognised from the balance sheet when the contractual obligation expires, is discharged or cancelled. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest income and other financial items and interest and other finance expenses.

Financial liabilities are presented as current if the liability is due to be settled within 12 months after the balance sheet date, whereas liabilities with the legal right to be settled more than 12 months after the balance sheet date are classified as non-current.

**Pension obligations**
The Company and certain of its subsidiaries have pension plans for employees that either provide a defined pension benefit upon retirement, or a pension dependent on defined contributions. For defined benefit schemes, the benefit to be received by employees generally depends on many factors including length of service, retirement date and future salary increases.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date reflecting the maturity dates approximating the terms of the Group's obligations. The calculation is performed by an external actuary.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the Statement of income as operating expenses.

Past service costs are recognised immediately when the benefits become vested or on a straight-line basis until the benefits become vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss is recognised in the income statement during the period which the settlement or curtailment occurs.

Actuarial gains and losses are recognised in full in the Group statement of recognised income and expense in the period in which they occur.

Contribution to defined contribution schemes are recognised in the Statement of income in the period in which the contribution amounts are earned by the employees.

**Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as other finance expenses.

Possible assets arising from past events that will only be confirmed by future uncertain events are not recognised, but are disclosed when an inflow of economic benefits is probable.

**Asset retirement obligations**
Liabilities for decommissioning costs are recognised when the Group has an obligation to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Cost is estimated upon current regulation and technology. Normally an obligation arises for a new facility, such as oil and natural gas production or transportation facilities, upon construction or installation. An obligation for decommissioning may also crystallise during the period of operation of a facility through a change in legislation or through a decision to terminate operations. At the time of the obligating event, a decommissioning liability is recognised and classified as Other provisions. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. Refining and processing plants that are not limited by an expected license period have indefinite lives and therefore there is no measurable asset retirement obligation to be recorded. For retail outlets, decommissioning provisions are estimated on a portfolio basis.

When a liability for decommissioning cost is recognised, a corresponding amount is recorded to increase the related property, plant and equipment. This is subsequently depreciated as part of the costs of the facility or item of property, plant and equipment.

Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding property, plant and equipment.

**Trade and other payables**
Trade and other payables are carried at payment or settlement amounts.

**Derivative financial instruments and hedge accounting**
The Group uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets or liabilities expected to be recovered, or with the legal right to be settled more than 12 months after the balance sheet date are classified as non-current.

Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, are accounted for as financial instruments. An important exception to this rule is that contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements, are not accounted for as financial instruments. This exception applies to a significant number of contracts for the purchase or sale of crude oil and natural gas.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value. Contracts are assessed for embedded derivatives when the Group becomes a party to them, including at the date of a business combination. These embedded derivatives are measured at fair value at each period end. Any gains or losses arising from changes in fair value are recognised in profit or loss for the period.

For those derivatives designated as hedges and where hedge accounting is to be applied, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be assessed throughout its duration. Such hedges are expected at inception to be highly effective. Fair value hedges are used when hedging the exposure to changes in the fair value of a recognised asset or liability.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is re-measured at fair value and gains and losses from both are taken to profit or loss being recorded in the same line. For hedged items carried at amortised cost, the adjustment is amortised through the income statement such that it is fully amortised by maturity. When an unrecognised firm commitment is designated as a hedged item, this gives rise to an asset or liability in the balance sheet, representing the cumulative change in the fair value of the firm commitment attributable to the hedged risk. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

**Measurement of fair values**
The fair values of quoted financial assets and liabilities and derivative instruments are determined by reference to bid and ask prices respectively, at the close of business on the balance sheet date. Fair values of financial instruments quoted in active markets such as but not limited to commodity based futures, exchange traded option contracts and equity instruments are based on quoted market prices obtained from the relevant exchanges or clearing houses.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's-length market transactions; reference to other instruments that are substantially the same; discounted cash flow analysis; and pricing models. Consequently, where the Group records elements of long-term physical delivery commodity contracts at fair value, such fair value estimates are to the extent possible based on quoted forward prices in the market, underlying indexes in the contracts, and assumptions of forward prices and margins where market prices are not available. Likewise, fair value of interest and currency swaps are estimated based on relevant quotations from active markets, quotes of comparable instruments, and other appropriate valuation techniques. The fair value of options not traded in active markets is estimated by use of appropriate valuation models developed and used by third parties.

The fair values of financial instruments not traded in active markets are the Group's best estimates of the gain or loss that would have been realised if the contracts had been closed out at year end, but actual results could vary due to assumptions used.

**Critical accounting judgements and key sources of estimation uncertainty**

**Critical judgements in applying accounting policies**
The following are the critical judgements, apart from those involving estimations (see below), that the Group has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

*Method of accounting applied for the Hydro Petroleum merger*
As described under Basis of preparation above, the merger between former Statoil ASA and Hydro Petroleum has been accounted for using the carrying amounts of the assets and liabilities. When making this judgment the Group considered firstly whether the former Statoil ASA and Hydro

Petroleum were under the common control of the Norwegian State, and secondly, given the conclusion that both entities were under the control of the Norwegian State, assessed what method of accounting would provide the most meaningful portrayal of the merger for accounting purposes. StatoilHydro concluded that such a reorganisation would be best presented using the carrying amounts of assets and liabilities, and restating all financial statements for all periods presented as if the companies had always been combined.

*Revenue recognition - gross versus net presentation of traded SDFI volumes of oil and gas production*
As described under Transactions with the Norwegian State above, the Group markets and sells the Norwegian State's share of oil and gas production from the NCS. The Group includes the costs of purchase and proceeds from the sale of the SDFI oil production in its Cost of goods sold and Revenue, respectively. In making the judgment the Group considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue, and assessed in particular by analogy whether the risk and reward of the ownership of the goods had been transferred from the SDFI to the Group.

As also described above, the Group sells, in its own name, but for the Norwegian State's account and risk, the State's production of natural gas. This sale and related expenditures refunded by the State, are recorded net in the Group's financial statements. In making the judgment the Group considered the same criteria as for the oil production and concluded that the risk and reward of the ownership of the gas had not been transferred from the SDFI to the Group.

**Key sources of estimation uncertaint**y
The preparation of consolidated financial statements require that management make estimates and assumptions.

The matters described below are considered to be the most important in understanding the key sources of estimation uncertainty that are involved in preparing these financial statements and the uncertainties that could most significantly impact the amounts reported on the results of operations, financial position and cash flows.

*Proved oil and gas reserves.*
Oil and gas reserves have been estimated by internal experts in accordance with industry standards. An independent third party has evaluated StatoilHydro's proved reserves estimates, and the results of such evaluation do not differ materially from management estimates. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements but not on escalations based upon future conditions.

Reserve estimates are used when testing upstream assets for impairment. Proved and proved developed reserves are used when calculating the unit of production rates used for depreciation, depletion, and amortisation. Future changes in oil and gas reserves, for instance as a result of changes in prices, could have a material impact on unit of production rates used for depreciation and amortisation and for asset retirement obligation, as well as for the impairment testing of upstream assets, which could have a material adverse effect on operating income as a result of increased depreciation and amortisation or impairment charges.

***Exploration and leasehold acquisition costs.*** The Group accounting policy is to capitalise the costs of drilling exploratory wells pending determination of whether the wells have found proved oil and gas reserves. The Group also capitalises leasehold acquisition costs and signature bonuses paid to obtain access to undeveloped oil and gas acreage. Judgments on whether these expenditures should remain capitalised or written down due to impairment losses in the period may materially affect the operating income for the period.

Unproved oil and gas properties are assessed for impairment on a quarterly basis or when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. If, following evaluation, an exploratory well has not found proved reserves, the previously capitalised costs are tested for impairment. Exploratory wells that have found reserves, but classification of those reserves as proved depends on whether a major capital expenditure can be justified, may remain capitalised for more than one year. The main conditions are that either firm plans exist for future drilling in the license or a development decision is planned in the near future.

***Impairment/reversal of impairment.*** The Group has significant investments in property, plant and equipment and intangibles. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired requiring the book value to be written down to its recoverable amount. Impairments are reversed if the conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgement and may to a large extent depend upon the selection of key assumptions about the future.

Estimating the recoverable amount involves complexity in estimating relevant future cash flows based on future assumptions which are discounted to their present value.

Impairment testing requires long-term assumptions to be made concerning a number of often volatile economic factors such as future market prices, currency exchange rates and future output, discount rates and political and country risk among others, in order to establish relevant future cash flows. Long-term assumptions for major factors are made at group level, and there is a high degree of reasoned judgement involved in establishing these assumptions, in determining other relevant factors such as forward price curves, in estimating production outputs, and in determining the ultimate termination value of an asset.

***Employee retirement plans***. When estimating the present value of defined pension benefit obligations that represent a gross long-term liability in the consolidated balance sheet, and indirectly, the period's net pension expense in the consolidated statement of income, management make a number of critical assumptions affecting these estimates. Most notably, assumptions made on the discount rate to be applied to future benefit payments, the expected return on plan assets and the annual rate of compensation increase have a direct and material impact on the amounts presented. Significant changes in these assumptions between periods can have a material effect on the accounts.

***Asset retirement obligations.*** The Group has significant obligations to decommission and remove offshore installations at the end of the production period. Legal obligations associated with the retirement of non-current assets are recognised at their fair value at the time the obligations are incurred. Upon initial recognition of a liability, that cost is capitalised as part of the related non-current asset and allocated to expense over the useful life of the asset.

It is difficult to estimate the costs of these decommissioning and removal activities, which are based on current regulations and technology. Most of the removal activities are many years into the future and the removal technology and costs are constantly changing. The estimates include assumptions of both the time required and the day rates for rigs, marine operations and heavy lift vessels that can vary considerably depending on the assumed removal complexity. As a result, the initial recognition of the liability and the capitalised cost associated with decommissioning and removal obligations, and the subsequent adjustment of these balance sheet items, involve the application of significant judgement.

***Derivative financial instruments and hedging activities***. The Group recognises all derivatives on the balance sheet at fair value. Changes in fair value of derivatives are included in the statement of income. Loans subject to hedge accounting are adjusted for the fair value impact of the hedged risk. This adjustment will offset the majority of the change in fair value of the corresponding derivative.

When not directly observable in active markets, the fair value of derivative contracts must be computed internally based on internal assumptions as well as directly observable market information, including forward and yield curves for commodities, currencies and interest. Changes in internal assumptions and forward curves could materially impact the internally computed fair value of derivative contracts, particularly long-term contracts, resulting in corresponding impact on income or loss in the income statement.

***Income tax.*** The Group annually incurs significant amounts of income taxes payable to various jurisdictions around the world, and also recognises significant changes to deferred tax assets and deferred tax liabilities, all of which are based on management's interpretations of applicable laws, regulations and relevant court decisions. The quality of these estimates is highly dependent upon management's ability to properly apply at times very complex sets of rules, to recognise changes in applicable rules and, in the case of deferred tax assets, management's ability to project future earnings from activities that may apply loss carry forward positions against future income taxes.

## 3. MERGER WITH HYDRO PETROLEUM

The shareholders of Statoil ASA and Norsk Hydro ASA (Hydro) at extraordinary General Meetings on 5 July 2007 approved a merger between Statoil ASA and the oil and gas activities of Norsk Hydro ASA (Hydro Petroleum). The merger is regulated in a merger plan between the two parties. In the merger plan it is stated that the management structure and management systems of the merged company principally will be based on former Statoil's model. The merger was effective 1 October 2007.

As a result of the merger StatoilHydro's share capital increased by NOK 2,606,655,590 from NOK 5,364,962,167.50 to NOK 7,971,617,757.50 from the issuing of 1,042,662,236 shares with a nominal value of NOK 2.50 to Hydro's shareholders. Hydro's shareholders received 0.8622 shares in the merged company for each Hydro share. After the increase Hydro's shareholders hold 32.7 per cent and former Statoil's shareholders hold 67.3 per cent of the merged company, StatoilHydro ASA. The Norwegian State held 65 per cent in the merged company as of 31 December 2007. For more information regarding changes in organisation and preparation of the Financial statements for the StatoilHydro group due to the merger, see information in note 2.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Prior to the merger Hydro Petroleum comprised the oil and gas business of Hydro, along with Hydro's wind power business and interests in a power generation company and an information technology subsidiary. Hydro Petroleum was an international oil and energy enterprise and a major player in the Nordic and European energy markets. It developed, produced and supplied oil and gas and took an active role in developing new energy forms such as wind power and hydrogen. In recent years, Hydro Petroleum's businesses have grown as a result of substantial investments undertaken by Hydro, including the acquisition of Saga Petroleum ASA, a Norwegian-based oil company, in 1999, and new oil and gas licenses on the NCS obtained from the Norwegian State. Based on production, Hydro Petroleum was the second largest operator on the NCS and, as a stand-alone enterprise, would be among the leading international oil and energy companies.

For all periods presented, the financial information of Hydro Petroleum has been adjusted to conform to the accounting policies of StatoilHydro for the tax benefit of uplift in Norway, the sales method of accounting for revenues for over- and underlift in the production of oil and gas and pension accounting. The combined impact of these changes was to decrease net equity by approximately NOK 3 billion for the year ended 31 December 2006.

Under the Norwegian public limited companies act section 14-11, StatoilHydro and Hydro are jointly and severally liable for certain guarantee commitments entered into by Hydro prior to the merger. The total amount StatoilHydro is jointly liable for is approximately NOK 8.3 billion with terms extending until 2050. As of the current date, the probability that these guarantee commitments will impact StatoilHydro is deemed to be remote.

Under provisions of the merger plan, an inter-company balance was established between former Statoil and Norsk Hydro ASA as of 31 December 2006 that provides that debt less cash and short term investments of Hydro Petroleum be set at a defined level by an adjustment to a merger payable or receivable between the companies. This resulted in StatoilHydro having a merger receivable from Norsk Hydro ASA that is included in the 2006 balance sheet and the 2007 cash flows upon its settlement.

Hydro Petroleum was not a separate legal entity from Hydro and, therefore, had combined cash and equity balances with Hydro. As a consequence in accounting for the merger, certain cash flows to or from Hydro were treated as equity distributions or injections to or from Hydro. This is reflected in the consolidated statements of cash flows as "Norsk Hydro ASA merger balance" and in the consolidated shareholders equity of StatoilHydro as "Merger related adjustments", see note 19.

StatoilHydro has, subsequent to the merger, recorded a total expense in 2007 of NOK 10.7 billion before tax related to restructuring expenses and other expenses related to the merger. The major part of these expenses is related to pensions and early retirement packages offered to employees in StatoilHydro ASA above the age of 58 years (contingent upon certain conditions).

Below is a table showing the effects of the merger on the Statement of Income and Balance Sheet as at 31 December 2006. The column "Former Hydro Petroleum" includes the IFRS financial information derived from the audited carve-out combined financial statements of Hydro Petroleum. The column "Former Statoil Group" is derived from the IFRS transition document of Statoil ASA. The column " Merger adjustments and other eliminations" includes StatoilHydro's managements consolidation entries and adjustments to a) conform the Hydro Petroleum IFRS financial information to the accounting policies of StatoilHydro, b) include other merger related adjustments (including the merger receivable and assumption of certain debt obligations from Norsk Hydro ASA), and c) eliminate internal transactions between the merged companies.

**Condenced Statements of Income and Balance sheets**

| | For the year ended 31 December 2006 | | | |
|---|---|---|---|---|
| (in NOK million) | Hydro Petroleum | Former Statoil Group | Merger adjustments and other eliminations | StatoilHydro Group |
| Total revenues and other income | 97,910 | 433,966 | (10,394) | 521,482 |
| Total operating expenses | (51,192) | (315,009) | 10,883 | (355,318) |
| Net financial items | 563 | 3,797 | 712 | 5,072 |
| Income tax | (36,188) | (81,889) | (1,312) | (119,389) |
| Net income | 11,093 | 40,865 | (111) | 51,847 |
| Total non-current assets | 100,508 | 233,074 | (934) | 332,648 |
| Total current assets | 24,446 | 86,872 | 14,857 | 126,175 |
| Total assets | 124,954 | 319,946 | 13,923 | 458,823 |
| Total equity | 32,238 | 126,517 | 10,652 | 169,407 |
| Total non-current liabilities | 54,727 | 113,313 | 6,526 | 174,566 |
| Total current liabilities | 37,989 | 80,116 | (3,255) | 114,850 |
| Total equity and liabilities | 124,954 | 319,946 | 13,923 | 458,823 |

## 4. SIGNIFICANT ACQUISITIONS

On 27 April 2007 StatoilHydro entered into an agreement whereby StatoilHydro made an all-cash offer to acquire all shares of North American Oil Sands Corporation (NAOSC) at a price of CAD 20 per share. The total transaction value was approximately CAD 2.2 billion, equivalent to about USD 2 billion. NAOSC, a Calgary-based company, was formed in 2001. The principle asset in the acquisition was the 257,200 acres (1,110 square kilometers) of oil sands leases that NAOSC operates, located in the Athabasca region of Alberta, north-east of Edmonton. The transaction has been recorded in the segment International Exploration and Production, and is not considered a business combination.

On 15 September 2006 StatoilHydro entered into an agreement to acquire working interests in two US Gulf of Mexico deepwater discoveries and one exploration prospect at a cost of USD 700 million. The assets are located in the Greater Tahiti and Walker Ridge areas. As a result of the agreement, StatoilHydro has a 17.5 per cent working interest in the Caesar discovery and a 12.5 per cent working interest in the Big Foot discovery. The transaction was completed in the fourth quarter of 2006 and was recorded in the segment International Exploration and Production. The transaction is not considered a business combination.

On 3 November 2006 StatoilHydro entered into an agreement with Anadarko Petroleum Corporation to acquire two of Anadarko's US Gulf of Mexico discoveries and one prospect at a cost of USD 901 million. The assets are located in the Greater Tahiti and Walker Ridge areas. As a result of the agreement StatoilHydro has a 27.5 per cent working interest in the Big Foot discovery, including the additions from the agreement mentioned above. The transaction was completed in the first quarter of 2007 and was recorded in the segment International Exploration and Production. The transaction is not considered a business combination.

## 5. SEGMENTS

**Business segments**

StatoilHydro manages its operations in four business segments; Exploration and Production Norway, International Exploration and Production, Natural Gas and Manufacturing and Marketing. The Exploration and Production Norway and International Exploration and Production segments explore for, develop and produce crude oil and natural gas, and extract natural gas liquids. The Natural Gas segment transports and markets natural gas and natural gas products. Manufacturing and Marketing is responsible for petroleum refining operations and the marketing of crude oil and refined petroleum products except for natural gas and natural gas products.

The "Other" section consists of the activities of Corporate services, Corporate center, Group Finance, Technology & New energy and Projects. The "Eliminations" section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products. Inter-segment revenues are at estimated market prices.

Operating segments align with internal management reporting, and are determined based on differences in the nature of their operations, products and services. The measure of segment profit is Net operating income.

Segment data for the years ended 31 December, 2007 and 2006 is presented below:

| (in NOK million) | Exploration and Production Norway | International Exploration and Production | Natural Gas | Manufacturing and Marketing | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2007** | | | | | | | |
| Revenues third party (including Other income) | 5,925 | 13,483 | 72,447 | 427,342 | 2,851 | 140 | 522,188 |
| Revenues inter-segment | 173,259 | 27,746 | 927 | 468 | 1,600 | (204,000) | 0 |
| Net income (loss) from equity accounted investments | 60 | 372 | 60 | 233 | (116) | 0 | 609 |
| Total revenues and other income | 179,244 | 41,601 | 73,434 | 428,043 | 4,335 | (203,860) | 522,797 |
| Depreciation, amortisation and impairment losses | 23,030 | 11,103 | 1,845 | 2,833 | 561 | 0 | 39,372 |
| Significant non-cash items other than depreciation, amortisation and impairment losses | | | | | | | |
| - Pension cost ** | 5,300 | 738 | 700 | 700 | 1,300 | 0 | 8,738 |
| - Commodity derivatives | (2,920) | 577 | 3,318 | 1,031 | (88) | 0 | 1,918 |
| - Exploration expenditures written off | 50 | 1,610 | 0 | 0 | 0 | 0 | 1,660 |
| Impairment losses recognised in profit or loss | 0 | 1,246 | 250 | 937 | (3) | 0 | 2,430 |
| Net operating income | 123,150 | 12,161 | 1,562 | 3,776 | (2,260) | (1,185) | 137,204 |
| Segment non-current assets* | 153,434 | 107,478 | 35,755 | 27,825 | 20,515 | 0 | 345,007 |
| Investments in affiliates | 125 | 2,253 | 4,516 | 1,066 | 461 | 0 | 8,421 |
| Additions to PP&E and intangible assets | 31,100 | 36,200 | 2,100 | 4,800 | 800 | 0 | 75,000 |

* Excluding “Investments in affiliates”.
** Pension cost includes early retirement cost (exclusive of curtailment effects) and past service cost.

| (in NOK million) | Exploration and Production Norway | International Exploration and Production | Natural Gas | Manufacturing and Marketing | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2006** | | | | | | | |
| Revenues third party (including Other income) | 3,576 | 11,987 | 96,040 | 410,689 | 1,778 | (3,267) | 520,803 |
| Revenues inter-segment | 175,544 | 20,608 | 832 | 899 | 1,986 | (199,869) | 0 |
| Net income (loss) from equity accounted investments | 79 | 7 | 197 | 402 | (6) | 0 | 679 |
| Total revenues and other income | 179,199 | 32,602 | 97,069 | 411,990 | 3,758 | (203,136) | 521,482 |
| Depreciation, amortisation and impairment losses | 20,938 | 14,370 | 1,425 | 2,280 | 437 | 0 | 39,450 |
| Significant non-cash items other than depreciation, amortisation and impairment losses | | | | | | | |
| - Exploration expenditures written off | 177 | 1,270 | 0 | 0 | 0 | 0 | 1,447 |
| - Commodity derivatives | 69 | (354) | (6,894) | (136) | 12 | 0 | (7,303) |
| Impairment losses recognised in profit or loss | 230 | 4,902 | 0 | 57 | 0 | 0 | 5,189 |
| Net operating income | 135,140 | 3,917 | 21,693 | 7,280 | (1,427) | (439) | 166,164 |
| Segment non-current assets* | 152,093 | 96,172 | 30,396 | 25,771 | 19,660 | 0 | 324,092 |
| Investments in affiliates | 235 | 2,381 | 4,771 | 964 | 205 | 0 | 8,556 |
| Additions to PP&E and intangible assets | 29,200 | 28,900 | 3,200 | 2,500 | 500 | 0 | 64,300 |

* Excluding “Investments in affiliates”.

StatoilHydro ASA offered early retirement to employees above the age of 58 years (contingent upon certain conditions). StatoilHydro has, subsequent to the merger, recorded a total expense of NOK 10.7 billion before tax related to restructuring expenses and other expenses related to the merger. The major part of these expenses are related to pensions and early retirement packages offered to all employees in StatoilHydro ASA above the age of 58 years. The total expense impacts the net operating income of all segments, and most significantly the segment Exploration and Production Norway. For more information regarding consequences of the merger, see information in note 3.

Impairments of NOK 4.9 billion before tax in 2006 were related to Gulf of Mexico property, plant and equipment.

The decrease in the Natural Gas segment’s net operating income in 2007, compared to 2006, is mainly due to a reduction in prices of piped natural gas and a negative change in the fair value of derivatives.

**Geographical areas**

StatoilHydro is present in 40 countries, and manages its four business segments on a worldwide basis. In presenting information on the basis of geographical areas, revenues from external customers is attributed to countries from which StatoilHydro derives revenues.

Segment assets are based on the geographical location of the assets.

Segment data for the year ended 31 December, 2007, and 2006 is presented below:

| (in NOK million) | Crude oil | Gas | NGL | Refined products | Other | Total sale |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2007** | | | | | | |
| Norway | 209,764 | 62,911 | 47,119 | 52,772 | 14,107 | 386,673 |
| United States | 24,142 | 5,269 | 1,766 | 22,823 | (864) | 53,136 |
| Sweden | 0 | 0 | 0 | 16,378 | 6,731 | 23,109 |
| Denmark | 0 | 0 | 0 | 16,958 | (2,038) | 14,920 |
| Singapore | 13,861 | 0 | 0 | 367 | 0 | 14,228 |
| Other | 13,290 | 2,485 | 139 | 5,094 | 9,114 | 30,122 |
| Total revenues (excluding equity in net income of affiliates) | 261,057 | 70,665 | 49,024 | 114,392 | 27,050 | 522,188 |

| (in NOK million) | Crude oil | Gas | NGL | Refined products | Other | Total sale |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2006** | | | | | | |
| Norway | 200,536 | 72,831 | 46,447 | 49,475 | 23,998 | 393,287 |
| United States | 21,070 | 3,731 | 2,089 | 17,436 | 1,296 | 45,622 |
| Sweden | 0 | 0 | 0 | 15,431 | 6,304 | 21,735 |
| Denmark | 0 | 0 | 0 | 14,552 | 87 | 14,639 |
| Singapore | 8,218 | 0 | 0 | 425 | 3 | 8,646 |
| Other | 10,768 | 7,157 | 3 | 10,363 | 8,583 | 36,874 |
| Total revenues (excluding equity in net income of affiliates) | 240,592 | 83,719 | 48,539 | 107,682 | 40,271 | 520,803 |

**Segment assets by geographic areas**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| **Year ended 31 December** | | |
| Norway | 204,401 | 200,220 |
| United States | 38,672 | 33,841 |
| Azerbaijan | 16,279 | 17,444 |
| Angola | 15,906 | 16,371 |
| Canada | 14,423 | 3,160 |
| Algeria | 8,371 | 9,699 |
| Other areas | 33,571 | 31,189 |
| Total non-current asset (excluding deferred tax, pension and financial non-current items) | 331,623 | 311,924 |

**Major customers**

StatoilHydro does not have transactions with single external customers where revenues amount to more than 10% of the Group's total revenues.

## 6. REMUNERATION

| (in NOK million, except number of work-years) | For the year ended 31 December 2007 | 2006 |
|---|---|---|
| Salaries | 17,243 | 15,980 |
| Pension cost | 3,131 | 2,281 |
| Payroll tax | 2,930 | 2,368 |
| Other social benefits | 1,997 | 1,567 |
| Total payroll costs | 25,301 | 22,196 |
| Average number of work-years | 27,641 | 26,899 |

Pension cost is exclusive of temination benefits.

Total payroll costs are partly charged to partners of StatoilHydro-operated licences, partly capitalised and partly expensed. The expensed payroll costs are mainly included in Operating expenses, Selling, general and administrative expenses and Exploration expenses.

The calculation of pension costs and pension assets/liabilities is described in note 21.

**Share based compensation**
StatoilHydro's Share Saving Plan provides employees with the option to purchase StatoilHydro shares through monthly salary deductions and a contribution by StatoilHydro. If the shares are kept for two full calendar years of continued employment, the employees will be allocated one bonus share for each one they have purchased.

Estimated compensation expense including the contribution by StatoilHydro for purchased shares, amount vested for bonus shares granted and related social security tax was NOK 246 million and NOK 96 million related to the 2007 and 2006, respectively. At 31 December 2007 the amount of compensation cost yet to be expensed throughout the vesting period is NOK 533 million. For the 2008 program (granted in 2007) the estimated compensation expense for 2008 is NOK 331 million.

## 7. OTHER EXPENSES

### Auditors' remuneration

| (in NOK million) | Audit fee | Audit related fee | Total |
|---|---|---|---|
| **2007** | | | |
| Ernst & Young - Norway | 18.6 | 7.4 | 26.0 |
| Ernst & Young - outside Norway | 26.2 | 1.1 | 27.3 |
| Total | 44.8 | 8.5 | 53.3 |
| **2006** | | | |
| Ernst & Young - Norway | 15.9 | 4.2 | 20.1 |
| Ernst & Young - outside Norway | 19.9 | 2.4 | 22.3 |
| Total | 35.8 | 6.6 | 42.4 |

In addition to the figures in the table above for 2006 audit fee and other fees to Deloitte amount to NOK 39.4 and NOK 5.6 million, respectively and audit fees to Ernst & Young related to StatoilHydro-operated licenses amount to NOK 6.1 and NOK 4.0 million for 2007 and 2006, respectively.

The increase in audit fees and audit related fees from 2006 to 2007 is mainly due to the increase in activity in connection with the merger with Hydro Petroleum.

**Research and Development (R&D) expenditures**

Research and Development (R&D) expenditures were NOK 1,969 million and NOK 1,616 million in 2007 and 2006, respectively. R&D expenditures are partly financed by partners of StatoilHydro-operated licenses. StatoilHydro's share of the expenditures has been recognised as expense in the statement of income.

## 8. FINANCIAL ITEMS

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Foreign exchange gains and losses non-current financial liabilities | 5,944 | 3,190 |
| Other foreign exchange gains and (losses) | 4,099 | 1,267 |
| Net foreign exchange gains and losses | 10,043 | 4,457 |
| Dividends received | 523 | 554 |
| Gain (loss) on securities | (723) | 646 |
| Interest income securities | 338 | 612 |
| Interest income non-current financial receivables | 197 | 204 |
| Interest and other financial income current financial assets | 1,970 | 1,659 |
| Interest and other financial income | 2,305 | 3,675 |
| Capitalised interests | 2,680 | 3,255 |
| Accretion expense asset retirement obligation | (2,099) | (1,304) |
| Interest expense non-current loans inclusive financial derivatives | (1,948) | (3,424) |
| Interest and other finance expenses financial liabilities | (1,374) | (1,587) |
| Interest and other financial expenses | (2,741) | (3,060) |
| Net financial Items | 9,607 | 5,072 |

The net gain on financial assets available for sale recognised directly in equity was NOK 1,039 million in 2007, compared to a net loss of NOK 524 million in 2006.

## 9. INCOME TAXES

**Income before income taxes consists of**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Norway offshore | 124,707 | 151,556 |
| Norway onshore | 7,331 | 6,402 |
| Other countries upstream 1) | 13,727 | 7,038 |
| Other countries downstream 1) | 1,046 | 6,240 |
| Total income before tax | 146,811 | 171,236 |

**Significant components of income tax expense were as follows**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Norway offshore | 98,203 | 111,095 |
| Norway onshore | 1,924 | 1,149 |
| Other countries upstream 1) | 9,928 | 628 |
| Other countries downstream 1) | 535 | 5,434 |
| Uplift benefit | (4,365) | (3,759) |
| Current income tax expense | 106,225 | 114,547 |
| Norway offshore | (555) | 6,065 |
| Norway onshore | 373 | 856 |
| Other countries upstream 1) | (3,688) | (2,669) |
| Other countries downstream 1) | (185) | 589 |
| Deferred tax expense | (4,055) | 4,842 |
| Total income tax expense | 102,170 | 119,389 |

1) Includes taxes liable to Norway on income in other countries.

**Reconciliation of Norwegian nominal statutory tax rate of 28 per cent to effective tax rate**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Norway offshore | 124,707 | 151,556 |
| Norway onshore | 7,331 | 6,402 |
| Other countries upstream | 13,727 | 7,038 |
| Other countries downstream | 1,046 | 6,240 |
| Total income before tax | 146,811 | 171,236 |
| Calculated income taxes at statutory rates: | | |
| Calculated income taxes at statutory rate (norwegian statutory tax rate 28%) | 41,107 | 47,946 |
| Petroleum surtax at statutory rate (norwegian special tax rate 50%)* | 62,353 | 75,357 |
| Uplift* | (4,365) | (3,759) |
| Other countries upstream (average statutory tax rates) | 2,397 | 1,019 |
| Other countries downstream (average statutory tax rates) | 57 | (754) |
| Other items | 621 | (420) |
| Income tax expense | 102,170 | 119,389 |
| Effective tax rate | 69.59% | 69.72% |

*Income from oil and gas activities on the NCS is taxed according to the Norwegian Petroleum Tax Act. In addition to normal corporation tax, a special tax of 50 per cent is levied after deducting uplift, an investment tax credit. Uplift is deducted by 7.5 per cent per year for four years, as from the year of investment. At the end of 2007 unrecognised uplift credits amount to NOK 17.3 billion.

**Deferred tax assets and liabilities comprise:**

| (in NOK million) | Inventory | Other current items | Tax losses carry forwards | Property, plant and equipment | Exploration expenditure | ARO | Pensions | Other non-current items | Total |
|---|---|---|---|---|---|---|---|---|---|
| Deferred tax at 31 December 2006 | | | | | | | | | |
| Deferred tax assets | 1,848 | 4,231 | 3,670 | 5,747 | 0 | 30,360 | 5,215 | 3,683 | 54,754 |
| Deferred tax liabilities | 0 | (8,855) | 0 | (92,835) | (16,288) | 0 | 0 | (8,052) | (126,030) |
| Net asset/(liability) at 31 December 2006 | 1,848 | (4,624) | 3,670 | (87,088) | (16,288) | 30,360 | 5,215 | (4,369) | (71,276) |
| Deferred tax at 31 December 2007 | | | | | | | | | |
| Deferred tax assets | 1,257 | 4,429 | 2,888 | 6,361 | 0 | 30,238 | 10,491 | 2,477 | 58,141 |
| Deferred tax liabilities | 0 | (7,135) | 0 | (91,474) | (17,511) | 0 | 0 | (8,705) | (124,825) |
| Net asset/(liability) at 31 December 2007 | 1,257 | (2,706) | 2,888 | (85,113) | (17,511) | 30,238 | 10,491 | (6,228) | (66,684) |

| Analysis of movements during the year | 2007 | 2006 |
|---|---|---|
| Deferred tax liability at 1 January | 71,276 | 69,300 |
| Charged/(credited) to the income statement | (4,055) | 4,842 |
| Charged/(credited) to equity | 175 | (2,321) |
| Translation differences and other | (712) | (545) |
| Deferred tax liability at 31 December | 66,684 | 71,276 |

Deferred tax assets and liabilities are offset to the extent that the deferred taxes relate to the same fiscal authority and there is a legally enforceable right to offset current tax assets against current tax liabilities.

**Deferred tax assets**

At the end of 2007, StatoilHydro had recognised tax losses carry-forwards of NOK 2.9 billion, primarily in the US and Azerbaijan, since it is considered probable that taxable profit will be available and there are sufficient taxable temporary differences to utilise the unused tax loss carry-forwards. Only a minor part of the tax losses carry-forwards amounts expire before 2019.

**Unrecognised deferred tax assets**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Deductible temporary differences | 3,860 | 3,362 |
| Tax losses carry forward | 3,143 | 2,059 |

The tax losses carry-forwards that have not been recognised, primarily in the US, expire in the period 2019-2025. The unrecognised deductible temporary differences, primarily in Angola, do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because evidence as required by prevailing accounting standards is currently not sufficient to support that future taxable profits will be available to secure utilisation of the benefits.

## 10. EARNINGS PER SHARE

**Basic earnings per share**

For the purposes of calculating earnings per share, weighted average number of ordinary shares outstanding has been set as the total of Statoil's weighted average number of ordinary shares outstanding and Hydro's weighted average number of outstanding shares multiplied by the number of Statoil's ordinary shares which Hydro shareholders received for each Hydro share in connection with the merger.

The calculation of basic earnings per share for 2007 was based on the net income attributable to ordinary shareholders of the parent company, NOK 44 096 million (2006: NOK 51,117), and a weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 3,195,866,843 (2006: 3,230,849,707), calculated as follows:

| | 2007 | 2006 |
|---|---|---|
| Net income attributable to Equity holders of the parent company (in NOK million) | 44,096 | 51,117 |
| Weighted average number of ordinary shares outstanding (In thousands of shares) | | |
| Issued ordinary shares at 1 January | 2,166,144 | 2,189,586 |
| Effect of treasury shares held | (21,681) | (28,557) |
| Effect of shares issued in the merger with Hydro Petroleum | 1,051,404 | 1,069,822 |
| Weighted average number of ordinary shares | 3,195,867 | 3,230,850 |
| Earnings per share for income attributable to equity holders of the company - basic and diluted (NOK) | 13.80 | 15.82 |

The Group has no share programs with significant dilutive effects and the calculated diluted earnings per share rounds to be the same amount as the calculated basic earnings per share.

## 11. PROPERTY, PLANT AND EQUIPMENT

| (in NOK million) | Machinery, equipment and transportation equipment | Production plants oil and gas, incl. pipelines | Refining and manufacturing plants | Buildings and land | Vessels | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost at 31 December 2005 | 11,130 | 428,090 | 41,816 | 13,271 | 546 | 62,032 | 556,885 |
| Additions and transfers | 678 | 51,972 | 947 | 1,670 | 2,345 | 7,735 | 65,347 |
| Disposals assets at cost | (510) | (3,778) | (805) | (131) | (87) | (240) | (5,551) |
| Effect of movements in foreign exchange - assets | 430 | (4,251) | (800) | 149 | 0 | (1,851) | (6,323) |
| Cost at 31 December 2006 | 11,728 | 472,033 | 41,158 | 14,959 | 2,804 | 67,676 | 610,358 |
| Accumulated depr. and impairment losses at 31 December 2005 | (7,539) | (263,975) | (23,424) | (4,412) | (358) | (1,784) | (301,492) |
| Depreciation and amorisation for the year | (718) | (29,809) | (1,831) | (1,267) | (261) | 0 | (33,886) |
| Impairment losses for the year | 0 | (5,183) | (30) | 0 | 0 | 0 | (5,213) |
| Depreciation on additions for the year | 0 | (3,740) | 0 | 0 | 0 | 0 | (3,740) |
| Disposals depreciation | 510 | 3,868 | 87 | 54 | 87 | 36 | 4,642 |
| Effect of movements in foreign exchange – depreciation and impairment losses | (291) | 1,804 | 310 | (55) | 0 | (274) | 1,494 |
| Accumulated depr. and impairment losses at 31 December 2006 | (8,038) | (297,035) | (24,888) | (5,680) | (532) | (2,022) | (338,195) |
| Balance at 31 December 2006 | 3,690 | 174,998 | 16,270 | 9,279 | 2,272 | 65,654 | 272,163 |

| (in NOK million) | Machinery, equipment and transportation equipment | Production plants oil and gas, incl. pipelines | Refining and manufacturing plants | Buildings and land | Vessels | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost at 31 December 2006 | 11,728 | 472,033 | 41,158 | 14,959 | 2,804 | 67,676 | 610,358 |
| Additions and transfers | 1,579 | 63,879 | 1,661 | 1,196 | 2,174 | (15,158) | 55,331 |
| Disposals assets at cost | (230) | (2,829) | (162) | (1,161) | (160) | (23) | (4,565) |
| Effect of movements in foreign exchange - assets | (198) | (9,869) | (1,557) | (178) | (121) | (3,570) | (15,493) |
| Cost at 31 December 2007 | 12,879 | 523,214 | 41,100 | 14,816 | 4,697 | 48,925 | 645,631 |
| Accumulated depr. and impairment losses at 31 December 2006 | (8,038) | (297,035) | (24,888) | (5,680) | (532) | (2,022) | (338,195) |
| Depreciation and amortisation for the year | (889) | (33,875) | (1,356) | (660) | (230) | 0 | (37,010) |
| Impairment losses for the year | 0 | (1,470) | (105) | 0 | 0 | 0 | (1,575) |
| Disposals depreciation | 174 | 2,820 | 118 | 618 | 158 | (16) | 3,872 |
| Effect of movements in foreign exchange – depreciation and impairment losses | 170 | 4,425 | 538 | 161 | 28 | 307 | 5,629 |
| Accumulated depr. and impairment losses at 31 December 2007 | (8,583) | (325,135) | (25,693) | (5,561) | (576) | (1,731) | (367,279) |
| Balance at 31 December 2007 | 4,296 | 198,079 | 15,407 | 9,255 | 4,121 | 47,194 | 278,352 |
| Estimated useful lives (years) on initial recognition | 3 - 10 | * | 15-20 | 20 - 33 | 20 - 25 | | |

In 2007 and 2006, capitalised borrowing cost amounted to NOK 2.7 billion and NOK 3.3 billion, respectively. In addition to depreciation, amortisation and impairment losses specified above, intangible assets, see note 12, have been amortised by NOK 787 million and NOK 351 million in 2007 and 2006, respectively.

Transfer of assets to Property, plant and equipment from Intangible assets in 2007 and 2006 amounted to NOK 3.2 billion and NOK 3.3 billion, respectively.

*Depreciation according to Unit of production, see note 2.

**Asset impairments**

In assessing whether a write-down is required in the carrying amount of a potentially impaired asset, the assets carrying amount is compared to the recoverable amount. Generally the recoverable amount of an asset is the Group's estimated value in use, which is determined using a discounted cash flow model. The estimated future cash flows are adjusted for risks specific to the asset and discounted in 2007 and 2006 using a real post-tax discount rate of 6.5% (2006 6.5%). The discount rate derives from the Group's post-tax weighted average cost of capital (WACC).

In 2007 an impairment charge of NOK 1.6 billion before tax was recorded in Depreciation, depletion and impairment losses related to International Exploration and Production assets (Property, plant and equipment) in the South China Sea and in the Gulf of Mexico and related to Manufacturing and Marketing assets (Property, plant and equipment) in Energy and Retail in Sweden.

In 2006 an impairment charge of NOK 5.2 billion before tax was recorded in Depreciation, depletion and impairment losses, mainly related to the International Exploration and Production assets (Property, plant and equipment) in the Gulf of Mexico, which amounted to NOK 4.9 billion before tax.

## 12. INTANGIBLE ASSETS

| (in NOK million) | Exploration expenditure | Other | Total |
|---|---|---|---|
| Cost at 31 December 2005 | 19,742 | 6,884 | 26,626 |
| Acquisitions through business combinations | 2,719 | 485 | 3,204 |
| Other additions | 10,216 | 44 | 10,260 |
| Disposals intangible assets at cost | (362) | (47) | (409) |
| Transfers of intangible assets | (3,343) | 0 | (3,343) |
| Exploration expenditures written off | (1,447) | 0 | (1,447) |
| Effect of movements in foreign exchange – intangible assets | (1,429) | (536) | (1,965) |
| Cost at 31 December 2006 | 26,096 | 6,830 | 32,926 |
| Accumulated amortisation and impairment losses at 31 December 2005 | 0 | (1,508) | (1,508) |
| Amortisation and impairment losses for the year | 0 | (351) | (351) |
| Disposals amortisation | 0 | 47 | 47 |
| Effect of movements in foreign exchange - Amortisation and impairment losses | 0 | 91 | 91 |
| Accumulated amortisation and impairment losses at 31 December 2006 | 0 | (1,721) | (1,721) |
| Book value at 31 December 2006 | 26,096 | 5,109 | 31,205 |

| (in NOK million) | Exploration expenditure | Other | Total |
|---|---|---|---|
| Cost at 31 December 2006 | 26,096 | 6,830 | 32,926 |
| Other additions | 23,237 | 742 | 23,979 |
| Disposals intangible assets at cost | 0 | (191) | (191) |
| Transfers of intangible assets | (3,090) | (79) | (3,169) |
| Exploration expenditures written off | (2,061) | 0 | (2,061) |
| Reversal of impaired exploration wells previously capitalised | 134 | 0 | 134 |
| Effect of movements in foreign exchange – intangible assets | (3,805) | (704) | (4,509) |
| Cost at 31 December 2007 | 40,511 | 6,598 | 47,109 |
| Accumulated amortisation and impairment losses at 31 December 2006 | 0 | (1,721) | (1,721) |
| Amortisation and impairment losses for the year | 0 | (787) | (787) |
| Disposals amortisation | 0 | 191 | 191 |
| Effect of movements in foreign exchange - Amortisation and impairment losses | 0 | 58 | 58 |
| Accumulated amortisation and impairment losses at 31 December 2007 | 0 | (2,259) | (2,259) |
| Book value at 31 December 2007 | 40,511 | 4,339 | 44,850 |

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised systematically over their estimated economic lives, ranging between 10-20 years.

Additions in Intangible assets of NOK 24 billion in 2007 relate mainly to capitalised signature bonuses and other exploration rights in connection with acquisition of assets from Anadarko Petroleum Corporation and North American Oil Sands Corporation.

Included in Other Intangibles is goodwill of NOK 3 billion.

The amortisation and impairment charges are recognised as depreciation, depletion and impairment losses in the Statement of income.

## 13. EQUITY ACCOUNTED INVESTMENTS

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Carrying amount equity accounted investments | 8,421 | 8,556 |
| Net income (loss) after tax from equity accounted investments | 609 | 679 |

Summary of financial information for significant associates accounted for by the equity method is shown below. StatoilHydro's investment in these companies is included in Equity accounted investments.

**Equity accounted investments – 100 per cent amounts**

| (in NOK million) | Country of incorporation | Assets | Liabilities | Revenues | Net income | Share held |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| South Caucasus PHC Ltd | Azerbaijan | 7,609 | 334 | 762 | 110 | 25.50% |
| BTC Pipeline Company | Azerbaijan | 29,593 | 2,626 | 6,826 | 3,173 | 8.71% |
| **2006** | | | | | | |
| South Caucasus PHC Ltd | Azerbaijan | 8,715 | 513 | 87 | 51 | 25.50% |
| BTC Pipeline Company | Azerbaijan | 31,600 | 1,770 | 2,535 | 532 | 8.71% |

South Caucasus Pipeline Holding Company Limited is responsible for operating a gas pipeline from Baku in Azerbaijan to Turkey. The pipeline became operational in 2007.

BTC Pipeline Company's operates the BTC (Baku-Tbilisi-Ceyhan) pipeline. The BTC company is organised as an entity where participants through contractual agreements have joint control of the entity. The entity consequently is reflected as an equity accounted investment.

## 14. NON-CURRENT FINANCIAL ASSETS

**Non-current financial investments**

| | At 31 December | |
|---|---|---|
| (in NOK million) | 2007 | 2006 |
| Available for sale investments | 3,291 | 2,262 |
| Commercial papers | 605 | 1,365 |
| Bonds | 7,140 | 5,785 |
| Marketable equity securities | 4,230 | 4,600 |
| Total non-current financial investments, see note 28 | 15,266 | 14,012 |

All non-current financial investments are recorded at fair value. Of the non-current financial investments, NOK 11,975 million relate to the investment portfolio held by the Group's captive insurance subsidiary and is accounted for using the fair value option. NOK 41 million of the Group's captive insurance subsidiary portfolio is used as collateral for trading with OTC instruments.

Fair value changes for available for sale investments are recognised in Equity - other reserves. Fair value changes for Commercial papers, Bonds and Marketable equity securities are recognised in the statement of income.

**Non-current financial receivables**

| (in NOK million) | At 31 December 2007 | 2006 |
|---|---|---|
| Interest bearing receivables | 2,784 | 3,202 |
| Non-interest bearing receivables | 731 | 1,139 |
| Total non-current financial receivables, see note 28 | 3,515 | 4,341 |

Of the interest-bearing receivables at 31 December 2007 a balance of NOK 934 million relates to the BTC project financing structure and NOK 1,086 million relates to the Sincor project financing structure. Corresponding balances for 31 December 2006 were NOK 1,133 million for the BTC structure and NOK 1,310 million for the Sincor structure.

## 15. INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Inventories of crude oil, refined products and non-petroleum products are determined under the first-in, first-out (FIFO) method.

The carrying amount of inventory at the beginning of the year has in all material respects been recognised as an expense through cost of goods sold during the year.

| (in NOK million) | At 31 December 2007 | 2006 |
|---|---|---|
| Crude oil | 8,097 | 6,537 |
| Petroleum products | 7,186 | 6,233 |
| Other | 2,413 | 2,486 |
| Total | 17,696 | 15,256 |

## 16. TRADE AND OTHER RECEIVABLES

| (in NOK million) | At 31 December 2007 | 2006 |
|---|---|---|
| Trade receivables | 62,060 | 57,926 |
| Receivables due from joint ventures | 6,115 | 4,294 |
| Receivables by equity accounted investments and other related parties | 1,203 | 139 |
| Total current trade and other receivables | 69,378 | 62,359 |

The majority of receivables are due within 30 days.

## 17. CURRENT FINANCIAL INVESTMENTS

| (in NOK million) | At 31 December 2007 | 2006 |
|---|---|---|
| Commercial papers | 3,204 | 825 |
| Other | 155 | 207 |
| Total current financial investments, see note 28 | 3,359 | 1,032 |

All current financial investments are recorded at fair value with gains and losses recognised in the Statement of income. All balances at 31 December 2007 are considered as held for trading investments. The cost price for current financial investments at 31 December 2007 and 2006 was NOK 3,400 million and NOK 912 million respectively.

## 18. CASH AND CASH EQUIVALENTS

| (in NOK million) | At 31 December 2007 | 2006 |
|---|---|---|
| Cash at bank | 3,837 | 2,764 |
| Time deposits with maturity of less than three months | 14,427 | 4,754 |
| Total cash and cash equivalents, see note 28 | 18,264 | 7,518 |

The overdraft bank balances and overdraft facilities are included under Current financial liabilities in note 20.

## 19. SHAREHOLDERS EQUITY

| (in NOK million, except share data) | Number of shares issued | Share capital | Treasury shares | Additional paid-in capital | Additional paid-in capital related to treasury shares | Retained earnings | Other reserves: Available for sale financial assets | Other reserves: Currency translation adjustments | StatoilHydro shareholders' equity | Minority interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 3,232,247,836 | 8,081 | (60) | 44,623 | (96) | 101,518 | 727 | 0 | 154,793 | 1,592 | 156,385 |
| Net income for the period | | | | | | 51,117 | | | 51,117 | 730 | 51,847 |
| Income and expense recognised directly in equity | | | | | | (958) | (277) | (3,817) | (5,052) | | (5,052) |
| Total recognised income and expense for the period* | | | | | | | | | | | 46,795 |
| Dividend paid | | | | | | (17,756) | | | (17,756) | | (17,756) |
| Cash distributions (to) from minority shareholders | | | | | | | | | | (748) | (748) |
| Reduction of share capital | (23,441,885) | (59) | 59 | | | | | | 0 | | 0 |
| Equity settled share based payments | | | | 61 | | | | | 61 | | 61 |
| Treasury shares purchased | | | (53) | | (3,509) | | | | (3,562) | | (3,562) |
| Merger related adjustments consist of change in merger balance with Norsk Hydro ASA | | | | | | (11,768) | | | (11,768) | | (11,768) |
| At 31 December 2006 | 3,208,805,951 | 8,022 | (54) | 44,684 | (3,605) | 122,153 | 450 | (3,817) | 167,833 | 1,574 | 169,407 |
| Net income for the period | | | | | | 44,096 | | | 44,096 | 545 | 44,641 |
| Income and expense recognised directly in equity | | | | | | 211 | 614 | (9,858) | (9,033) | | (9,033) |
| Total recognised income and expense for the period* | | | | | | | | | | | 35,608 |
| Dividend paid | | | | | | (25,694) | | | (25,694) | | (25,694) |
| Cash distributions (to) from minority shareholders | | | | | | | | | | (327) | (327) |
| Effectuation of annulment, see information below | (20,158,848) | (50) | 50 | (3,426) | 3,426 | | | | 0 | | 0 |
| Equity settled share based payments | | | | 112 | | | | | 112 | | 112 |
| Treasury shares purchased (net of allocated shares) | | | (2) | | (180) | | | | (182) | | (182) |
| Merger related adjustments | | | | | | 143 | | | 143 | | 143 |
| At 31 December 2007 | 3,188,647,103 | 7,972 | (6) | 41,370 | (359) | 140,909 | 1,064 | (13,675) | 177,275 | 1,792 | 179,067 |

* For detailed information, see Consolidated statements of recognised income and expense.

For information regarding changes in equity related to the merger with Hydro Petroleum, see information in note 3. Merger related adjustments in 2006 consists of change in the Norsk Hydro ASA merger receivable.

In 2001, 25,000,000 treasury shares were issued. During 2002 and 2003 a total of 1,558,115 of the treasury shares were distributed as bonus shares in favour of retail investors in the initial public offering in 2001. On 10 May 2006 the annual General Meeting resolved to reduce the Company's share capital by a total of NOK 58,604,712.50 through the annulment of rest of these treasury shares.

The annual General Meeting in 2006 authorised the Board of Directors to acquire treasury shares for subsequent annulment. Under an agreement with the Norwegian State a proportion of the State's shares should later be redeemed and annulled, so that the State's ownership interest remained unchanged. Both the acquired shares and the firm obligation have been included in Treasury shares since the date the treasury shares have been acquired in the market according to the authorisation. The extraordinary General Meeting on 5 July 2007 approved a reduction of the share capital by NOK 50,397,120 through the annulment of 5,867,000 acquired treasury shares, and redemption and annulment of an additional 14,291,848 shares held by the State. The State, represented by the Ministry of Petroleum and Energy, received a payment of NOK 2,441,899,894 for the shares. The amount corresponded to the average volume-weighted price of the Company's treasury shares acquired in the market with the addition of interest. As of 31 December 2007 the Norwegian State had an ownership interest in StatoilHydro of 65 per cent. The Norwegian State is defined as a related party, see note 26.

After the annulment, StatoilHydro's share capital of NOK 7,971,617,757.50 comprised 3,188,647,103 shares at a nominal value of NOK 2.50.

The Board of Directors is authorised on behalf of the Company to acquire StatoilHydro shares in the market. The authorisation may be used to acquire StatoilHydro shares with an overall nominal value of up to NOK 15 million. The Board decides the manner in which the acquisition of StatoilHydro shares in the market will take place. Such shares acquired in accordance with the authorisation may only be used for sale and transfer to employees of the StatoilHydro Group as part of the Group's share saving plan approved by the Board. The lowest amount which may be paid per share is NOK 50, the highest amount which may be paid per share is a maximum NOK 500. The authorisation is valid until the next ordinary General Meeting.

During 2007 a total of 1,272,790 treasury shares were purchased for NOK 217 million. At 31 December 2007 StatoilHydro had 2,195,213 treasury shares all of which are related to the Group's share saving plan.

StatoilHydro ASA has only one class of shares and all shares have voting rights. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Dividends declared and paid per share were NOK 9.12 and NOK 8.20 in 2007 and 2006, respectively for the former Statoil ASA. In addition, under terms of the merger plan Hydro Petroleum was charged the dividend payment of NOK 6.1 billion paid by Norsk Hydro ASA to its shareholders in 2007. Dividend payments for 2007 included in StatoilHydro's equity include both the former Statoil ASA and Hydro Petroleume dividend payments. A dividend for 2007 of NOK 8.50 per share, amounting to a total dividend of NOK 27.1 billion, will be proposed at the Annual General Meeting in May 2008. The proposed dividend is not recognised as a liability in the financial statements.

Retained earnings available for distribution of dividends at 31 December 2007 is limited to the retained earnings of the parent company based on Norwegian accounting principles and legal regulations and amounted to NOK 137,638 million (before provisions for proposed dividend for the year ended December 31, 2007 of NOK 27,085 million). This differs from retained earnings in the consolidated financial statements of NOK 140,909 million. In accordance with legal requirements dividends is not allowed to reduce the shareholders' equity of the parent company below 10 per cent of total assets.

## 20. FINANCIAL LIABILITIES

### Non-current financial liabilities

| | Weighted average interest rates in % | | Balance in NOK million at 31 December | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Financial liabilities measured at amortised cost** | | | | |
| **Unsecured debenture bonds** | | | | |
| US dollar (USD) | 7.00 | 7.07 | 17,418 | 20,348 |
| Norwegian kroner (NOK) | 6.21 | 4.00 | 500 | 500 |
| Euro (EUR) | 5.62 | 5.52 | 5,316 | 6,802 |
| Japanese yen (JPY) | 1.50 | 1.08 | 869 | 1,470 |
| Great British pounds (GBP) | 6.13 | 6.13 | 2,429 | 2,780 |
| Total | | | 26,532 | 31,901 |
| **Unsecured bank loans** | | | | |
| US dollar (USD) | 5.09 | 5.25 | 2,530 | 1,288 |
| **Secured bank loans** | | | | |
| US dollar (USD) | 7.45 | 7.29 | 2,683 | 3,335 |
| Other currencies | 6.57 | 4.60 | 80 | 333 |
| Financial lease liabilities | | | 4,011 | 2,764 |
| Other liabilities | | | 38 | 217 |
| Total | | | 9,342 | 7,937 |
| **Financial liabilities measured at amortised cost adjusted for fair value of hedged risk** | | | | |
| **Unsecured debenture bonds subject to hedge accounting** | | | | |
| US dollar (USD) | 6.29 | 6.29 | 7,845 | 8,708 |
| Euro (EUR) | 5.13 | 5.13 | 1,627 | 1,712 |
| Swiss franc (CHF) | 4.01 | 4.01 | 982 | 1,065 |
| Japanese yen (JPY) | 0.47 | 0.47 | 241 | 260 |
| Total | | | 10,695 | 11,745 |
| Grand total liabilities outstanding | | | 46,569 | 51,583 |
| Less current portion | | | 2,196 | 2,367 |
| Total non-current liabilities | | | 44,373 | 49,215 |

The table above contains amortised cost adjusted for fair value of hedged risk of loans per currency for the bonds that qualify for hedge accounting. The table therefore does not illustrate the economic effects of agreements entered into to swap the various currencies to USD. For further information see note 28.

Weighted average interest rates are calculated on the loans per currency and do not reflect swap agreements.

**Details of largest unsecured debenture bonds:**

| Bond agreement | Fixed interest rate | Maturity (year) | Balance in million NOK at 31 December 2007 | 2006 |
|---|---|---|---|---|
| USD 500 million | 6.500 % | 2028 | 2,675 | 3,091 |
| USD 500 million | 5.125 % | 2014 | 2,704 | 3,125 |
| USD 480 million | 7.250 % | 2027 | 2,600 | 3,014 |
| USD 375 million | 5.750 % | 2009 | 2,026 | 2,339* |
| USD 300 million | 7.750 % | 2023 | 1,623 | 1,882 |
| USD 300 million | 6.360 % | 2009 | 1,623 | 1,882 |
| EUR 500 million | 5.125 % | 2011 | 3,961 | 4,092 |
| EUR 300 million | 6.250 % | 2010 | 2,388 | 2,479 |
| GBP 225 million | 6.125 % | 2028 | 2,432 | 2,760 |

* Net after buy-backs NOK 1,765 million and NOK 2,035 million in 2007 and 2006, respectively.

Currency swaps are used for risk management purposes. Unsecured debenture bond liabilities are either denominated in US dollar, amounting to NOK 25,263 million and the amount swapped into US dollar, amounted to NOK 11,964 million. As a result of this the total portfolio is exposed to changes in the USDNOK exchange rate. None of the US dollar currency swaps entered into as economic hedges meet the criteria for hedge accounting. Interest rate swaps are used to manage the interest rate risk on the unsecured debentures bond contracts with fixed interest rates. As a result of this the majority of the portfolio is swapped from fixed to floating interest rate. Financial derivatives are not classified as interest bearing liabilities, and are therefore not included in the table above. For further information, see notes 27 and 28.

Substantially all unsecured debenture bond and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders.

The Group's secured bank loans in USD have been secured by guarantee commitments amounting to USD 45 million, mortgage of shares in a subsidiary and investments in associated companies with a combined book value of NOK 2,294 million, collateral in bank deposits with book value of NOK 2,020 million, and the Group's pro-rata share of income from certain applicable projects.

The Group has 31 debenture bond agreements outstanding, which contain provisions allowing the Group to call the debt prior to its final redemption at par if there are changes to the Norwegian tax laws or at certain specified premiums. The agreements carrying value is NOK 34,956 million at 31 December 2007 closing rate.

The Group has an agreement with an international bank syndicate for committed non-current revolving credit facility totaling USD 2.0 billion, all undrawn at 31 December 2007. The commitment fee is 0.0575 per cent per annum.

**Non-current financial liabilities repayment profile**

| ( in NOK million) | At 31 December 2007 | 2006 |
|---|---|---|
| 1-3 years | 8,097 | 8,131 |
| 3-5 years | 9,337 | 7,766 |
| After 5 years | 26,939 | 33,319 |
| Total repayment of non-current financial liabilities | 44,373 | 49,215 |

**Non-current financial liabilities**

| | At 31 December | |
|---|---|---|
| | 2007 | 2006 |
| Non-current financial liabilities (in NOK million) | 44,373 | 49,215 |
| Weighted average maturity (year) | 10 | 11 |
| Weighted average annual interest rate | 6.11% | 6.23% |

**Current Financial liabilities**

| | At 31 December | |
|---|---|---|
| ( in NOK million) | 2007 | 2006 |
| **Financial liabilities measured at amortised cost** | | |
| Bank loans and overdraft facilities | 1,100 | 596 |
| Current portion of non-current financial liabilities | 1,919 | 2,176 |
| Current portion of financial lease obligations | 277 | 191 |
| Other | 2,870 | 2,594 |
| Total current liabilities | 6,166 | 5,557 |
| Weighted interest rate | 5.56% | 4.85% |

As of 31 December 2007 and 2006, the Group had no committed short-term credit facilities drawn.

## 21. PENSION OBLIGATIONS

The Norwegian companies in the Group are obligated to follow the Act on Mandatory company pensions. The Company's pension scheme follows the requirement as included in the act.

StatoilHydro ASA and many of its subsidiaries have defined benefit retirement plans, which cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. The cost of pension benefit plans is expensed over the period that the employee renders services and becomes eligible to receive benefits. The obligations related to defined benefit plans are calculated by independent actuaries.

Some companies in the Group have defined contribution plans. The period's contributions are recognised in profit or loss as the pension cost for the period. In Norway, the Group has "agreement-based early retirement plan" (AFP) which is a defined benefit multi-employer plan. For this plan, the administrator is not able to calculate the Group's share of assets and liabilities and this plan is consequently accounted for as a defined contribution plan.

The obligations related to the defined benefit plans were measured at 31 December, 2007 and 2006. The present values of the projected defined benefit obligation and the related current service cost and past service cost are measured using the projected unit credit method. The assumptions for salary increases, increases in pension payments and social security base amount have been tested against historical observations.
At 31 December 2007 the discount rate for the defined benefit plans in Norway was estimated to be five per cent based on the long-term interest rate on Norwegian government bonds extrapolated based on a 30 year yield curve to match StatoilHydro's payment portfolio for earned benefits.

The longest duration of Norwegian government bonds are 10 years. StatoilHydro's opinion is that the most appropriate method to extrapolate the 10 years rate to a 30 year rate is based on the yield curves with reference to European and USA interest rates (equally weighted). These are countries with similar market trends and interest levels as in Norway.

The Norwegian Standard Accounting Board (NSAB) provided guidelines on how to determine assumptions for pensions. As of 31 December 2007, NSAB's guidance suggested a discount rate of 4.5 per cent based on extrapolating the Norwegian Government bond rate by using the yield curve of Norwegian interest rate swaps. This results in a declining Norwegian yield curve. Over time, StatoilHydro believes that the Norwegian yield curve is similar to the international yield curve and is best estimated using StatoilHydro's approach. This approach is consistent with previous periods and avoids inappropriate fluctuations from one year to another.

Actuarial gains and losses are recognised directly in retained earnings in the period in which they occur, and are presented in the statement of recognised income and expense.

Payroll tax is calculated based on the pension plan's net unfunded status. Payroll tax is included in the projected benefit obligation.

StatoilHydro has more than one defined benefit plan but the disclosure is made in total since the plans are not subject to materially different risks. Foreign plans are insignificant and are not disclosed separately.

**Net periodic pension cost**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Current service cost | 2,611 | 2,065 |
| Interest cost on prior years' benefit obligation | 1,713 | 1,421 |
| Expected return on plan assets | (1,829) | (1,407) |
| Amortisation of past service cost | 2,075 | 0 |
| Losses (gains) from curtailment or settelment | (1,641) | 0 |
| Defined benefit plans | 2,929 | 2,079 |
| Defined contribution plans | 160 | 155 |
| Multi-employer plans | 42 | 47 |
| Termination benefits | 8,633 | 49 |
| Total net pension cost | 11,764 | 2,330 |

Pension cost includes payroll tax.

StatoilHydro has made changes in the existing defined benefit plans (past service costs) due to harmonisation of the pension plans for employees in former Hydro and former Statoil. The benefits, which are already vested, amounted to NOK 2.1 billion and were recognised immediately as past service cost in 2007.

StatoilHydro ASA offered early retirement (termination benefits) to employees above the age of 58 years (contingent upon certain conditions). The expense related to termination benefits of NOK 5.6 billion and NOK 3.0 billion is recognised as Operating expenses and Selling, general and administration expenses, respectively. StatoilHydro has announced that a proportional part of the termination benefit costs will be charged to the partners in StatoilHydro operated licenses, refer to note 25. As a consequence of the early retirement scheme, StatoilHydro's existing pension obligations related to ordinary early retirement ("Avtalefestet pensjon") were reduced. The gain related to this curtailment effect was recognised in the statement of income in 2007.

The expense related to ordinary pension cost is recognised as Operating cost or Selling, general and administrative cost based on the function of the cost. Ordinary pension cost is partly charged to partners of StatoilHydro operated licences.

For information regarding pension benefits for key management personnel, refer to note 26 Related parties.

**Change in projected benefit obligation (PBO)**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Projected benefit obligation at 1 January | 40,185 | 33,083 |
| Current service cost | 2,611 | 2,065 |
| Interest cost on prior years' benefit obligation | 1,713 | 1,421 |
| Actuarial loss (gain) | 198 | 4,169 |
| Past service cost | 2,075 | 0 |
| Benefits paid | (605) | (481) |
| Curtailments | (1,641) | 0 |
| Termination benefits | 8,633 | 0 |
| Settlement | (329) | (63) |
| Foreign currency translation | (49) | (6) |
| Projected benefit obligation at 31 December | 52,791 | 40,188 |

**Change in pension plan assets**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Fair value of plan assets at 1 January | 30,110 | 25,624 |
| Expected return on plan asets | 1,829 | 1,407 |
| Actuarial gain (loss) | (236) | 1,139 |
| Company contributions (including payroll tax) | 3,777 | 2,301 |
| Benefits paid | (338) | (331) |
| Sale of business, settlements | 11 | (34) |
| Foreign currency translation | 5 | 4 |
| Fair value of plan assets at 31 December | 35,158 | 30,110 |

**Total provision for pensions**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Balance sheet provision at 1 January | (10,078) | (7,459) |
| Net periodic pension costs | (2,929) | (2,079) |
| Net actuarial loss (gain) recognised in the Consolidated statements of recognised income and expense | (434) | (3,030) |
| Less employer contributions/benefit paid during year | 4,047 | 2,451 |
| Settlement | 340 | 29 |
| Foreign currency translation | 54 | 10 |
| Termination benefits | (8,633) | 0 |
| Balance sheet provision at 31 December | (17,633) | (10,078) |

**Surplus (deficit) at 31 December:**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Surplus (deficit) at 31 December: | (17,633) | (10,078) |
| Represented by: | | |
| Asset recognised as pension asset | 1,622 | 1,113 |
| Liability recognised as non-current pension liability | (19,092) | (11,028) |
| Liability recognised as current liability | (163) | (163) |

**The defined benefit obligation may be analysed as follows:**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Funded pension plans | (33,278) | (29,649) |
| Unfunded pension plans | (19,513) | (10,539) |
| PBO at 31 December | (52,791) | (40,188) |

**Accumulated actuarial gains and losses recognised directly in retained earnings:**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Accumulated actuarial losses (gains) at 1 January | 0 | 0 |
| Actuarial losses (gains) on plan assets occured during the year | (272) | (1,139) |
| Actuarial losses (gains) on benefit obligaion occured during the year | 198 | 4,169 |
| Recognised in the Consolidated statements of recognised income and expense during the year | 74 | (3,030) |
| Accumulated actuarial losses (gains) at 31 December | 0 | 0 |

**Actual return on plan assets**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Actual return on plan assets | 1,593 | 2,546 |

**History of experienced gains and losses:**

| | 2007 | 2006 |
|---|---|---|
| Actual return less expected return on plan assets (NOK million) | 272 | 1,139 |
| As % of plan assets at beginning of year | 0.90% | 4.45% |
| Experienced gains/(losses) on plan liabilities (NOK million) | (198) | (4,169) |
| As % of present value of plan liabilities at beginning of year | (0.49%) | (12.60%) |
| Total actuarial gain/(loss) (NOK million) | 74 | (3,030) |
| As % of present value of plan liabilities at beginning of year | 0.25% | (9.16%) |

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense amounted to NOK 4.2 billion net of tax (negative effect on retained earnings).

| Assumptions for the year ended (Profit and Loss items) in % | 2007 | 2006 |
|---|---|---|
| Discount rate | 4.50 | 4.25 |
| Expected return on plan assets | 5.75 | 5.75 |
| Rate of compensation increase | 4.25 | 3.00 |
| Expected rate of pension increase | 2.75 | 2.50 |
| Expected increase of social security base amount (G-amount) | 4.00 | 2.75 |
| Inflation | 2.25 | 2.25 |

| Assumptions at end of year (Balance sheet items) in % | 2007 | 2006 |
|---|---|---|
| Discount rate | 5.00 | 4.50 |
| Expected return on plan assets | 6.25 | 5.75 |
| Rate of compensation increase | 4.50 | 4.25 |
| Expected rate of pension increase | 3.25 | 2.75 |
| Expected increase of social security base amount (G-amount) | 4.25 | 4.00 |
| Inflation | 2.25 | 2.25 |
| Average remaining service period in years | 15 | 15 |

The assumptions presented are for the Norwegian companies in the Group which are a part of StatoilHydro's pension fund. The defined benefit plans of other subsidiaries are not material to the pension assets and liabilities of the Group as a whole.

Expected turnover at 31 December 2007 was 4.0 per cent, 1.5 per cent, 1.3 per cent, 0.5 per cent and 0.0 per cent for the employees under 30 years, 30-39 years, 40-49 years, 50-59 years and 60-67 years, respectively. Expected turnover at 31 December 2006 was 5.0 per cent, 1.3 per cent, 1.2 per cent, 0.5 per cent and 0.0 per cent for the employees under 30 years, 30-39 years, 40-49 years, 50-59 years and 60-67 years, respectively.

Expected utilisation of Agreement-based early retirement pension (AFP) is 50 per cent for employees at 62 years and 30 per cent for employees at 63-66 years.

For the population in Norway, the mortality table K 2005 was used as the best estimate for mortality. The disability table, KU, developed by the insurance company Storebrand, aligns with the actual disability risk for StatoilHydro in Norway.

Below is shown a selection related to demographic assumptions used at 31 December 2007. The table shows the probability of disability or death, within one year, by age groups as well expected lifetime.

| | Disability in % | | Mortality in % | | Expected lifetime | |
|---|---|---|---|---|---|---|
| **Age** | **Men** | **Women** | **Men** | **Women** | **Men** | **Women** |
| 20 | 0.12 | 0.15 | - | - | 80.51 | 84.35 |
| 40 | 0.21 | 0.35 | 0.07 | 0.04 | 80.83 | 84.60 |
| 60 | 1.48 | 1.94 | 0.63 | 0.36 | 82.27 | 85.51 |
| 80 | N/A | N/A | 5.91 | 3.90 | 87.97 | 89.74 |

**Sensitivity analysis**

The table below shows an estimate of the potential effects of changes in the key assumptions for the defined benefit plans. The following estimates are based on facts and circumstances as of 31 December 2007. Actual results may materially deviate from these estimates.

| | Discount rate | | Rate of compensation increase | | Social security base amount | | Expected rate of pension increase | |
|---|---|---|---|---|---|---|---|---|
| **(in NOK million)** | **1%** | **-1%** | **1%** | **-1%** | **1%** | **-1%** | **1%** | **-1%** |
| Changes in pension: | | | | | | | | |
| Obligation | (8,295) | 11,001 | 6,339 | (5,156) | (2,251) | 2,307 | 6,622 | (5,444) |
| Net periodic benefit cost | (495) | 633 | 869 | (682) | (303) | 314 | 665 | (545) |

**Pension assets**

The plan assets related to the defined benefit plans were measured at 31 December 2007 and 2006. The long-term expected return on pension assets is based on long-term risk-free rate adjusted for the expected long-term risk premium for the respective investment classes.

In its asset management, the pension fund aims at achieving long-term returns which contribute towards meeting future pension liabilities. Assets are managed to achieve a return as high as possible within a framework of public regulation and prudent risk management policies. The pension fund's target returns require a need to invest in assets with a higher risk than risk-free investments. Risk is reduced through maintaining a well diversified asset portfolio. Assets are diversified both in terms of location and different asset classes. Derivatives are used within set limits to facilitate effective asset management.

**Pension assets allocated on respective investments classes**

| **(in %)** | **2007** | **2006** |
|---|---|---|
| Equity securities | 50.50 | 36.00 |
| Debt securities | 31.90 | 44.00 |
| Commercial papers | 8.60 | 11.00 |
| Real estate | 6.90 | 5.00 |
| Other assets | 2.10 | 4.00 |
| Total | 100.00 | 100.00 |

Properties owned by StatoilHydro pension fund amounted to NOK 1.1 billion of total pension assets as of 31 December 2007 and are rented to companies in the Group.

StatoilHydro's pension funds invest in both financial assets and real estate. The expected rate of return on real estate is expected to be between the rate of return on equity securities and debt securities. The table below presents the portfolio weight and expected rate of return of the finance portfolio, as approved by the Board of the Statoil pension funds for 2008.

**Finance portfolio StatoilHydros pension funds**

| (All figures in %) | Portfolio weight 1) | | Expected rate of return |
|---|---|---|---|
| Equity securities | 35.1 | (+/- 5) | X + 4 |
| Debt securities | 55.4 | (+/- 5) | X |
| Commercial papers | 9.5 | (+15/-0.5) | X -0.4 |
| Total finance portfolio | 100.0 | | |

1) The brackets express the scope of tactical deviation by Statoil Kapitalforvaltning ASA (the asset manager).
X) Long-term rate of return on debt securities.

Material company contributions are related to employees in Norway. This contribution may either be paid in cash or be deducted from the pension premium fund. On 31 December 2007, the pension premium fund amounted to NOK 7.3 billion. The decision whether to pay in cash or deduct from the pension premium fund is made on an annual basis. The company contribution in 2007, paid in cash, was NOK 3.4 billion (exclusive payroll tax) of which NOK 1.0 billion was a voluntary payment to the premium fund.

The expected company contribution for the next year amounts to NOK 2.2 billion.

## 22. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

| (in NOK million) | |
|---|---|
| Balance at 1 January 2006 | 30,570 |
| Liabilities incurred/revision in estimates | 12,082 |
| Amounts used and charged against provision | (438) |
| Unused amounts reversed | 0 |
| Effects of change in the discount rate | (3,372) |
| Reduction due to disposals | (127) |
| Accretion | 1,304 |
| Currency exchange difference | (107) |
| Balance at 31 December 2006 | 39,912 |
| Current portion of asset retirement obligations | 616 |
| Analysis of total provisions as at 31 December 2006 | |
| Non-current portion of asset retirement obligations | 39,296 |
| Other provisions | 2,877 |
| Non-current provisions at 31 december 2006 | 42,173 |
| Balance at 1 January 2007 | 39,912 |
| Liabilities incurred/revision in estimates | (1,644) |
| Amounts used and charged against provision | (636) |
| Unused amounts reversed | 0 |
| Effects of change in the discount rate | 443 |
| Reduction due to disposals | (120) |
| Accretion | 2,099 |
| Currency exchange difference | (473) |
| Balance at 31 December 2007 | 39,581 |
| Current portion of asset retirement obligations | 575 |
| Analysis of total provisions as at 31 December 2007 | |
| Non-current portion of asset retirement obligations | 39,006 |
| Other provisions | 4,839 |
| Non-current provisions at 31 December 2007 | 43,845 |

**Asset retirement obligations**

A majority of expenditures related to asset retirement obligations are currently expected to be paid in the period between 2015 and 2025. Only a minor portion of expenditures are expected to be paid in the next five years. The timing depends primarily on when the production ceases at the various facilities. For further discussion of methods applied and estimates required, refer to note 2.

Obligations related to environmental remediation and cleanup related to oil and gas producing assets are included in the estimated asset retirement obligations.

## 23. TRADE AND OTHER PAYABLES

| (in NOK million) | At 31 December 2007 | 2006 |
|---|---|---|
| Trade payables | (21,776) | (16,122) |
| Non-trade payables and accrued expenses | (29,918) | (31,921) |
| Payables to associated companies and other related parties | (12,930) | (7,552) |
| Total | (64,624) | (55,595) |

Non-trade payables and accrued expenses include provisions for certain claims and litigations that are further described in note 25, Other commitments and contingencies.

## 24. LEASES

StatoilHydro leases certain assets, notably vessels and drilling rigs.

StatoilHydro has entered into certain operational lease contracts for a number of drilling rigs as of 31 December 2007. The remaining significant contracts' terms range from three months to eight years. Certain contracts contain renewal options. Rig lease agreements are for the most part based on fixed day rates. StatoilHydro's rig leases have been entered into in order to ensure drilling capacity for sanctioned projects and planned wells and to secure long-term strategic capacity for future exploration and production drilling. Certain rigs have been subleased in whole or for parts of the lease term for the most part to StatoilHydro-operated licenses on the NCS. These leases are shown gross as operating leases in the table below. However, for rig leases where the joint venture is the original lessee, StatoilHydro only includes its proportional share of the rig lease.

As a member of the Snøhvit sellers' group StatoilHydro has entered into leasing arrangements for three LNG vessels on behalf of StatoilHydro and the SDFI respectively. StatoilHydro accounts for the combined StatoilHydro and the SDFI share of these agreements as financial leases in the balance sheet, and further accounts for the SDFI related portion as operating sub-leases. The finance leases included in the balance sheet reflect a leasing term of 20 years. In addition, StatoilHydro has the option to extend the leases for two additional periods of five years each.

In 2007, gross rental expense was NOK 7,168 million of which minimum lease payments were NOK 7,111 million and sublease payments received were NOK 1,484 million. In 2006 gross rental expense was NOK 5,853 million and sublease payments received were NOK 1,002 million.

The information in the table below shows future minimum lease payments under non-cancelable leases at 31 December 2007. In addition, StatoilHydro has entered into subleases of certain of the leased assets providing a total future rental income of NOK 5,941 million.

Amounts related to financial leases include future minimum lease payments for assets in the financial statements at year-end 2007.

| | | Financial lease | | |
|---|---|---|---|---|
| (in NOK million) | Operating leases | Minimum lease payments | Interest | Principal |
| 2008 | 10,892 | 435 | 15 | 420 |
| 2009 | 12,442 | 429 | 29 | 400 |
| 2010 | 10,012 | 401 | 44 | 357 |
| 2011 | 7,822 | 417 | 57 | 360 |
| 2012 | 5,344 | 408 | 59 | 349 |
| Thereafter | 7,844 | 3,649 | 1,525 | 2,124 |
| Total future minimum lease payments | 54,356 | 5,739 | 1,729 | 4,010 |

Property, plant and equipment include the following amounts for leases that have been capitalised at 31 December 2007 and 2006.

| | For the year ended 31 December | |
|---|---|---|
| (in NOK million) | 2007 | 2006 |
| Vessels and equipment | 5,503 | 3,227 |
| Accumulated depreciation | (836) | (348) |
| Capitalised amount | 4,667 | 2,879 |

## 25. OTHER COMMITMENTS AND CONTINGENCIES

### Contractual commitments

| (in NOK million) | 2008 | 2009 | Thereafter | Total |
|---|---|---|---|---|
| Joint Venture related: | | | | |
| Contractual commitments related to construction in progress | 10,220 | 6,306 | 6,762 | 23,288 |
| Contractual commitments related to other investments and property, plant and equipment | 1,819 | 1,106 | 171 | 3,096 |
| Contractual commitments related to acquisition of intangible assets | 450 | 25 | 14 | 489 |
| Subtotal joint venture related commitments | 12,489 | 7,437 | 6,947 | 26,873 |
| Non Joint Venture related: | | | | |
| Contractual commitments related to construction in progress | 700 | 92 | 0 | 792 |
| Contractual commitments related to other investments and property, plant and equipment | 26 | 26 | 81 | 133 |
| Contractual commitments related to acquisition of intangible assets | 6 | 6 | 0 | 12 |
| Subtotal Non Joint Venture related commitments | 732 | 124 | 81 | 937 |
| Total | 13,221 | 7,561 | 7,028 | 27,810 |

The contractual commitments mainly comprise construction and acquisition of property, plant and equipment.

StatoilHydro has entered into agreements for pipeline transportation for most of its prospective gas sales contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to pay for booked capacity. In addition, the Group has entered into certain obligations for other forms of transport capacity as well as terminal, processing, storage and entry capacity commitments. The following table outlines nominal minimum obligations for future years. Corresponding expenditures for 2007 and 2006 were NOK 8,900 million and NOK 8,519 million, respectively.

StatoilHydro has entered into a number of general or field specific long-term frame agreements mainly related to crude oil loading and transport capacity availability. The main contracts run up until the end of the respective field lives. Such contracts have not been included in the below table of contractual commitments unless they entail specific minimum payment obligations.

Obligations payable by the Group to unconsolidated equity associates are included gross in the table below. Where the Group reflects both ownership interests and transport capacity cost for a pipeline in the consolidated accounts, the amounts in the table include the net transport commitment payable for StatoilHydro.

Transport capacity and other contractual commitments at 31 December 2007:

| (in NOK million) | |
|---|---|
| 2008 | 8,500 |
| 2009 | 6,908 |
| 2010 | 6,914 |
| 2011 | 6,891 |
| 2012 | 5,993 |
| Thereafter | 37,455 |
| Total | 72,661 |

StatoilHydro has contractual commitments to the U.S.-based energy company Dominion for terminal capacity at the Cove Point liquefied natural gas terminal in the USA. As of 2009 the commitment will include an annual capacity of approximately 10,1 bcm for a 20 year period. Such commitments have been included in full in the table above, but have been made in part on behalf of and for the account and risk of the SDFI. StatoilHydro's and the SDFI's respective future shares of the Cove Point terminal capacity and related commitments are subject to future consideration, and the outcome may consequently impact the extent of the future net terminal capacity and related net commitments assumed by StatoilHydro.

**Guarantees**

Statoil Detaljhandel has issued guarantees amounting to a total of SEK 1.1 billion (NOK 0.9 billion), the main part of which relates to financial guarantee commitments to and on behalf of retailers. The liability recognized at fair value under IAS 39 related to these guarantee commitments is immaterial at year end.

StatoilHydro has guaranteed certain recoverable reserves of crude oil in the Veslefrikk field on the NCS as part of an asset exchange with Petro Canada in 1996. Under the guarantee, StatoilHydro is obligated to deliver indemnity reserves to Petro Canada in the event that recoverable reserves prove lower than a specified volume. At year end 2007 the value of the remaining volume covered by the guarantee has been estimated to a total of NOK 2,327 million at current market prices. The provision made under IAS 37 for this guarantee is immaterial at year end.

**Insurance**

The Company has taken out insurance to cover certain potential liabilities arising from its operations world wide. This covers liabilities for claims arising from pollution damage. Most of the Group's production installations are covered through Statoil Forsikring a.s, which reinsures parts of the risk in the international insurance market. As all significant activities of Statoil Forsikring relates to insurance for entities and operations consolidated in the group accounts, IFRS 4 has not been applied to such activities in the group financial statements.

Statoil Forsikring a.s is member of two mutual insurance companies, Oil Insurance Ltd and sEnergy Insurance Ltd. sEnergy ceased operations on May 15, 2006 and the company is in the wind-up phase. Membership in these companies means that Statoil Forsikring is liable for its proportionate share of any losses which might arise in connection with the business operations of the companies. Members of the companies have joint and several liability for any losses that arise within the insurance pool.

**Other commitments and contingencies**

As a condition for being awarded oil and gas exploration and production licenses, participants may be committed to drill a certain number of wells. At the end of 2007, StatoilHydro was committed to participate in 28 wells in Norway and 41 wells outside Norway, with an average ownership interest of approximately 47 per cent. StatoilHydro's share of estimated expenditures to drill these wells amounts to approximately NOK 11 billion. Additional wells that StatoilHydro may become committed to participate in depending on future discoveries in certain licenses are not included in these numbers.

The Petrocedeño project (former Sincor project) involves the exploitation of extra heavy crude oil from the reservoirs in the Orinoco Belt. In 2007, the Decree-Law 5.200 for Migration mandated the transformation of Sincor and other oil projects into incorporated joint ventures with minimum majority participation by the Venezuelan state of 60%. As a result, our participation in Sincor has been reduced from 15% to 9.677% with effect after year end 2007. The agreed terms and conditions also include compensation for dilution of participating interest. The remaining interest in Sincor will continue to be reflected in the Consolidated Financial Statements under the equity method as StatoilHydro will have significant influence over the new company.

The new company will be known as Petrocedeño, S.A and was incorporated in late 2007. In early January 2008, Perocedeño was authorized to undertake oil activities, including upgrading extra heavy oil and will therefore conduct the operations of Sincor.

The lenders to the former Sincor project have agreed to become lenders to Petrocendeño S.A. The restructured financing became effective on 18 March 2008.

A group of Norwegian pensioners has brought legal proceedings against StatoilHydro ASA over certain changes made to the pension fund articles of association in 2002, relating to the basis for adjustment of pension payments after that date. Stavanger District Court ruled in favour of StatoilHydro in the first quarter of 2007. The Gulating Court of Appeal ruled in favour of the pensioners in the fourth quarter of 2007. The verdict has been appealed to the Supreme Court by StatoilHydro on 28 December 2007. The accounting effect of an ultimately adverse verdict for StatoilHydro has been estimated at approximately NOK 3 billion before tax.

StatoilHydro ASA issued a declaration to the Norwegian Ministry of Petroleum and Energy (MPE) in 1999 in connection with a dispute between four Åsgard partners and StatoilHydro related to the construction of new facilities for the Åsgard development at the Kårstø Terminal. The declaration confirmed that the MPE will receive similar treatment as the four Åsgard partners with respect to the disputed issues. The MPE has indicated that a claim will be presented based on the declaration.

The price review of two long-term natural gas contracts are currently in arbitration. Contractual price for a total volume of 6.2 billion cubic meters of gas delivered as of 31 December 2007 and for future deliveries under these contracts may be positively or negatively affected by the arbitration verdict, the final outcome of which cannot be determined at this time.

StatoilHydro ASA has decided to offer early retirement packages to employees above the age of 58 years (contingent upon certain conditions). The offer is divided in two phases, employees working onshore (first phase) and employees working offshore and on onshore plants and terminals (second phase). StatoilHydro has announced that a proportional part of these costs will be charged to the partners in StatoilHydro operated licences. The receivable (contingent asset) related to first phase is approximately NOK 2 billion, whereas the receivable related to the second phase is currently not determined.

StatoilHydro was informed on 26 September 2007 of possible consultancy agreements and transactions associated with Hydro's operations in Libya that could be in conflict with applicable Norwegian and US anti-corruption legislation. Hydro's petroleums activities in Libya were transferred to StatoilHydro as of 1 October 2007 as part of the merger with Hydro's petroleum business. Following a preliminary assessment by StatoilHydro's corporate audit function, Chief Executive Helge Lund resolved in consultation with the StatoilHydro board to initiate an external review of the relevant aspects. The purpose is to determine the facts relevant to applicable Norwegian and US anti-corruption legislation to which StatoilHydro may be subject as a result of those operations. The US law firm Sidley Austin LLP is in the process of carrying out the review together with Norwegian law firm Simonsen Advokatfirma DA, supported by StatoilHydro's corporate audit function. Other consultancy agreements relating to Hydro's international petroleum operations will also be reviewed. Both Hydro and StatoilHydro are cooperating on securing the documentation and information required to establish the facts of the matter.

During the normal course of its business StatoilHydro is involved in legal proceedings, and several other unresolved claims are currently outstanding. The ultimate liability or asset, respectively, in respect of such litigation and claims cannot be determined at this time. StatoilHydro has provided in its accounts for probable liabilities related to litigation and claims based on the Company's best judgement. StatoilHydro does not expect that the financial position, results of operations or cash flows will be materially affected by the resolution of these legal proceedings.

## 26. RELATED PARTIES

**Transactions with the Norwegian State**

The Norwegian State is the majority shareholder of StatoilHydro and also holds major investments in other entities. This ownership structure means that StatoilHydro participates in transactions with many parties that are under a common ownership structure and therefore meet the definition of a related party. All transactions are considered to be on a normal arms-length basis.

The ownership interests of the Norwegian State in StatoilHydro are held by the Norwegian Ministry of Petroleum and Energy (MPE). The following transactions were made between StatoilHydro and MPE for the years presented:

Total purchases of oil and natural gas liquid from the Norwegian State amounted to NOK 98,498 million, (237 million barrels oil equivalents) and NOK 104,628 million (254 million barrels oil equivalents) in 2007 and 2006, respectively. Purchases of natural gas from the Norwegian State (excluding purchases from licenses) amounted to NOK 287 million and NOK 293 million in 2007 and 2006, respectively. Amounts payable to the Norwegian State for these purchases are included in Accounts payable - see note 23 .

StatoilHydro is, in its own name, but for the Norwegian State's account and risk, selling the State's natural gas production. These sales, as well as related expenditures refunded by the State, are presented net in StatoilHydro's financial statements.

**Other transactions**
In relation to its ordinary business operations such as pipeline transport, gas storage and processing of petroleum products, StatoilHydro also has regular transactions with certain unconsolidated affiliated entities. Such transactions are carried out on an arm's length basis, and are included within the applicable captions in the Statements of income.

**Compensation of key management personnel**
The remuneration to key management personnel (members of Board of Directors and Executive Committee) during the year was as follows:

| (in NOK) | 2007 | 2006 |
|---|---|---|
| Current benefits | 44,463,395 | 41,601,519 |
| Post-employment benefits | 17,414,247 | 13,938,077 |
| Other non-current benefits | 110,778 | 135,080 |
| Share-based payment benefits | 94,015 | 39,788 |

Loans to key management total less than NOK 0.4 million.

## 27. FINANCIAL RISK MANAGEMENT

**General information relevant to risks**
StatoilHydro's overall risk management approach includes identifying, evaluating, and managing risk in all our activities. We manage risk to secure safe operations and to reach our corporate goals in compliance with our requirements. Overall risk management means that StatoilHydro:

- has a risk and reward focus at all levels in the organisation
- evaluates significant risk exposure related to major commitments
- manages and coordinates risk at corporate level

StatoilHydro divides risk management into three categories:

(1) Strategic risks which are long-term fundamental risks monitored by our Corporate Risk Committee. Our Corporate Risk Committee, which is headed by our Chief Financial Officer and which includes, among others, representatives from our principal business segments, is responsible for reviewing, defining and developing our strategic market risk policies. The Committee meets monthly to determine our risk management strategies, including hedging and trading strategies and valuation methodologies.
(2) Tactical risks which are short-term trading risks based on underlying exposures managed by our principle business segment line managers, and
(3) Insurable risks which are managed by our captive insurance company operating in the Norwegian and international insurance markets.

To address our strategic and tactical risks, we have developed policies aimed at managing the volatility inherent in certain of these natural business exposures, and in accordance with these policies we enter into various financial and commodity-based transactions (derivatives).

StatoilHydro's activities expose it to various financial risks: market risk (including interest rate risk, currency risk, equity price risk, and commodity price risk), liquidity risk, and credit risk.

In 2007, StatoilHydro merged with Hydro Petroleum and as a result assumed various financial risks previously managed according to Hydro Petroleum's risk management objectives, policies and procedures. StatoilHydro's and Hydro Petroleum's management of these types of financial risks may have been different however StatoilHydro is not aware of significant differences for the periods presented. Effective 1 October 2007, all financial instruments and risks are managed in accordance with StatoilHydro's risk management objectives, policies and procedures.

**Market risk management**
StatoilHydro operates in the worldwide crude oil, refined products, natural gas, and electricity markets and is exposed to such market risks as fluctuations in hydrocarbon prices, foreign currency rates, interest rates, and electricity prices that can affect the revenues and costs of operating, investing and financing. These risks are managed on a long and short term basis, with focus on what is best for StatoilHydro in order to achieve optimal risk adjusted returns.

StatoilHydro has established an Enterprise-Wide Risk Management Program, which establishes guidelines for entering into contractual arrangements (derivatives) to manage its commodity price, foreign currency rate, and interest rate risk. Within the program, StatoilHydro has developed a comprehensive model, which encompasses our most significant market and operational risks and takes into account correlation, different tax regimes, capital allocation on various levels and value at risk, or VaR, figures on different levels, with the goal of optimising risk adjusted return.

StatoilHydro has used and intends to use financial and commodity-based derivatives to manage the risks in overall earnings and cash flows. StatoilHydro uses swaps, options, futures, and forwards to manage its exposure to changes in the value of future cash flows primarily from future purchases and sales of crude oil and refined oil products. The term of the oil and refined oil products derivatives is usually less than one year. Natural gas and electricity swaps, options, forwards, and futures are likewise utilised to manage StatoilHydro's exposure to changes in the value of future sales of natural gas and electricity. These derivatives usually have terms of approximately three years or less. Swaps are used by StatoilHydro to manage interest rate risk related to our long-term debt portfolio.

**Strategic market risk**

We define strategic market risks as long-term risks fundamental to the operation of our business. These risks are monitored and reviewed with the objective of avoiding sub-optimisation, reducing the likelihood of experiencing financial distress and supporting the Group's ability to finance future growth even under adverse market conditions. Based on these objectives, policies and procedures have been implemented to reduce our overall exposure to strategic risks.

***Tactical market risk***

All tactical risk management activities occur within and are continuously monitored against established mandates.

***Commodity price risk***

Commodity price risk constitutes our most important tactical market risk. To minimise the commodities price volatility and match costs with revenues, we enter into commodity-based derivative contracts, which consist of futures, options, over-the-counter (OTC) forward contracts, market swaps and contracts for differences related to crude oil, petroleum products, natural gas and electricity.

Derivatives associated with crude oil and petroleum products are traded mainly on the International Petroleum Exchange (IPE) in London, the New York Mercantile Exchange (NYMEX), the OTC Brent market, and in crude and refined products swaps markets. Derivatives associated with natural gas and electricity are mainly OTC physical forwards and options, Nordpool forwards, and futures traded on the NYMEX and IPE.

***Currency and interest rate risk***

We are subject to foreign exchange and interest rate risk which are assessed on a portfolio basis in accordance with approved strategies and mandates. In market risk management and in trading, we use only well-understood, conventional derivative instruments. These include futures and options traded on regulated exchanges, OTC swaps, options and forward contracts.

Fluctuations in exchange rates can have significant effects on our results. Our cash inflows are largely denominated in or driven by U.S. dollars while our cash outflows, such as operating expenses and taxes payable, are to a large extent in NOK. Accordingly, our exposure to foreign currency rates exists primarily with U.S. dollars versus NOK. We seek to manage this currency mismatch by issuing or swapping non-current financial debt into U.S. dollars.

The existence of assets earning and liabilities owing variable rates of interest expose us to the risk of interest rate fluctuations. We enter into various types of interest rate contracts in managing our interest rate risk. We enter into interest rate derivatives, particularly interest rate swaps, to alter interest rate exposures, to lower funding costs and to diversify sources of funding. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between interest amounts calculated by reference to an agreed notional principal amount and agreed fixed or floating interest rates.

**Interest rate management**

We principally manage our interest rates on the basis that the non-current debt portfolio shall have floating rate interest payments. The modified duration (the percentage change in value for one percentage point change in yield) expresses the way we monitor the interest rate risk. Generally, our modified duration shall be between 0 and 0.5 per cent. Exceptions can from time to time be approved if justified by factors such as corporate risk considerations, tax considerations, large non-recurring transactions, credit rating concerns, etc.

**Liquidity risk management**

The purpose of liquidity management and short term funding is to make certain that StatoilHydro at all times has sufficient funds available to cover financial obligations.

StatoilHydro's business activities often generate, on a monthly basis, a positive cashflow from operations. However, in months when taxes are paid (April and October) or annual dividend is paid (typically in May/June) cashflows are typically limited.

The amount of liquid assets will, as a rule, follow a cyclical pattern and increase from month to month, with an exception for months with tax or dividends payments when the amount is sharply reduced. In the period following tax and dividend payments the amount of liquid assets will often be significantly reduced. A need for short-term funding will then be triggered for a period until the debt is repaid and subsequently followed by a new accumulation of liquid assets.

Short-term funding can be carried out bilaterally through direct borrowing from banks, insurance companies, etc. An alternative is to issue short term debt securities under one of the existing funding programs or under documentation established ad hoc. These funding programs are as follows:

- A USD 2 billion US commercial paper programme. This is the most flexible program which is used for working capital, including timing issues on corporate tax and dividend payments, as well as for periodic acquisition financing,
- A USD 2 billion committed multi-currency revolving credit facility from international banks, including a USD 500 million swing-line facility. The facility was entered into in 2004, and is available for draw-downs until December 2011. This facility is primarily intended as a «back-up» facility for the US commercial paper programme, and should be regarded as support for the credit rating of this program.
- Uncommitted credit lines. Short-term funding source occasionally required beyond the other short-term programmes and accumulated cash. In order to have access to sufficient liquidity at all times, StatoilHydro shall maintain a minimum liquidity reserve.

**Liquid assets as at 31 December**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Cash and cash equivalents | 18.3 | 7.5 |
| Financial investments | 3.3 | 1.0 |
| Total liquid assets | 21.6 | 8.5 |

**Funding and liability management**
As a basic principle StatoilHydro separates investment decisions from financing decisions. Funding needs arise as a result of the Group's general business activity. The main rule is to establish financing at corporate level. Project financing may be applied in cases involving joint ventures with other companies.

StatoilHydro aims at all times to maintain access to a variety of funding sources, both in respect of instruments and geography, and maintains relationships with a core group of international banks that provide various kinds of banking and funding services.

StatoilHydro has credit ratings from Moody's and Standard & Poor's. The stated objective is to have a credit rating at least within the single A category. This rating ensures necessary predictability when it comes to funding access at favorable terms and conditions. Our current long-term ratings are Aa2 and AA- from Moody's and Standard & Poor's respectively. The short-term rating from Moody's is P-1 and A-1+ from Standard & Poor's.

In order to control StatoilHydro's refinancing risk the maturity and redemption profile of non-current debt issued shall be managed within certain limitations. The limits are expressed as maximum annual mandatory redemptions as a share of StatoilHydro's capital employed.

Liquidity forecasts serve as tools for financial planning. In order to maintain necessary financial flexibility, StatoilHydro has requirements for maximum (forecasted) current debt and minimum (forecasted) liquidity reserve. Issuance of long term debt is used as a tool for reducing current debt and/or increasing the liquidity reserve. New non-current funding will be initiated if liquidity forecasts reveal non-compliance with given limits, unless further detailed considerations indicates that the non-compliance is likely very temporary. In this case, the situation will be further monitored before additional non-current debt is drawn.

For further information on our debenture bonds, bank loans, and other debt portfolio profile, see Notes to financial statements 20, Financial liabilities.

**Credit risk management**
Theoretically, the group's maximum credit exposure for financial assets is the aggregated balance sheet carrying amounts of financial investments (excluding equity investments of NOK 7.5 billion in 2007 and NOK 6.9 billion in 2006), derivative financial instruments, financial receivables, trade and other receivables, and cash and cash equivalents. StatoilHydro attempts to significantly reduce this exposure through its credit risk management policies and procedures.

StatoilHydro manages credit risk concentration with respect to financial instruments by holding only investment grade securities distributed among a variety of selected issuers. A list of authorised investment limits by commercial issuer is maintained and reviewed regularly along with guidelines which include an assessment of the financial position of counter-parties as well as requirements for collateral.

Credit risk related to commodity-based instruments is managed by maintaining, reviewing and updating lists of authorised counter-parties by assessing their financial position. StatoilHydro frequently monitors credit exposure for each counter-party, establishes internal credit lines for the counterparty, and requires collateral or guarantees when appropriate under contracts and as required by internal policies. Collateral will typically be in the form of cash or bank guarantees from highly rated international banks.

Credit risk related to interest rate swaps and currency swaps, which are OTC transactions, is derived from the counter-parties to these transactions. Counter-parties are highly rated financial institutions. The credit ratings are at a minimum reviewed annually and counter-party exposure is monitored on a continuous basis to ensure exposure does not exceed credit lines and complies with internal policies. Non-debt-related foreign currency swaps usually have terms of less than one year, and the terms of debt-related-interest swaps and currency swaps are up to 22 years, in line with that of corresponding hedged or risk managed non-current debenture bonds or bank loans.

The credit risk concentration with respect to receivables is limited due to the large number of counter-parties spread worldwide in numerous industries.

The following table contains the fair market value of open non-exchange traded derivative assets split by our assessment of the counter-party's credit risk:

| (in NOK million) | At 31 December 2007 | 2006 |
|---|---|---|
| Counter-party rated: | | |
| Investment grade, rated A or above | 19,647 | 17,326 |
| Other investment grade | 928 | 1,805 |
| Non-investment grade or not rated | 689 | 416 |

As of 31 December 2007, NOK 2.8 billion in collateral is available to the Group to offset a portion of this credit exposure.

Credit rating categories in the table above are based on the Group's internal credit rating policies, and do not always correspond directly with ratings issued by the major credit rating agencies due to internal evaluation criteria. Consistent with StatoilHydro policies, commodity derivative counter-parties have been assigned credit ratings corresponding to those of their respective parent companies. If the parent company is highly rated, it may not be necessary to obtain a parent company guarantee from such a counter-party.

## 28. FINANCIAL INSTRUMENTS BY CATEGORY

***Fair values of financial instruments by category***

The tables below provide a comparison of carrying amounts and fair values of all the Group's financial instruments including derivative financial instruments.

| | | | Fair value through profit or loss | | | |
|---|---|---|---|---|---|---|
| (in NOK million) | Loans and receivables | Available-for-sale | Held for trading | Fair value option | Total carrying amount | Fair value |
| **31 December 2007** | | | | | | |
| **Assets as per balance sheet** | | | | | | |
| Non-current financial investments | 0 | 3,291 | 0 | 11,975 | 15,266 | 15,266 |
| Non-current derivative financial instruments | 0 | 0 | 609 | 0 | 609 | 609 |
| Non-current financial receivables | 3,515 | 0 | 0 | 0 | 3,515 | 3,515 |
| Current trade and other receivables | 69,378 | 0 | 0 | 0 | 69,378 | 69,378 |
| Current derivative financial instruments | 0 | 0 | 21,093 | 0 | 21,093 | 21,093 |
| Current financial investments | 0 | 0 | 3,359 | 0 | 3,359 | 3,359 |
| Cash and cash equivalents | 18,264 | 0 | 0 | 0 | 18,264 | 18,264 |
| Total | 91,157 | 3,291 | 25,061 | 11,975 | 131,484 | 131,484 |

| (in NOK million) | Loans and receivables | Available-for-sale | Fair value through profit or loss: Held for trading | Fair value through profit or loss: Fair value option | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **31 December 2006** | | | | | | |
| **Assets as per balance sheet** | | | | | | |
| Non-current financial investments | 0 | 2,262 | 0 | 11,750 | 14,012 | 14,012 |
| Non-current derivative financial instruments | 0 | 0 | 450 | 0 | 450 | 450 |
| Non-current financial receivables | 4,341 | 0 | 0 | 0 | 4,341 | 4,341 |
| Current trade and other receivables | 81,046 | 0 | 0 | 0 | 81,046 | 81,046 |
| Current derivative financial instruments | 0 | 0 | 21,323 | 0 | 21,323 | 21,323 |
| Current financial investments | 0 | 0 | 1,032 | 0 | 1,032 | 1,032 |
| Cash and cash equivalents | 7,518 | 0 | 0 | 0 | 7,518 | 7,518 |
| Total | 92,905 | 2,262 | 22,805 | 11,750 | 129,722 | 129,722 |

Financial assets are measured at fair value or their carrying amounts reasonably approximate fair value. See note 2, Significant accounting policies, and note 29, Financial instruments and hedging activities, for further information regarding measurement of fair values.

| (in NOK million) | Amortised cost | Fair value through profit or loss | Total carrying amount | Fair value |
|---|---|---|---|---|
| **31 December 2007** | | | | |
| **Liabilities as per balance sheet** | | | | |
| Non-current financial liabilities | 44,373 | 0 | 44,373 | 47,278 |
| Non-current derivative financial instruments | 0 | 1 | 1 | 1 |
| Current trade and other payables | 64,624 | 0 | 64,624 | 64,624 |
| Current financial liabilities | 6,166 | 0 | 6,166 | 6,166 |
| Current derivative financial instruments | 0 | 7,632 | 7,632 | 7,632 |
| **Total** | **115,163** | **7,633** | **122,796** | **125,701** |
| **31 December 2006** | | | | |
| **Liabilities as per balance sheet** | | | | |
| Non-current financial liabilities | 49,215 | 0 | 49,215 | 53,014 |
| Non-current financial instruments | 0 | 66 | 66 | 66 |
| Current trade and other payables | 55,595 | 0 | 55,595 | 55,595 |
| Current financial liabilities | 5,557 | 0 | 5,557 | 5,557 |
| Current derivative financial instruments | 0 | 6,549 | 6,549 | 6,549 |
| **Total** | **110,367** | **6,615** | **116,982** | **120,781** |

Financial liabilities' carrying amounts reasonably approximate fair value except the fair values of non-current financial liabilities which have been determined by using year-end market interest rates to calculate discounted cashflows. See note 2, Significant accounting policies, and note 29, Financial instruments and hedging activities, for further information regarding measurement of fair values.

The following table includes amounts from the Statement of income related to financial instruments.

| (in NOK million) | Fair value through profit or loss: Held for trading | Fair value through profit or loss: Fair value option | Instruments at amortised cost | Available-for-sale assets |
|---|---|---|---|---|
| **For the year ended 31 December 2007** | | | | |
| Net gains | 0 | 0 | 0 | 129 |
| Net losses | (1,689) | (263) | (245) | 0 |
| Total interest income | 202 | 351 | 1,941 | 308 |
| Total interest expense | 0 | 0 | (3,084) | 0 |
| Total | (1,487) | 88 | (1,388) | 437 |
| **For the year ended 31 December 2006** | | | | |
| Net gains | 5,577 | 620 | 412 | 0 |
| Net losses | 0 | 0 | 0 | 0 |
| Total interest income | 590 | 332 | 1,801 | 244 |
| Total interest expense | 0 | 0 | (1,658) | 0 |
| Total | 6,167 | 952 | 555 | 244 |

Dividend income is included with Total interest income. Foreign exchange gains or losses related to financial instruments are not included. See note 8, financial items, for additional information.

## 29. FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

### Fair value hedges

Fair value hedges are hedges of StatoilHydro's exposure to changes in the fair value of a recognised asset and liability or an unrecognised firm commitment. StatoilHydro has designated certain interest rate swaps as fair value hedges to hedge against changes in the fair value, due to changes in the interest rates, of certain parts of the Group's financial liabilities. There was no significant element of hedge ineffectiveness the year ended 31 December 2007. The net loss recognised in earnings in Income before tax during the year for ineffectiveness of fair value hedges was insignificant.

The fair value of the hedging instruments and the hedged risk of bonds subject to hedge accounting are presented below together with the related gains and losses.

| (in NOK million) | Fair value | Gains (losses) |
|---|---|---|
| **At 31 December 2007** | | |
| Hedging instruments | 651 | 221 |
| Hedged risk of bonds subject to hedge accounting | (724) | (212) |
| **At 31 December 2006** | | |
| Hedging instruments | 430 | (459) |
| Hedged risk of bonds subject to hedge accounting | (512) | 452 |

### Fair value of derivative financial instruments and fixed rate interest bearing bonds

The Group recognises all derivative financial instruments in the balance sheet at fair value. Changes in the fair value of derivatives are included in the Statement of income either in revenue or in financial items. In some instances the carrying amount is assessed to be a reasonable approximation of fair value, the instrument is then recognised in the balance sheet at the carrying amount. For StatoilHydro this is the case for current trade receivables and payables. For more information about the methodology and assumption used when calculating the fair value of the financial instruments see note 2, Significant accounting policies.

The following table contains the carrying amounts and estimated fair values of derivative financial instruments including certain derivative commodity contracts, and the carrying amounts and estimated fair value of fixed rate interest bearing bonds. Commodity contracts capable of being settled by physical delivery of commodities (crude oil, refined products, natural gas and electricity) are excluded from the summary. Of the total ending balance at 31 December 2007 NOK 9.6 billion relates to certain earn-out agreements recognised as derivative financial instruments in accordance with IAS 39. At the end of 2006 NOK 6.7 billion was related to these agreements.

| (in NOK million) | Fair value of assets | Fair value of liabilities | Net carrying amount |
|---|---|---|---|
| **At 31 December 2007** | | | |
| Debt-related instruments | 4,676 | (125) | 4,551 |
| Non-debt-related instruments | 1,802 | (163) | 1,639 |
| Non-current fixed interest liabilities | 0 | (38,971) | (35,923) |
| Crude oil and Refined products | 10,620 | (1,446) | 9,174 |
| Gas and Electricity | 599 | (795) | (196) |
| **At 31 December 2006** | | | |
| Debt-related instruments | 3,972 | (413) | 3,559 |
| Non-debt-related instruments | 2,057 | (338) | 1,719 |
| Non-current fixed interest liabilities | 0 | (46,166) | (42,338) |
| Crude oil and Refined products | 7,462 | (681) | 6,781 |
| Gas and Electricity | 1,646 | (273) | 1,373 |

**Market risk sensitivities**

*Commodity price risk*

The table below contains the fair value and related commodity price risk sensitivity of our commodity based derivatives contracts, as accounted for under IAS 39. For further information related to the type of commodity risks and how the group manages these risks see note 27, Financial risk management.

Substantially all of these fair value assets and liabilities are related to non-exchange traded derivative instruments, including embedded derivatives that in accordance with IAS 39 have been bifurcated and recognised with fair value in the balance sheet. Included in the fair values and basis for sensitivity figures are immaterial derivative positions held for speculative trading purposes.

Price risk sensitivities for 2007 and 2006 has been calculated by assuming a hypothetical across-the-board 10% change in all commodity prices. This does not take into account the term or historical relationships between the contractual price of the instrument and the underlying commodity prices or the expected correlation between risk categories. Therefore, in the event of an actual 10% change in all underlying prices, the change in the fair value of the derivative portfolio at the two respective year ends would typically be different from that shown below. In addition, there would be expected offsetting effects from changes in the fair value of our corresponding physical positions, contracts and anticipated transactions, which are not recorded at fair value, and are not reflected in the below table.

Since none of the financial instruments included in the table below are part of a hedging relationship, any changes in the fair value will be recognised in the Statement of income.

| (in NOK million) | Fair value asset | Fair value liability | -10% sensitivity | 10% sensitivity |
|---|---|---|---|---|
| **At 31 December 2007** | | | | |
| Crude Oil and Refined Products | 11,115 | (2,533) | (651) | 652 |
| Natural Gas and Electricity | 4,219 | (4,921) | 1,530 | (1,522) |
| **At 31 December 2006** | | | | |
| Crude Oil and Refined Products | 7,593 | (797) | (466) | 410 |
| Natural Gas and Electricity | 7,501 | (4,432) | 1,742 | (1,671) |

Where an active market exists, financial instruments are valued on the the basis of quoted information from the active market. The following table summarises the basis for fair value estimation and the maturity of such financial instruments:

| (in NOK million) | Maturity less than 1 year | Maturity 1-3 years | Maturity 4-5 years | Maturity in excess of 5 years | Total fair value |
|---|---|---|---|---|---|
| **At 31 December 2007** | | | | | |
| Fair value based on prices quoted in an active market | 906 | 1,731 | 178 | 2,108 | 4,923 |
| Fair value based on price inputs from external sources | 5 | 7 | 0 | 0 | 12 |
| Fair value based on inputs from other sources | 13 | (1) | (1) | 9,854 | 9,865 |
| **At 31 December 2006** | | | | | |
| Fair value based on prices quoted in an active market | 4,073 | 1,057 | 1,498 | 1,011 | 7,639 |
| Fair value based on price inputs from external sources | 239 | 278 | 0 | (1,069) | (552) |
| Fair value based on inputs from other sources | 59 | 217 | (10) | 7,666 | 7,932 |

Even though the major part of the fair value from certain earn out agreements are from observable external sources they have been classified in the third category in the above table due to part of the value being from internal generated assumptions. Another reasonable assumption to be used when calculating the fair value of these contracts might be to extrapolate the last observed forward price. When extrapolating the forward curve with inflation the fair value of the contracts included will increase by approximately NOK 2.5 billion. This increased change in fair value would be recognised in the Statement of income.

There are significant measurement risks associated with estimating the fair value of financial instruments that are not traded in active markets. While these are StatoilHydro's best estimates of fair value, other assumptions may be made by other parties for instance with respect to future commodity prices, exchange rates and interest rates. The sensitivity of the fair value of all commodity-based contracts on changes in commodity prices is illustrated in the sensitivity table above. Changes in the fair value of commodity-based financial instruments due to different assumptions made on future exchange rates and interest rates is deemed immaterial. See however text below under Interest and currency risk for details of aggregate effects of such sensitivities.

*Liquidity risk*

The liquidity risk in terms of crude oil and refined products derivative contracts is usually less than one year. The term of natural gas forwards is usually three years or less. In the table below the maturity profile for the Group's financial liability related to exchange traded and non-exchange traded commodity based derivatives together with financial derivatives is presented. The maturity profile is based on the underlying delivery period of the contracts included in the portfolio. For further information on management of the liquidity risk, see note 27, Financial risk management.

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Less than 1 year | (5,279) | (4,575) |
| 1 - 3 years | (2,094) | (1,815) |
| 4 - 5 years | (113) | (98) |
| After 5 years | (147) | (127) |
| Derivative financial instruments | (7,633) | (6,615) |

*Interest and currency risk.*

Interest and currency risks constitute significant financial risks for the StatoilHydro group. Total exposure is managed at a portfolio level in accordance with approved strategies and mandates on a regular basis. The fair value of financial instruments related to our interest rate swaps, currency swaps and fixed interest non-current liabilities are specified in the table below:

| (in NOK million) | Net fair value |
|---|---|
| **At 31 December 2007** | |
| Debt-related instruments | 4,551 |
| Non-debt related instruments | 1,639 |
| Non-current fixed interest liabilities | (38,971) |
| **At 31 December 2006** | |
| Debt-related instruments | 3,559 |
| Non-debt related instruments | 1,719 |
| Non-current fixed interest liabilities | (46,166) |

The estimated loss that would be recognised in the Statement of income associated with a 10% adverse change in NOK currency rates would be approximately NOK 10.4 billion and NOK 7.6 billion as of 31 December, 2007 and 2006, respectively. A hypothetical one percentage point adverse change in interest rates would result in a loss, that would be recognised in the income statement, of NOK 2.7 billion and NOK 2.4 billion related to interest-bearing liabilities, investments in debt securities and related financial instruments as of 31 December, 2007 and 2006, respectively. These estimated currency and interest rate sensitivities are based on an uncorrelated loss scenario and actual results could vary due to assumptions used and because offsetting account correlations are not reflected within this analysis. All financial instruments included in the interest and currency rate sensitivity calculation have a linear sensitivity towards changes. Therefore a positive change in the NOK currency rates and interest rates would give a gain that would be recognised in the Statement of income, with the opposite values as the losses calculated for the negative changes.

StatoilHydro's cash flows are largely in US dollars, European euro and Norwegian kroner, but significant amounts are also Swedish kroner, Danish kroner and UK pounds sterling. The currencies in the debt portfolio are managed in connection with our expected future net cash flows per currency. The Group's debt, after considering currency swaps, is mainly in US dollars.

*Equity risk*

Listed equity securities, consisting mainly of the portfolio held by the Group's captive insurance company, are recorded at fair value and have exposure to price risk. The fair value of listed equity securities is based on quoted market prices. In addition to the portfolio held by the Group's captive insurance company, the Group also has some other non-marketable 0-20% investments classified as Available for sale investments in accordance with IAS 39. These are recognised at fair value in the balance sheet with changes in the fair value recognised directly in equity.

Risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in quoted market prices. Actual results may vary due to assumptions utilised and because correlation are not reflected within the analysis.

| (in NOK million) | Fair value | -10% sensitivity | 10% sensitivity |
|---|---|---|---|
| **At 31 December 2007** | | | |
| Fair value of marketable equity securities | 4,230 | (423) | 423 |
| Fair value of other non-marketable equity securities | 3,291 | (329) | 329 |
| **At 31 December 2006** | | | |
| Fair value of marketable equity securities | 4,600 | (460) | 460 |
| Fair value of other non-marketable equity securities | 2,262 | (226) | 226 |

## 30. SUBSEQUENT EVENTS

On 4 March 2008 StatoilHydro and Anadarko signed an agreement whereby StatoilHydro will take over the remaining 50% in the Brazilian Peregrino project and 25% of the Kaskida discovery in US Gulf of Mexico. The initial 50% of Pergrino was purchased by StatoilHydro in 2006 for USD 368 million. The final transaction will provide StatoilHydro with a 100% working interest and operatorship of the development in the Peregrino project. For the last 50% interest in the Pergrino project and 25% in the Kaskida discovery StatoilHydro will pay Anadarko USD 1.8 billion, plus a maximum pre-tax earn-out of USD 300 million payable by 2020, conditional on future oil prices above pre-defined threshold levels. The transaction is pending governmental approval. The other partners pre-emption rights on Kaskida is expected to be executed.

On 1 March 2008 Sonatrach and StatoilHydro signed an agreement for long-term arrangement at the Cove Point liquefied natural gas (LNG) terminal in the USA. Under the terms of the contract, Sonatrach will receive access to an annual two billion cubic metres of regasificatin capacity at the Cove Point terminal for 15 years from the beginning of 2009. As part of the arrangement, StatoilHydro will also purchase 1 billion cubic metres of LNG per year from Sonatrach at Cove Point from 2009 to 2014. The terms and conditions governing the arrangement have been agreed in the form of binding Heads of Agreements (HOAs).

## 31. IFRS TRANSITION

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2007, the comparative information presented in these financial statements for the year ended 31 December 2006 and the preparation of an opening IFRS balance sheet at 1 January 2006 (the Group's date of transition).

**Reconciliation of shareholders' equity as at 1 January 2006 and 31 December 2006 and the Consolidated net income for 2006**

| (in NOK million) | For the year ended 31 December 2006 |
|---|---|
| Hydro Petroleum consolidated net income under US GAAP | 10,384 |
| Former Statoil Group consolidated net income under US GAAP (including minority interest) | 41,335 |
| Merger adjustments | (78) |
| Differences related to: | |
| Financial instruments | 3,108 |
| Inventory valuation | (321) |
| Deferred tax adjustments | (2,369) |
| Other | (212) |
| Net changes | 206 |
| Consolidated net income for the period under IFRS | 51,847 |

| (in NOK million) | At 1 January 2006 | At 31 December 2006 |
|---|---|---|
| Hydro Petroleum US GAAP Equity | 36,399 | 33,071 |
| Former Statoil Group US GAAP Equity (including minority interest) | 108,136 | 123,693 |
| Merger adjustments | 12,680 | 10,027 |
| Differences related to: | | |
| Financial instruments | 4,420 | 7,715 |
| Pensions | (8,712) | (2,948) |
| Inventory valuation | 2,820 | 2,499 |
| Asset retirement obligations (ARO) | (3,167) | (2,976) |
| Deferred tax adjustments | 861 | (3,248) |
| Other | 2,945 | 1,574 |
| Net changes | (832) | 2,616 |
| Total equity under IFRS | 156,384 | 169,407 |

Under US GAAP, former Statoil and Hydro Petroleum would not have been reflected as a combined entity in 2006. The US GAAP figures for former Statoil and Hydro Petroleum and the merger related adjustments have been combined for illustrative purposes only to show how the transition to IFRS impacted the two companies in the tables that follow.

**Impact on cash flow statement**

The Group continues using the indirect method when preparing the statement of cash flows under IFRS as it used to do under the previous US GAAP. Consequently, adjustments made to working capital items in the balance sheet on transition to IFRS lead to an adjustment in the IFRS statement of cash flows. There are no significant changes between cash flows from operating activities, investing activities, and financing activities. No adjustments have been made to cash and cash equivalents, and no other adjustments have been made to the statements of cash flows on conversion.

**Opening IFRS balance sheet**

In preparing its opening IFRS balance sheet as at 1 January 2006, the group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting, US GAAP. An explanation of how the transition from US GAAP to IFRS has affected the Group's statement of income, balance sheet ands statement of cash flows is set out below.

**IFRS 1 EXEMPTIONS AND ELECTIONS APPLIED AND IAS 1 PRESENTATION**

The Group applied IFRS 1, First-time Adoption of International Financial Reporting Standards in making the transition to IFRS, with 1 January 2006 as the date of transition to IFRS. IFRS 1 requires that all IFRS standards and interpretations are applied consistently and retrospectively for all fiscal years presented. However, this standard provides exemptions and exceptions to this general requirement in specific cases. The Group has chosen to apply the following exemptions:

***Business Combinations***

Business combinations that occurred before 1 January 2006, were not restated retrospectively in accordance with IFRS 3, Business Combinations. Within the limits imposed by IFRS 1, the carrying amounts of assets acquired and liabilities assumed as part of past business combinations as well as the amounts of goodwill that arose from such transactions as they were determined under US GAAP, are considered their deemed cost under IFRS at the date of transition.

***Cumulative currency translation differences***

Cumulative currency translation differences as of 1 January 2006, arising from translation into NOK of the financial statements of foreign operations whose functional currency is not the NOK were reset to zero. Accordingly, the cumulative translation differences were included in Retained earnings in the IFRS opening balance sheet. In the case of subsequent disposal of an entity concerned, no amount of currency translation difference relating to the time prior to the translation date will be included in the determination of the gain or loss on disposal of such entity.

***Decommissioning liabilities included in the cost of property, plant and equipment***

IFRIC 1 Changes in Existing Decommissioning Restoration and Similar Liabilities requires changes in a decommissioning liability to be added or deducted from the cost of the asset to which it relates. IFRS 1 allows a first time adopter to not comply with this requirement for changes in such liabilities that occurred before the date of transition to IFRS. The Group has used this exemption and has measured the liability at the date of transition in accordance with IAS 37, estimated the amount that would have been included in the asset, and calculated the accumulated depreciation on that amount, on the basis of the current estimate of the useful life of the asset.

***Changes in presentation of the consolidated financial statements***

The presentation of the consolidated financial statements has been modified to comply with the requirements of IAS 1, Presentation of Financial Statements. As a result of applying the new option provided by IAS 19 to recognise actuarial gains and losses directly in equity, consolidated statements of income and expense recognised in equity have been included. Under IFRS minority interests are presented within equity.

### Restatement of Consolidated Statement of Income for 2006 from US GAAP to IFRS

| | StatoilHydro group | | | | Only former Statoil figures |
|---|---|---|---|---|---|
| | Former Statoil and Hydro Petroleum as if previously reported combined - US GAAP | IFRS reclassifications | IFRS adjustments | IFRS | US GAAP |
| | For the year ended 31 December | | | | For the year ended |
| (in NOK million) | 2006 | | | 2006 | 31 December 2005 |
| Total revenues and other income | 509,952 | 7,257 | 4,273 | 521,482 | 387,411 |
| Cost of goods sold | (242,586) | (5,627) | (1,381) | (249,593) | (230,721) |
| Operating expenses | (45,874) | 1,270 | (198) | (44,801) | (30,243) |
| Selling, general, and administrative expenses | (9,525) | (1,126) | (174) | (10,824) | (7,189) |
| Depreciation, amortisation and impairment losses | (39,511) | (11) | 72 | (39,450) | (20,962) |
| Exploration expenses | (10,650) | 0 | 0 | (10,650) | (3,253) |
| Total operating expenses | (348,144) | (5,494) | (1,680) | (355,318) | (292,368) |
| Net operating income | 161,808 | 1,763 | 2,593 | 166,164 | 95,043 |
| Net financial items | 6,706 | (1,618) | (16) | 5,072 | (3,512) |
| Income before tax | 168,514 | 145 | 2,577 | 171,236 | 91,531 |
| Income tax | (116,872) | (145) | (2,372) | (119,389) | (60,036) |
| Net income | 51,642 | 0 | 206 | 51,847 | 31,495 |

**Restatement of Consolidated Balance Sheet as at 1 January and 31 December 2006 from US GAAP to IFRS**

| US GAAP on IFRS format | Former Statoil and Hydro Petroleum as if previously reported combined - US GAAP 1 Jan 2006 | IFRS reclassifications | IFRS adjustments | IFRS 1 Jan 2006 |
|---|---|---|---|---|
| ASSETS | | | | |
| *Non-current assets* | | | | |
| Property, plant, and equipment | 273,574 | (18,494) | 313 | 255,393 |
| Intangible assets | 5,164 | 19,544 | 196 | 24,904 |
| Equity accounted investments | 8,830 | (260) | 69 | 8,638 |
| Deferred tax assets | 4,538 | (3,733) | 0 | 805 |
| Pension assets | 6,810 | 0 | (4,696) | 2,114 |
| Non-current financial investments | 11,572 | 31 | 1,969 | 13,572 |
| Derivative financial instruments | 0 | 835 | 0 | 835 |
| Non-current financial receivables | 5,105 | 73 | 0 | 5,178 |
| Total non-current assets | 315,593 | (2,004) | (2,149) | 311,439 |
| *Current assets* | | | | |
| Inventories | 9,683 | 266 | 2,702 | 12,651 |
| Trade and Other receivables | 86,658 | (1,281) | 0 | 85,377 |
| Derivative financial instruments | 5,799 | (531) | 6,749 | 12,018 |
| Current financial investments | 6,847 | 0 | 0 | 6,847 |
| Cash and cash equivalents | 7,436 | 0 | 0 | 7,436 |
| Total current assets | 116,423 | (1,546) | 9,451 | 124,328 |
| TOTAL ASSETS | 432,016 | (3,550) | 7,302 | 435,767 |
| EQUITY AND LIABILITIES | | | | |
| *Total equity* | 157,216 | 0 | (832) | 156,384 |
| *Non-current liabilities* | | | | |
| Non-current financial liabilities | 53,094 | 0 | (342) | 52,752 |
| Deferred tax liabilities | 74,722 | (3,756) | (861) | 70,105 |
| Pension liabilities | 6,002 | 0 | 3,930 | 9,932 |
| Non-current provisions | 30,508 | 45 | 2,337 | 32,889 |
| Derivative financial instruments | 0 | 113 | 0 | 113 |
| Total non-current liabilities | 164,326 | (3,598) | 5,063 | 165,791 |
| *Current liabilities* | | | | |
| Trade and other payables | 59,836 | (141) | 0 | 59,695 |
| Income taxes payable | 42,486 | (2) | 0 | 42,484 |
| Current financial liabilities | 1,718 | 0 | 0 | 1,718 |
| Derivative financial instruments | 6,432 | 191 | 3,071 | 9,694 |
| Total current liabilities | 110,474 | 48 | 3,071 | 113,592 |
| Total liabilities | 274,800 | (3,550) | 8,134 | 279,383 |
| TOTAL EQUITY AND LIABILITIES | 432,016 | (3,550) | 7,302 | 435,767 |

| US GAAP on IFRS format | Former Statoil and Hydro Petroleum as if previously reported combined - US GAAP 31 Dec 2006 | IFRS reclassifications | IFRS adjustments | IFRS 31 Dec 2006 |
|---|---|---|---|---|
| ASSETS | | | | |
| *Non-current assets* | | | | |
| Property, plant, and equipment | 302,783 | (27,251) | (3,369) | 272,163 |
| Intangible assets | 5,108 | 27,706 | (1,609) | 31,205 |
| Equity accounted investments | 8,945 | (475) | 86 | 8,556 |
| Deferred tax assets | 2,457 | (1,876) | 227 | 808 |
| Pension assets | 3,314 | 0 | (2,201) | 1,113 |
| Non-current financial investments | 12,680 | 0 | 1,332 | 14,012 |
| Derivative financial instruments | 0 | 450 | 0- | 450 |
| Non-current financial receivables | 4,341 | 0 | 0 | 4,341 |
| Total non-current assets | 339,629 | (1,446) | (5,535) | 332,648 |
| *Current assets* | | | | |
| Inventories | 12,758 | 0 | 2,499 | 15,256 |
| Trade and Other receivables | 81,046 | 0 | 0 | 81,046 |
| Derivative financial instruments | 12,010 | 1,552 | 7,761 | 21,323 |
| Current financial investments | 1,032 | 0 | 0 | 1,032 |
| Cash and cash equivalents | 7,518 | 0 | 0 | 7,518 |
| Total current assets | 114,363 | 1,552 | 10,260 | 126,175 |
| TOTAL ASSETS | 453,992 | 106 | 4,725 | 458,823 |
| EQUITY AND LIABILITIES | | | | |
| *Total equity* | 166,791 | 0 | 2,616 | 169,407 |
| *Non-current liabilities* | | | | |
| Non-current financial liabilities | 49,520 | 0 | (305) | 49,215 |
| Deferred tax liabilities | 72,335 | (1,936) | 1,685 | 72,084 |
| Pension liabilities | 10,281 | 0 | 747 | 11,028 |
| Non-current provisions | 43,302 | 40 | (1,170) | 42,173 |
| Derivative financial instruments | 0 | 66 | 0 | 66 |
| Total non-current liabilities | 175,439 | (1,830) | 957 | 174,566 |
| *Current liabilities* | | | | |
| Trade and other payables | 55,221 | 0 | 374 | 55,595 |
| Income taxes payable | 47,149 | 0 | 0 | 47,149 |
| Current financial liabilities | 5,557 | 0 | 0 | 5,557 |
| Derivative financial instruments | 3,835 | 1,936 | 779 | 6,549 |
| Total current liabilities | 111,761 | 1,936 | 1,153 | 114,850 |
| Total liabilities | 287,200 | 106 | 2,109 | 289,416 |
| TOTAL EQUITY AND LIABILITIES | 453,992 | 106 | 4,725 | 458,823 |

## DESCRIPTION OF PRIMARY CHANGES IN ACCOUNTING POLICIES

**Derivative financial instruments and hedge accounting**
The Group is party to a number of contractual agreements, such as earn-out agreements and long-term sales agreements, which are linked to underlying indices. These agreements are not accounted for as fair value derivatives under US GAAP due to specific exemption rules in FAS 133 and related interpretations, whereas certain agreements are accounted for as fair value derivatives under IFRS. This treatment under IFRS requires that the contracts are carried at fair value in the balance sheet, with changes in fair value being recorded in the statement of income.

Both US GAAP and IFRS allow hedge accounting to be used when specific criteria are met. There are differences in certain of these criteria between US GAAP and IFRS and as a result, certain hedging transactions that can be hedge accounted under US GAAP, do not qualify for hedge accounting under IFRS, and vice versa.

Under US GAAP a number of fair value hedges are accounted for using the short-cut method meaning that any ineffectiveness is not recognised in the statement of income. The same items and instruments are also accounted for as fair value hedges under IFRS, which requires that any ineffectiveness is calculated and recorded in the statement of income, resulting in a GAAP difference.

In accordance with specific FAS 133 transition provisions, one hedging relationship involving part of a bond hedged with cross currency interest rate swaps is accounted for as a hedge relationship under US GAAP. Due to the specifics of this particular relationship and lack of similar transition provisions, hedge accounting is not permissible under IFRS. Consequently, the bond is carried at amortised cost while the associated interest rate swaps are carried at fair value with changes being reported in the statement of income.

**Pensions**
The Group IFRS accounting policy is to recognise actuarial gains and losses in respect of the group's pension and post-retirement benefit plans directly to equity via the consolidated statement of recognised income and expense. Under US GAAP (applicable until 31 December, 2006), actuarial gains and losses are deferred and recognised in future periods. Therefore a GAAP difference exists at 1 January, 2006, 31 March, 2006, 30 June, 2006, and 30 September, 2006.

During the fourth quarter of 2006, a new US GAAP standard was issued that requires cumulative actuarial gains and losses to be recognised in full in the 31 December 2006 balance sheet, with a corresponding adjustment to equity. At 31 December 2006, there continue to be GAAP differences. Under US GAAP the equity adjustment relating to actuarial gains and losses will be reversed in future periods applying the corridor approach and recorded to the statement of income, whereas under IFRS this entry is not allowed.

A remaining GAAP difference also exists in relation to the discount rate applied to the Group's pension liabilities and service costs. Under US GAAP, discount rates are set by reference to high-quality corporate bonds. IFRS specifically requires the use of government bonds in countries where there is no deep market in high-quality corporate bonds, which is the case in Norway and Sweden. As a result, the IFRS discount rates were lower than the US GAAP discount rates applied in the period, resulting in a higher pension liability being recorded.

**Inventory - application of the FIFO cost method instead of LIFO**
Under the Group's US GAAP policy, the cost of inventories is measured using the last-in first-out (LIFO) method. Under IFRS, inventory cost is measured on the basis of the first-in first-out (FIFO) formula.

**Asset retirement obligations (ARO)**
For both US GAAP and IFRS, the cost of property, plant, and equipment includes the estimated cost of dismantling and removing the asset and restoring the site to the extent that such cost is recognised as a provision. The provision is measured as the best estimate of future expense, discounted to today's value using an appropriate discount rate. Under US GAAP, the discount rate applied to an ARO obligation upon initial recognition is not changed throughout the life of the provision. For any addition to an ARO obligation, the latest discount rate is used, and then this is not revisited in future periods. Under IFRS, the discount rate applied to an ARO obligation is reviewed and updated each period.

**Deferred tax**
Deferred tax adjustments arise from both specific GAAP differences and from tax effects of adjustments recognised upon conversion to IFRS.

*Consequential deferred tax adjustments:* Nearly all recognised IFRS conversion adjustments as discussed in this transition note have related effects on deferred taxes.

*Functional currency different than taxable currency:* Under US GAAP, no deferred tax is recognised for differences resulting from changes in exchange rates related to non-monetary assets and liabilities that are measured in the functional currency for accounting purposes, but have a different taxable currency. Under IFRS deferred tax is recognised for differences related to non-monetary assets and liabilities that are measured in the functional currency, but have a different taxable currency.

*Tax on unrealised intra-group profits:* Under US GAAP, deferred tax is recognised for differences arising from intra-group transactions using the seller's tax rate. Under IFRS, deferred tax is recognised using the buyer's tax rate.

*Exemptions:* Under US GAAP deferred taxes are provided on virtually all temporary differences.

IFRS has an exemption from provisions to recognise deferred taxes on a transaction when the deferred tax assets/liabilities arise from the initial recognition of assets and liabilities which at the time of the transaction, affects neither accounting profit nor taxable profit.

**Other adjustments**
Other adjustments comprise the following:

***Adjustments to property, plant and equipment (PP&E)***
The most significant adjustment to PP&E relates to significant periodic maintenance programs. Under the Group's current US GAAP policy, the estimated costs of future major maintenance and inspections are accrued in advance. Under IFRS, the costs of major maintenance and inspection are included in the carrying amount of PP&E when incurred, and are depreciated over the period to the next major maintenance and inspection date.

A difference also exists for 'abnormal waste'. Under US GAAP, all costs in the construction phase are normally capitalised. Under IFRS, any costs that relate to abnormal waste are expensed.

***Exchange of similar assets***
In 2000 the Group swapped an ownership share in a processing plant to a third party, in exchange for receiving an ownership share in another processing plant. Under US GAAP standards applicable at that time, no gain or loss was recorded on this transaction.

***Available for sale financial asset***
Under US GAAP, certain investments classified as available for sale financial assets are accounted for at cost due to lack of readily determinable fair values. Under IFRS, these investments are classified as available for sale financial assets and carried at estimated fair value in the balance sheet, with changes in fair value being recorded directly to equity.

***Reversal of impairment of exploration costs***
Under US GAAP, certain exploration costs were expensed as impairment. Impairments are not reversed under US GAAP. Under IFRS, impairments are reversed, as applicable, to the extent that the conditions for impairment are no longer present.

***Provisions***
A decision was made and communicated in the fourth quarter of 2006 to implement a new business model, which included amendments and terminations of franchise agreements in Sweden. At 31 December 2006, the criteria were not met to record a provision for US GAAP purposes. Under IFRS, a provision was made at 31 December 2006 as the Group had a constructive obligation.

**Reclassifications**
Reclassifications comprise:

***Re-inclusion of Discontinued Operations as Assets Held for Sale***
Under US GAAP the Group has from January 2006 classified its Irish downstream Retail and Commercial & Industrial business (Statoil Ireland) as Held for sale in the balance sheet and as a discontinuing operation in the statement of income for all periods presented, including comparative figures.

Under IFRS, disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations. The group has not classified Statoil Ireland as a discontinuing operation in the statement of income as it does not represent a separate major line of business or geographical area. Under IFRS, the classification as Held for sale in the balance sheet is not reclassified for periods before the assets become held for sale, whereas under US GAAP comparative figures are adjusted. The criteria for classification as held for sale were met in January 2006.

***Gross versus net presentation of derivative assets and liabilities***
Under US GAAP the group has applied certain options to present derivative assets and derivative liabilities on a net basis. When there is an underlying agreement to offset, but there was no initial intention to do so, derivatives have been reclassified to show gross amounts under IFRS.

***Derivatives designated as hedging instruments***
Under US GAAP, the fair value of derivatives designated as hedging instruments has been classified as current, in line with the classification of the Group's other derivatives. Under IFRS the non-current portion of the fair value of derivatives designated as hedging instruments has been classified as non-current assets and liabilities.

***Investments accounted for using the equity method***
Under US GAAP, the Group proportionately consolidated investments in jointly controlled assets held in the Exploration and Production Norway and the International Exploration and Production segments, but used equity method for jointly controlled assets in other segments. Under IFRS, all jointly controlled assets have been proportionately consolidated.

***Capitalised costs before the development phase***
Under US GAAP, capitalised costs before the development phase were classified as Property, plant, and equipment. Under IFRS, capitalised costs before the development phase were classified as Intangible assets.

***Deferred tax assets and liabilities***
Classification rules for deferred tax assets and liabilities are different under IFRS compared to US GAAP. Current deferred tax items have been reclassified to non-current assets and liabilities.

***Cumulative translation differences***
IFRS 1 allows for cumulative currency translation differences to be set to zero at 1 January 2006. US GAAP has no equivalent to the transition arrangements of IFRS 1.

***Accretion expense***
Under both US GAAP and IFRS certain liabilities are recorded in the balance sheet at a discounted amount. These liabilities will increase each year due to the unwinding of the discount, as the liability becomes one year nearer. This increase (referred to as 'accretion expense') is reported as a cost in the income statement. Under US GAAP, the accretion expense is recorded as an operating expense. Under IFRS, the accretion expense is recorded as a finance cost.

## 32. SUPPLEMENTARY OIL AND GAS INFORMATION (UNAUDITED)

In accordance with Statement of Financial Accounting Standards No. 69, Disclosures about Oil and Gas Producing Activities and regulations of the US Securities and Exchange Commission (SEC), StatoilHydro is making certain supplemental disclosures about oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgement involved in developing such information. Accordingly, this information may not necessarily represent the present financial condition of StatoilHydro or its expected future results.

**Oil and gas reserve quantities**
StatoilHydro's oil and gas reserves have been estimated by its experts in accordance with industry standards under the requirements of the SEC. Reserves are net of royalty oil paid in kind, and quantities consumed during production. Statements of reserves are forward-looking statements.

The determination of these reserves is part of an ongoing process subject to continual revision as additional information becomes available.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

1. Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.
2. Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the «proved» classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.
3. Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as «indicated additional reserves»; (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

Proved developed oil and gas reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as «proved developed reserves» only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

On the Norwegian Continental Shelf, StatoilHydro sells its oil and gas together with the oil and gas of the Norwegian state (SDFI). Under this arrangement, StatoilHydro and the SDFI jointly deliver gas from Norway and elsewhere to its customers in accordance with certain supply type sales contracts. The commitments will be met by using a field supply schedule that provides the highest possible total value for the joint portfolio of StatoilHydro's and SDFI's oil and gas. Likewise, we hold commitments to deliver gas from Azerbaijan and Algeria where our entitlement to gas deliveries under the production sharing agreements is less than our commitment to deliver. Our proved gas reserves (entitlements) will be drawn on to supply this gas to the extent that we hold entitlement to the gas delivered.

The total expected commitments to be met by the StatoilHydro / SDFI arrangement and StatoilHydro's separate commitments were on 31 December, 2007 to deliver a total of 36.4 tcf. This does not include commitments where we do not hold title to the gas that we deliver.

A major part of StatoilHydro's gas volumes are sold under contracts with long term Take or Pay clauses. StatoilHydro's customers have flexibility to vary off take under the contracts on a daily basis. StatoilHydro's and SDFI's delivery commitments, are expressed as the sum of an Annual Contract Quantity (ACQ). ACQ's for the contract years 2007, 2008, 2009 and 2010 are 2.56, 2.63, 2.56 and 2.59 tcf. These commitments may be met by production of proved reserves from fields were StatoilHydro and/or the Norwegian State participates and by drawing on existing gas markets to manage temporary shortfalls or surpluses in production. We are currently in a situation with a shortfall in supply of LNG from our own production in contract year 2007 due to production problems in the start-up phase of an LNG liquefaction plant in Norway. Efforts to mitigate the effects of this are being made. This concerns approximately 2 per cent of our commitments to deliver gas in this contract year. The shortfall in supply of LNG from our own production is expected to have effect also in the contract year 2008.

The principles for booking of proved gas reserves are limited to contracted gas sales and gas with access to a market.

In 2002, StatoilHydro entered into a buy-back contract in Iran. StatoilHydro also participates in a number of production sharing agreements (PSA). Reserves from such agreements are based on the volumes to which StatoilHydro has access (cost oil and profit oil), limited to available market access. Proved reserves at end of year associated with PSA and buy-back agreements are disclosed separately.

The transformation process of the Sincor joint venture in Venezuela, into the new mixed company Petrocedeño was not finalised by year-end 2007. Therefore, StatoilHydro's proved reserves at 31 December 2007 include a share of 15% of reserves in the Sincor joint venture structure. StatoilHydro's shareholding interest in Petrocedeño was reduced to 9.677% in the first quarter of 2008. The change in StatoilHydro share will result in a reduction of proved reserves corresponding to 68 million barrels in 2008.

StatoilHydro is booking as proved reserves volumes equivalent to our tax liabilities payable in-kind under negotiated fiscal arrangements (production sharing agreements or income sharing agreements).

The subtotals and totals in the following tables may not equal the sum of the amounts shown due to rounding.

| | Net proved oil and NGL reserves in million barrels | | | Net proved gas reserves in billion standard cubic feet | | | Net proved oil, NGL and gas reserves in million barrels oil equivalent | | |
|---|---|---|---|---|---|---|---|---|---|
| | Norway | Outside Norway | Total | Norway | Outside Norway | Total | Norway | Outside Norway | Total |
| At 31 December 2005 | 1,835 | 779 | 2,614 | 19,595 | 1,392 | 20,986 | 5,316 | 1,025 | 6,341 |
| **Of which:** | | | | | | | | | |
| Proved developed reserves | 1,363 | 295 | 1,659 | 13,899 | 208 | 14,107 | 3,833 | 332 | 4,165 |
| Proved reserves under PSA and buy-back agreements | 0 | 433 | 433 | 0 | 973 | 973 | 0 | 606 | 606 |
| Production from PSA and buy-back agreements | 0 | 46 | 46 | 0 | 83 | 83 | 0 | 61 | 61 |
| Revisions and improved recovery | 122 | 37 | 159 | 529 | 250 | 780 | 219 | 81 | 300 |
| Extensions and discoveries | 26 | 12 | 38 | 256 | 9 | 265 | 72 | 13 | 86 |
| Purchase of reserves-in-place | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales of reserves-in-place | 0 | (2) | (3) | 0 | 0 | 0 | 0 | (2) | (3) |
| Production | (315) | (70) | (385) | (1,250) | (84) | (1,335) | (539) | (85) | (624) |
| At 31 December 2006 | 1,667 | 756 | 2,423 | 19,129 | 1,567 | 20,696 | 5,068 | 1,032 | 6,101 |
| **Of which:** | | | | | | | | | |
| Proved developed reserves | 1,188 | 334 | 1,523 | 13,378 | 283 | 13,661 | 3,566 | 385 | 3,951 |
| Proved reserves under PSA and buy-back agreements | 0 | 441 | 441 | 0 | 1,169 | 1,169 | 0 | 649 | 649 |
| Production from PSA and buy-back agreements | 0 | 47 | 47 | 0 | 56 | 56 | 0 | 57 | 57 |
| Revisions and improved recovery | 197 | 16 | 214 | 598 | (27) | 571 | 311 | 14 | 325 |
| Extensions and discoveries | 38 | 105 | 143 | 405 | 0 | 405 | 110 | 105 | 215 |
| Purchase of reserves-in-place | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales of reserves-in-place | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | (299) | (92) | (391) | (1,238) | (114) | (1,352) | (519) | (112) | (632) |
| At 31 December 2007 | 1,604 | 785 | 2,389 | 18,893 | 1,426 | 20,319 | 4,971 | 1,039 | 6,010 |
| **Of which:** | | | | | | | | | |
| Proved developed reserves | 1,187 | 323 | 1,510 | 15,084 | 748 | 15,832 | 3,875 | 456 | 4,331 |
| Proved reserves under PSA and buy-back agreements | 0 | 387 | 387 | 0 | 977 | 977 | 0 | 561 | 561 |
| Production from PSA and buy-back agreements | 0 | 67 | 67 | 0 | 80 | 80 | 0 | 82 | 82 |

The conversion rates used are 1 standard cubic meter = 35.3 standard cubic feet, 1 standard cubic meter oil equivalent = 6.29 barrels of oil equivalent and 1,000 standard cubic meter gas = 1 standard cubic meter oil equivalent.

StatoilHydro is required through its articles of association to market and sell the SDFI's oil and gas together with StatoilHydro's own oil and gas in accordance with the owner's instruction established by the general meeting of StatoilHydro ASA. SDFI and StatoilHydro receive income from the joint natural gas sales portfolio based on their respective share in the supply volumes. For sale of natural gas to third parties or to StatoilHydro for further value upgrade the pricing is either: achieved prices, a net back formula or market value. For natural gas acquired by StatoilHydro for its own use the pricing will be based on market value. All of the Norwegian State's oil and NGL will be acquired by StatoilHydro. Pricing of the crude oil will be based on market reflective prices; NGL prices will be either based on achieved prices, market value or market reflective prices.

The owner's instruction may be changed or withdrawn by the StatoilHydro general meeting. Due to this uncertainty and the Norwegian State's estimate of proved reserves not being available to StatoilHydro, it is not possible to determine the total quantities to be purchased by StatoilHydro under the owner's instruction from properties in which it participates in the operations.

**Capitalised expenditures related to Oil and Gas producing activities**

| | At 31 December | |
|---|---|---|
| **(in NOK million)** | **2007** | **2006** |
| Unproved Properties | 40,511 | 26,096 |
| Proved Properties, wells, plants and other equipment | 548,614 | 501,472 |
| Total Capitalised expenditures | 589,125 | 527,568 |
| Accumulated depreciation, depletion, amortisation and valuation allowances | (331,653) | (283,428) |
| Net Capitalised expenditures | 257,472 | 244,140 |

**Expenditures incurred in Oil and Gas Property Acquisition, Exploration and Development Activities**
These expenditures include both amounts capitalised and expensed

| **(in NOK million)** | **Norway** | **Outside Norway** | **Total** |
|---|---|---|---|
| **Year ended 31 December 2007** | | | |
| Exploration Costs | 5,749 | 8,499 | 14,248 |
| Development Costs 1) , 2) | 28,428 | 13,330 | 41,758 |
| Acquired unproved properties | 0 | 17,133 | 17,133 |
| Total | 34,177 | 38,962 | 73,139 |
| **Year ended 31 December 2006** | | | |
| Exploration Costs | 4,649 | 9,484 | 14,133 |
| Development Costs 1), 2) | 27,303 | 14,009 | 41,312 |
| Acquired unproved properties | 511 | 9,588 | 11,889 |
| Total | 32,463 | 33,081 | 67,334 |

(1) Development costs include investments in Norway in facilities for liquefaction of natural gas and storage of LNG amounting to NOK 661 million in 2007 and NOK 112 million in 2006.
(2) Includes minor develpoment costs in unproved properties.

**Results of Operation for Oil and Gas Producing Activities**
As required by Statement of Financial Accounting Standards No. 69 (FAS 69), the revenues and expenses included in the following table reflect only those relating to the oil and gas producing operations of StatoilHydro.

Activities included in StatoilHydro's segment disclosures in note 5 to the financial statements but excluded from the table below relates to gas trading activities, transportation and business development as well as effects of disposals of oil and gas interests. Certain minor reclassifications have been made to prior periods' figures to be consistent with the current period's classifications.

Income tax expense is calculated on the basis of statutory tax rates in addition to uplift and tax credits only. No deductions are made for interest or overhead.

| (in NOK million) | Norway | Outside Norway | Total |
|---|---|---|---|
| **Year ended December 2007** | | | |
| Sales | (36) | (12,631) | (12,666) |
| Transfers | (172,077) | (27,705) | (199,782) |
| Total revenues | (172,113) | (40,336) | (212,448) |
| Exploration expense | 3,638 | 7,695 | 11,333 |
| Production costs | 24,062 | 5,387 | 29,449 |
| DD&A | 23,030 | 11,103 | 34,133 |
| Total costs | 50,730 | 24,185 | 74,915 |
| Results of operations before tax | (121,383) | (16,150) | (137,533) |
| Tax expense | 97,184 | 7,070 | 104,254 |
| Result of operations | (24,199) | (9,080) | (33,279) |
| **Year ended December 2006** | | | |
| Sales | (143) | (9,856) | (10,000) |
| Transfers | (175,476) | (20,523) | (195,999) |
| Total revenues | (175,619) | (30,379) | (205,999) |
| Exploration expense | 3,480 | 7,170 | 10,650 |
| Production costs | 14,210 | 3,222 | 17,432 |
| DD&A | 20,938 | 14,370 | 35,308 |
| Total costs | 38,628 | 24,762 | 63,390 |
| Results of operations before tax | (136,991) | (5,617) | (142,608) |
| Tax expense | 106,131 | 4,006 | 110,137 |
| Result of operations | (30,860) | (1,611) | (32,471) |

**Standardised measure of discounted future net cash flows relating to proved oil and gas reserves**

The table below shows the standardised measure of future net cash flows relating to proved reserves presented. The analysis is computed in accordance with FAS 69, by applying year end market prices, costs, and statutory tax rates, and a discount factor of 10% to year end quantities of net proved reserves. The standardised measure of discounted future net cash flows is a forward-looking statement.

Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year end estimated proved reserves based on year end cost indices, assuming continuation of year end economic conditions. Future net cash flow pre-tax is net of decommissioning and removal costs. Estimated future income taxes are calculated by applying appropriate year end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pretax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using a discount rate of 10% per year. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced. The information provided does not represent management's estimate of StatoilHydro's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, identified reserves and contingent resources, that may become proved in the future, are excluded from the calculations. The standardised measure of discounted future net cash flows prescribed under FAS 69 requires assumptions as to the timing and amount of future development and production costs and income from the production of proved reserves. This does not reflect management's judgement and should not be relied upon as an indication of StatoilHydro's future cash flow or value of its proved reserves.

| (in NOK million) | Norway | Outside Norway | Total |
|---|---|---|---|
| **At 31 December 2007** | | | |
| Future net cash inflows | 1,788,440 | 429,335 | 2,217,775 |
| Future development costs | (107,966) | (57,332) | (165,298) |
| Future production costs | (338,834) | (102,838) | (441,672) |
| Future income tax expenses | (1,009,179) | (97,850) | (1,107,029) |
| Future net cash flows | 332,461 | 171,315 | 503,776 |
| 10 % annual discount for estimated timing of cash flows | (135,717) | (67,289) | (203,006) |
| Standardised measure of discounted future net cash flows | 196,744 | 104,026 | 300,770 |
| **At 31 December 2006** | | | |
| Future net cash inflows | 1,643,982 | 310,129 | 1,954,111 |
| Future development costs | (113,121) | (36,496) | (149,617) |
| Future production costs | (321,208) | (53,377) | (374,585) |
| Future income tax expenses | (939,061) | (70,481) | (1,009,542) |
| Future net cash flows | 270,592 | 149,775 | 420,367 |
| 10 % annual discount for estimated timing of cash flows | (116,469) | (58,184) | (174,653) |
| Standardised measure of discounted future net cash flows | 154,123 | 91,591 | 245,714 |

Of a total of NOK 165,298 million of estimated future development costs as of December 31, 2007, an amount of NOK 95,974 million is expected to be spent within the next three years, as allocated in the table below.

**Future development costs**

| (in NOK million) | 2008 | 2009 | 2010 | Total |
|---|---|---|---|---|
| Norway | 25,495 | 21,875 | 17,154 | 64,524 |
| Outside Norway | 12,957 | 10,512 | 7,981 | 31,450 |
| Total | 38,452 | 32,387 | 25,135 | 95,974 |
| Of which future development cost expected to be spent on proved undeveloped reserves | 25,459 | 22,417 | 16,744 | 64,620 |

In 2007, StatoilHydro incurred NOK 41,758 million in development costs, of which NOK 19,758 million related to proved undeveloped reserves.

**Changes in the standardised measure of discounted future net cash flows from proved reserves**

| (in NOK million) | 2007 | 2006 |
|---|---|---|
| Standardised measure at beginning of year | 245,714 | 278,511 |
| Net change in sales and transfer prices and in production (lifting) costs related to future production | 239,091 | 66,193 |
| Changes in estimated future development costs | (30,740) | (46,659) |
| Sales and transfers of oil and gas produced during the period, net of production cost | (189,992) | (199,931) |
| Net change due to extensions, discoveries, and improved recovery | 15,967 | 10,053 |
| Net change due to purchases and sales of minerals in place | 0 | (950) |
| Net change due to revisions in quantity estimates | 78,122 | 73,562 |
| Previously estimated development costs incurred during the period | 41,758 | 41,312 |
| Accretion of discount | (54,374) | 3,694 |
| Net change in income taxes | (44,776) | 19,929 |
| Total change in the standardised measure during the year | 55,056 | (32,797) |
| Standardised measure at end of year | 300,770 | 245,714 |

**Operational statistics**

**Productive oil and gas wells and developed and undeveloped acreage**

The following tables show the number of gross and net productive oil and gas wells and total gross and net developed and undeveloped oil and gas acreage in which StatoilHydro had interests at 31, December, 2007.

A «gross» value reflects wells or acreage in which StatoilHydro has interests (presented as 100%). The net value corresponds to the sum of whole or fractional working interest for StatoilHydro in gross wells or acreage.

| At 31 December 2007 | | Norway | Outside Norway | Total |
|---|---|---|---|---|
| **Number of productive oil and gas wells** | | | | |
| Oil wells | — gross | 816 | 819 | 1,635 |
| | — net | 288 | 144 | 432 |
| Gas wells | — gross | 152 | 130 | 282 |
| | — net | 66 | 48 | 115 |

| At 31 December 2007 (in thousands of acres) | | Norway | Outside Norway | Total |
|---|---|---|---|---|
| Developed and undeveloped oil and gas acreage | | | | |
| Acreage developed | — gross | 858 | 1,346 | 2,204 |
| | — net | 314 | 413 | 727 |
| Acreage undeveloped | — gross | 17,317 | 57,296 | 74,613 |
| | — net | 9,045 | 31,173 | 40,218 |

Remaining terms of leases and concessions are between one and 43 years.

**Net productive and dry oil and gas wells drilled**

The following tables show the net productive and dry exploratory and development oil and gas wells completed or abandoned by StatoilHydro in the past two years. Productive wells include wells in which hydrocarbons were found, and the drilling or completion of which, in the case of exploratory wells, has been suspended pending further drilling or evaluation. A dry well is one found to be incapable of producing sufficient quantities to justify completion as an oil or gas well.

| | Norway | Outside Norway | Total |
|---|---|---|---|
| **Year 2007** | | | |
| Net productive and dry exploratory wells drilled | 13.2 | 14.0 | 27.1 |
| — Net dry exploratory wells drilled | 4.5 | 5.9 | 10.4 |
| — Net productive exploratory wells drilled | 8.7 | 8.0 | 16.7 |
| Net productive and dry development wells drilled | 34.7 | 19.7 | 54.4 |
| — Net dry development wells drilled | 0.7 | 1.0 | 1.7 |
| — Net productive development wells drilled | 34.0 | 18.7 | 52.7 |
| **Year 2006** | | | |
| Net productive and dry exploratory wells drilled | 11.1 | 15.1 | 26.2 |
| — Net dry exploratory wells drilled | 6.4 | 7.3 | 13.7 |
| — Net productive exploratory wells drilled | 4.7 | 7.8 | 12.5 |
| Net productive and dry development wells drilled | 21.1 | 14.0 | 35.1 |
| — Net dry development wells drilled | 0.8 | 0.0 | 0.8 |
| — Net productive development wells drilled | 20.3 | 14.0 | 34.3 |

**Exploratory and development drilling in process**

The following table shows the number of exploratory and development oil and gas wells in the process of being drilled by StatoilHydro at 31 December 2007.

| At 31 December 2007 | | Norway | Outside Norway | Total |
|---|---|---|---|---|
| **Number of wells in progress** | | | | |
| Developement Wells | — gross | 46 | 82 | 128 |
| | — net | 17.6 | 13.7 | 31.3 |
| Exploratory Wells | — gross | 7 | 11 | 18 |
| | — net | 3.1 | 2,9 | 6.0 |

**Average sales price and production cost per unit**

| | Norway | Outside Norway |
|---|---|---|
| **Year ended 31 December 2007** | | |
| Average sales price crude in USD per bbl | 70.9 | 69.1 |
| Average sales price natural gas in NOK per $Sm^3$ | 1.69 | 1.17 |
| Average production costs, in NOK per boe | 46.3 | 34.4 |
| **Year ended 31 December 2006** | | |
| Average sales price crude in USD per bbl | 63.6 | 60.9 |
| Average sales price natural gas in NOK per $Sm^3$ | 1.94 | 1.64 |
| Average production costs, in NOK per boe | 26.9 | 37.5 |

# To the Annual Shareholders' Meeting of StatoilHydro ASA

**Auditor's report for 2007**
We have audited the annual financial statements of StatoilHydro ASA as of 31 December 2007, showing a profit of NOK 44 641 million for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of recognised income and expense and the accompanying notes. International Financial Reporting Standards as adopted by the EU and as issued by the International Accounting Standards Board have been applied in the preparation of the financial statements of the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and the President and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

**In our opinion**
- the financial statements of the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and the results of its operations and cash flows and recognised income and expense for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU and as issued by the International Accounting Standards Board
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Stavanger, 9 April 2008
ERNST & YOUNG AS

Erik Mamelund
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

# Reserves comfort letter

DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD, SUITE 800 EAST, DALLAS, TEXAS 75244

February 18, 2008

StatoilHydro ASA
Forusbeen 50
N-4035 Stavanger
Norway

Gentlemen:
Pursuant to your request, we have prepared estimates of the proved oil, condensate, liquefied petroleum gas (LPG), and sales gas reserves, as of December 31, 2007, of certain properties in Algeria, Angola, Azerbaijan, Brazil, Canada, China, Iran, Ireland, Libya, Nigeria, Norway, Russia, the United Kingdom, the United States, and Venezuela owned by StatoilHydro ASA (StatoilHydro). The estimates are discussed in our "Report as of December 31, 2007 on Proved Reserves of Certain Properties owned by StatoilHydro ASA" (the Report). We also have reviewed StatoilHydro's estimates of reserves, as of December 31, 2007, of the same properties included in the Report.

In our opinion, the information relating to proved reserves estimated by us and referred to herein has been prepared in accordance with Paragraphs 10–13, 15, and 30(a)–(b) of Statement of Financial Accounting Standards No. 69 (November 1982) of the Financial Accounting Standards Board and Rules 4– 10(a) (1)–(13) of Regulation S–X of the United States Securities and Exchange Commission (SEC).

StatoilHydro represents that its estimates of the proved reserves, as of December 31, 2007, attributable to StatoilHydro's interests in the properties included in the Report are as follows, expressed in millions of barrels (MMbbl), billions of cubic feet (Bcf), and millions of barrels of oil equivalents (MMboe):

| Oil, Condensate and LPG (MMbbl) | Sales Gas (Bcf) | Net Equivalent (MMbbl) |
|---|---|---|
| 2,389 | 20,319 | 6,010 |

*Note: Gas is converted to oil equivalent using a factor of 5,612 cubic feet of gas per 1 barrel of oil equivalent.*

StatoilHydro has advised us that its estimates of proved oil, condensate, LPG, and natural gas reserves are in accordance with the rules and regulations of the SEC. It is our opinion that the guidelines and procedures that StatoilHydro has adopted to prepare its estimates are in accordance with generally accepted petroleum reserves evaluation practices and are in accordance with the requirements of the SEC.

Our estimates of the proved reserves, as of December 31, 2007, attributable to StatoilHydro's interests in the properties included in the Report are as follows, expressed in millions of barrels (MMbbl), billions of cubic feet (Bcf), and millions of barrels of oil equivalents (MMboe):

| Oil, Condensate and LPG (MMbbl) | Sales Gas (Bcf) | Net Equivalent (MMbbl) |
|---|---|---|
| 2,397 | 19,969 | 5,955 |

*Note: Gas is converted to oil equivalent using a factor of 5,612 cubic feet of gas per 1 barrel of oil equivalent.*

In comparing the detailed reserves estimates prepared by us and those prepared by StatoilHydro for the properties involved, we have found differences, both positive and negative, in reserves estimates for individual properties. These differences appear to be compensating to a great extent when considering the reserves of StatoilHydro in the properties included in the Report, resulting in overall differences not being substantial. It is our opinion that the reserves estimates prepared by StatoilHydro on the properties reviewed by us and referred to above, when compared on the basis of net equivalent million barrels of oil, in aggregate, do not differ materially from those prepared by us.

Submitted,

DeGOLYER and MacNAUGHTON

Lloyd W. Cade, P.E.
Senior Vice President
DeGolyer and MacNaughton

# HSE accounting for 2007

StatoilHydro's objective is to operate with zero harm to people and the environment, in accordance with the principles for sustainable development. The group supports the Kyoto protocol and applies the precautionary principle in the conduct of its business.

StatoilHydro's management system for health, safety, security and the environment (HSE) forms an integrated part of the group's total management system, and is described in its governing documents.

StatoilHydro's management system relating to overall management and control and most of the main operational units have been certified in accordance with the ISO 9001 and ISO 14001 standards. An overview of certified units can be found at www.statoilhydro.com/sertifisering

A key element in the HSE management system is recording, reporting and assessment of HSE data. HSE performance indicators have been established to assist this work. The intention is to document quantitative developments over time and strengthen the decision-making basis for systematic and purposeful improvement efforts.

HSE data are compiled by the business units and reported to the corporate executive committee, which evaluates development and trends and decides whether improvement measures are required. The chief executive submits the HSE results and associated assessments to the board together with the group's quarterly financial results. These results are posted to the group's intranet and its internet site. Reference may be made to http://www.statoilhydro.com where quarterly HSE statistics are compiled and made easily accessible.

StatoilHydro's group-wide performance indicators for safety are the total recordable injury frequency, the lost-time injury frequency and the serious incident frequency. These are reported quarterly at corporate level for StatoilHydro employees and contractors, both collectively and separately. Sickness absence is reported annually for StatoilHydro employees.

The group-wide indicators for the environment are reported annually at corporate level, with the exception of oil spills which are reported quarterly. The indicators for the natural environment - oil spills, emissions of carbon dioxide and nitrogen oxides, energy consumption and the recovery rate for hazardous and non-hazardous waste - are reported for StatoilHydro-operated activities. This includes the Gassled facilities at Kårstø and Kollsnes, for which Gassco is operator, while StatoilHydro is responsible for the technical operation.

All of the group's main activities are included in the HSE accounting section.

Historical data include figures relating to acquired operations from the acquisition date. Correspondingly, figures relating to divested operations are included up to the divestment date. Historical data for the merged company are included in the HSE reporting.

### Results

StatoilHydro suffered three fatal accidents in 2007. One happened in connection with the approach of the LPG vessel «Goodwood» to Mongstad harbour in May 2007, where two members of the crew were hit by a towing line and seriously injured. One of them died in hospital the same day. The second fatal accident was a truck driver who died after a traffic accident between Örnskölsvik and Husum in Sweden. The third fatal accident happened while Saipem 7000 was setting down the Tordis template in the North Sea. A man fell overboard and drowned. The three fatalities were contractor employees.

The HSE accounting shows the development of the performance indicators over the past five years. Use of resources, emissions and waste volumes for selected StatoilHydro-operated land-based plants, and for StatoilHydro-operated activities on the NCS are shown in separate environmental overviews. See also the information on health, safety and the environment in the review of StatoilHydro's operations and the directors' report.

More than 130 million hours worked in 2007 (including contractors) form the basis for the HSE accounting. Contractors handle a large proportion of the assignments for which StatoilHydro is responsible as operator or principal enterprise.

StatoilHydro's safety results with respect to serious incidents have shown a positive trend. The serious incident frequency has declined from 2.2 in 2006 to 2.1 in 2007.

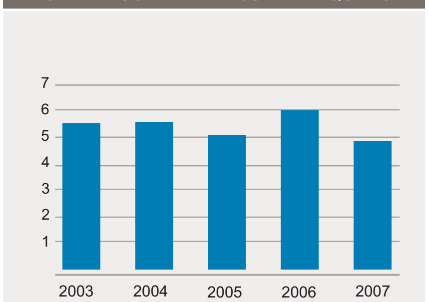
The total recordable injury frequency (covering StatoilHydro employees and contractors) has decreased from 6.0 in 2006 to 5.0 in 2007, and the lost-time injury frequency (injuries leading to absence from work) also decreased from 2.1 in 2006 to 2.0 in 2007.

In addition to this corporate accounting, the business units prepare more specific statistics and analyses which are used in their improvement efforts.

In 2007 StatoilHydro accepted a fine of 5 million NOK after a person died when building the Kristin platform in 2005. StatoilHydro also accepted 26 minor fines for breach of regulations at service stations.

# StatoilHydro's performance indicators for HSE

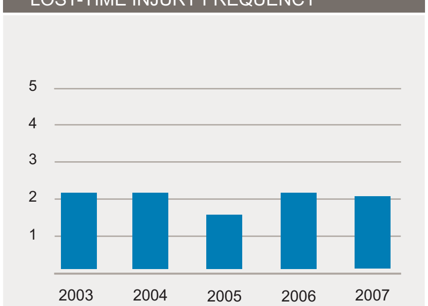
TOTAL RECORDABLE INJURY FREQUENCY




*Definition:* The number of fatalities, lost-time injuries, cases of alternative work necessitated by an injury and other recordable injuries, excluding first-aid injuries per million working hours.

*Developments:* The total recordable injury frequency (including both StatoilHydro employees and contractors) decreased from 6.0 in 2006 to 5.0 in 2007. The frequency for StatoilHydro employees was 3.5 in 2007, the same as in 2006, while the frequency for our contractors decreased from 7.9 in 2006 to 6.1 in 2007.

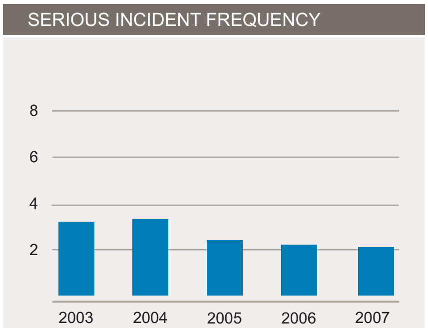
LOST-TIME INJURY FREQUENCY




*Definition:* The number of lost-time injuries and fatal accidents per million working hours.

*Developments:* The lost-time injury frequency (including both StatoilHydro employees and contractors) was reduced from 2.1 in 2006 to 2.0 in 2007. There has been an increase for StatoilHydro employees, from 1.6 in 2006 to 1.7 in 2007, and for our contractors the lost-time injury frequency decreased from 2.4 in 2006 to 2.2 in 2007.

SERIOUS INCIDENT FREQUENCY

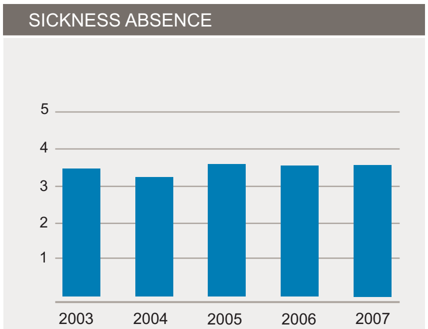



*Definition:* The number of incidents of a very serious nature per million working hours (1).

*Developments:* The serious incident frequency (including both StatoilHydro employees and contractors) improved from 2.2 in 2006 to 2.1 in 2007.

(1) An incident is an event or chain of events which has caused or could have caused injury, illness and/or damage to/loss of property, the environment or a third party. Matrices for categorisation have been established where all undesirable incidents are categorised according to the degree of seriousness, and this forms the basis for follow-up in the form of notification, investigation, reporting, analysis, experience transfer and improvement.

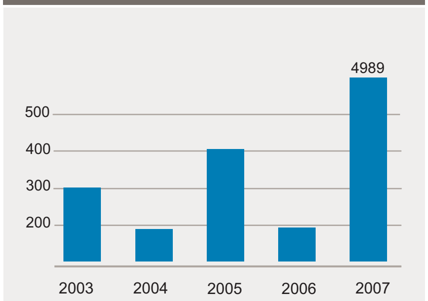
SICKNESS ABSENCE




*Definition:* The total number of days of sickness absence as a percentage of possible working days (StatoilHydro employees).

*Developments:* The sickness absence in StatoilHydro has been stable on 3.5 % the last three years.

## OIL SPILLS

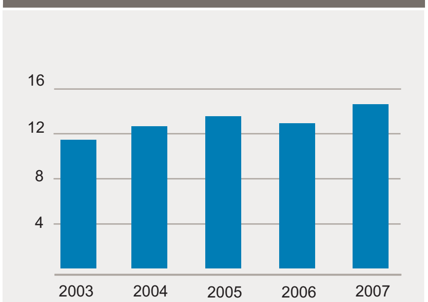



*Definition:* Accidental oil spills to the natural environment from StatoilHydro operations (in cubic metres) (2).

*Developments:* The number of accidental oil spills was 387 in 2007, compared to 365 in 2006. The volume of accidental spills has increased from 181 cubic metres in 2006 to 4989 cubic metres in 2007. The figure shows the volume of oil spills in cubic metres. There were two significant oil spills in 2007. One spill of 4.400 $m^3$ at Statfjord A on 12 December and one spill of 441 $m^3$ at Mongstad refinery on 7 September.

2) All accidental oil spills reaching the natural environment from StatoilHydro-operated activities are included in the figure. However, also spills that did not reach the natural environment have been included for downstream market operations before 2004.

## CARBON DIOXIDE EMISSIONS

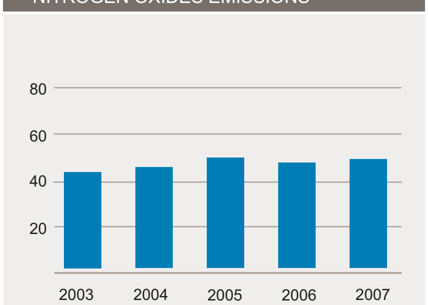



*Definition:* Total emissions of carbon dioxide in million tonnes from StatoilHydro-operated activities (3).

*Developments:* Carbon dioxide emissions have increased from 12.9 million tonnes in 2006 to 14.6 million in 2007. The main reason for the increased carbon dioxide emissions is the extraordinary flaring at the Snøhvit plant at Melkøya as a result of start-up problems.

(3) Carbon dioxide emissions include carbon dioxide from energy and heat production in own plants, transportation of products, flaring, rest emissions from carbon dioxide capture and treatment plants, process-emission and also emissions from own planta as a consequence of exported energy. Indirect emissions as a consequence of imported energy are excluded.

## NITROGEN OXIDES EMISSIONS

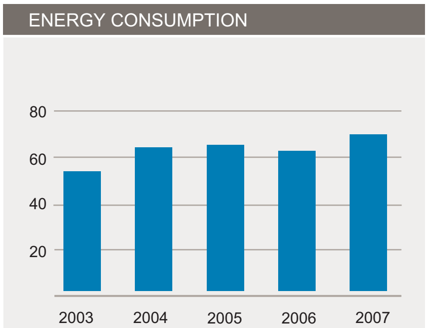



*Definition:* Total emissions of nitrogen oxides in thousand tonnes from StatoilHydro-operated activities (4).

*Developments:* Emissions of nitrogen oxides have increased from 47.7 thousand tonnes in 2006 to 49.4 thousand tonnes in 2007. The flare at Melkøya during start-up has increased the nitrogen oxides emissions significantly. However, due to new guidelines the nitrogen oxides emission factor for offshore flare has been adjusted. This reduces the reported emissions from offshore flare in general, making the total increase smaller than for energy consumption and carbon dioxide emissions.

(4) Nitrogen oxide emissions embrace all emission sources and include Nitrogen oxides from energy and heat production in own plants, transportation of products, flaring and treatment plants.

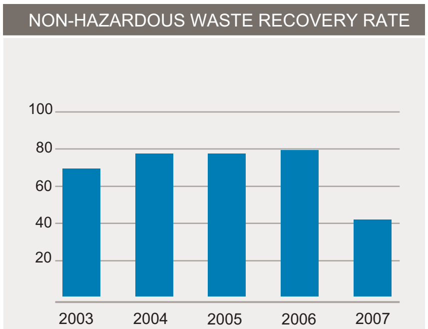
## ENERGY CONSUMPTION




*Definition:* Total energy consumption in terawatt-hours (TWh) for StatoilHydro-operated activities.
*Developments:* Energy consumption has increased from 62.4 TWh in 2006 to 69.8 TWh in 2007. The main reason for the increased energy consumption is the flaring at the Snøhvit plant at Melkøya as a result of start-up problems. In other respects, the energy consumption has been relatively stable. The business area Natural Gas has seen a small reduction due to transfer of responsibility of operations for receiving terminals at the European Continent from StatoilHydro to Gassco. Also, from 2006, StatoilHydro took into consideration loss of energy production from external suppliers and losses related to transfer of energy when calculation total energy consumption.

(5) Energy consumption includes energy consumed in producing the facility's deliveries or by performing an activity, and includes gross purchases of electricity and thermal energy (steam), energy from gas and diesel-fuelled power generation, unused energy from flaring and sold/delivered energy. Energy based on the use of fossil fuels is deemed to be energy input. Prior to 2006 energy consumption was based on net purchase of electricity.

## NON-HAZARDOUS WASTE RECOVERY RATE




*Definition:* The recovery rate for non-hazardous waste comprises non-hazardous waste from StatoilHydro-operated activities and represents the amount of non-hazardous waste for recovery in relation to the total quantity of waste (6).

*Developments:* The recovery rate for non-hazardous waste has decreased from 79 % in 2006 to 41 % in 2007. This is mainly due to inclusion of Marketing/Energy & Retail (E&R) and the Gulf of Mexico in the reporting. E&R deliver through municipal systems where there in the next step often is a recovery system, but information regarding recovery is not yet reported to E&R from the waste contractor.

(6)The quantity of non-hazardous waste for recovery is the total quantity of non-hazardous waste from the plant's operations which has been delivered for reuse, recycling or incineration with energy utilisation.

# Environmental data for 2007

## NORWEGIAN CONTINENTAL SHELF[1]

**ENERGY**

| | |
|---|---|
| Diesel | 2,180 GWh |
| Electricity | 50 GWh |
| Fuel gas | 34,900 GWh |
| Flare gas | 3,730 GWh |

**RAW MATERIALS[2]**

| | |
|---|---|
| Oil/condensate | 105 mill scm |
| Gas[3] | 128 bn scm |
| Produced water | 157 mill scm |

**UTILITIES**

| | |
|---|---|
| Chemicals process/prodn | 67,700 tonnes |
| Chemicals drilling/well | 282,000 tonnes |

**OTHER**

| | |
|---|---|
| Injection water as pressure support[4] | |
| Fresh water consumption | 131,000 $m^3$ |

(1) Includes the UK sector of Statfjord
(2) Includes third-party processing of volumes from Sigyn and Skime
(3) Includes fuel gas (3.2 bn scm), flare gas (0.3 bn scm) and injected gas for purposes such as pressure support (38.3 bn scm)
(4) Because of different formats of Statoil and Hydro data, the total amount of injected water for pressure support for 2007 is not available.
(5) Includes offshore loading
(6) Includes oil from produced water, drainage water, ballast water and jetting
(7) The volume is dominated by one incident on Statfjord A totalling 4,400 m3
(8) Includes 87,200 tonnes of water and green chemicals/substances.
(9) The volume is dominated by one drilling fluid spill on Visund estimated at 5,000 m3
(10) Includes waste from the onshoe base operations. Waste related to drilling totals 91,400 tonnes
(11) The historic data show disperged oil from 2003 to 2006 and oil index in 2007, and reflects a change in the authorities' reporting requirements
(12) 2003 data only show former Statoil platforms

**PRODUCTS**

| | |
|---|---|
| Oil/condensate | 105 mill scm |
| Gas for sale | 85 bn scm |

**EMISSIONS TO AIR**

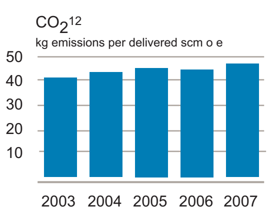
| | |
|---|---|
| $CO_2$ | 8.9 mill tonnes |
| nmVOC[5] | 54,800 tonnes |
| Methane[5] | 21,500 tonnes |
| $NO_x$ | 40,900 tonnes |
| $SO_2$ | 455 tonnes |
| Unintentional emissions HC gas | 154 kg |

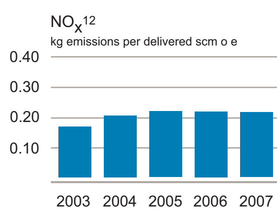
**DISCHARGES TO WATER**

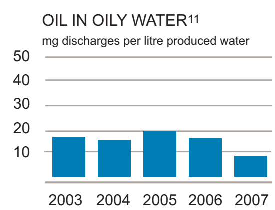
| | |
|---|---|
| Produced water | 139 mill scm |
| Oil in oily water[6] | 1,320 tonnes |
| Unintentional oil spills[7] | 4,484 $m^3$ |
| Produced water injected in the ground | 19 mill $m^3$ |
| Chemicals:[8] | |
| Process/production | 30,200 tonnes |
| Drilling/well | 67,800 tonnes |
| Other unintentional spills [9] | 5,263 $m^3$ |

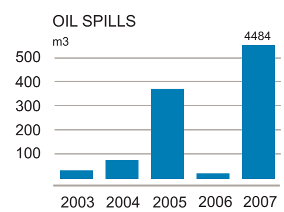
**WASTE[10]**

| | |
|---|---|
| Non-hazardous waste total | 14,900 tonnes |
| Non-hazardous waste for recovery | 12,200 tonnes |
| Non-hazardous waste recovery rate | 82 % |
| Hazardous waste total | 102,000 tonnes |
| Hazardous waste for recovery | 77,500 tonnes |
| Hazardous waste recovery rate | 76 % |




## TJELDBERGODDEN

**ENERGY**

| | |
|---|---|
| Diesel | 3 GWh |
| Electricity | 232 GWh |
| Fuel gas | 1,392 GWh |
| Flare gas | 177 GWh |

**RAW MATERIALS**

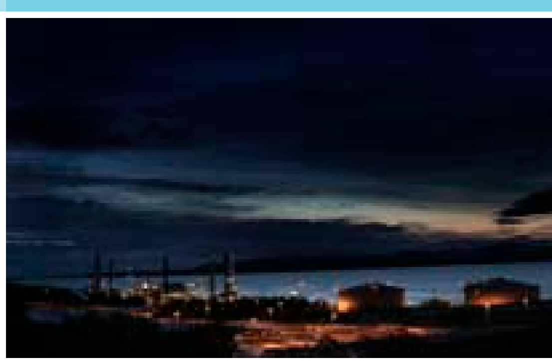
| | |
|---|---|
| Rich gas | 408,931 tonnes |

**UTILITIES**

| | |
|---|---|
| Caustics | 256 tonnes |
| Acids | 55 tonnes |
| Other chemicals | 12 tonnes |

**WATER CONSUMPTION**

| | |
|---|---|
| Fresh water | 538,466 $m^3$ |



(1) Regulatory requirements have been met for all parameters
(2) Unintentional emissions are not included in the figures for methane and nmVOC.
(3) One breach of the regulatory requirements (kg/day TOC)
(4) Unintentional oil spills (two spills) and other unintentional spills (two methanol spills) went to ground, not to sea.
(5) Hazardous waste to landfill was sludge from the treatment plant

**PRODUCTS**

| | |
|---|---|
| Methanol | 697,455 tonnes |
| Oxygen | 13,795 tonnes |
| Nitrogen | 39,638 tonnes |
| Argon | 13,691 tonnes |
| LNG | 9,872 tonnes |

**EMISSIONS TO AIR[1) 2)]**

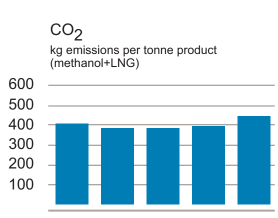
| | |
|---|---|
| $CO_2$ | 309,568 tonnes |
| nmVOC | 120 tonnes |
| Methane | 90 tonnes |
| $NO_x$ | 233 tonnes |
| $SO_2$ | 0.5 tonnes |
| Unintentional emissions HC-gas | 15.2 tonnes |

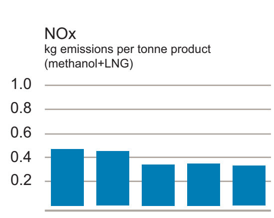
**DISCHARGES TO WATER[3) 4)]**

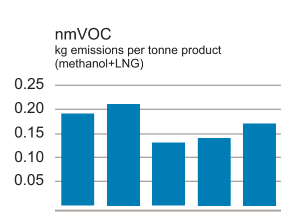
| | |
|---|---|
| Cooling water | 171 mill $m^3$ |
| Total organic carbon (TOC) | 1.126 tonnes |
| Suspended matter | 0.837 tonnes |
| Total-N | 0.865 tonnes |
| Unintentional oil spills | 0.09 $m^3$ |
| Other unintentional spills | 0.01 $m^3$ |

**WASTE[5)]**

| | |
|---|---|
| Non-hazardous waste for deposition | 111 tonnes |
| Non-hazardous waste for recovery | 245 tonnes |
| Non-hazardous waste recovery rate | 68,7 % |
| Hazardous waste for deposition | 294 tonnes |
| Hazardous waste for recovery | 40 tonnes |
| Hazardous waste recovery rate | 12 % |



## MONGSTAD[1)]

### ENERGY

| | |
|---|---|
| Electricity | 486 GWh |
| Fuel gas and steam | 6,890 GWh |
| Flare gas | 244 GWh |

### RAW MATERIALS

| | |
|---|---|
| Crude oil | 8,531,559 tonnes |
| Other process raw materials | 2,921,851 tonnes |
| Blending components | 147,718 tonnes |

### UTILITIES

| | |
|---|---|
| Acids | 558 tonnes |
| Caustics | 1,482 tonnes |
| Additives | 1,549 tonnes |
| Process chemicals | 4,415 tonnes |

### WATER CONSUMPTION

| | |
|---|---|
| Fresh water | 4,454,295 m³ |

### PRODUCTS[2)] 10,863,925 tonnes

| | |
|---|---|
| Propane | Butane |
| Naphtha | Gas oil |
| Petrol | Petcoke/sulphur |
| Jet fuel | |

### EMISSIONS TO AIR[3)]

| | |
|---|---|
| $CO_2$ | 1,642,209 tonnes |
| nmVOC refinery | 8,090 tonnes |
| nmVOC terminal | 3,311 tonnes |
| Methane | 2,850 tonnes |
| $NO_x$ [5)] | 1,930 tonnes |
| $SO_2$ | 729 tonnes |
| Unintentional emissions HC gas | 4.7 tonnes |

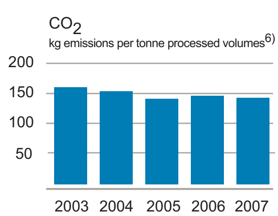
### DISCHARGES TO WATER [4) 5)]

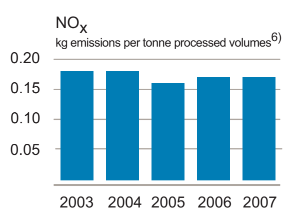
| | |
|---|---|
| Oil in oily water | 4.6 tonnes |
| Phenol | 1.2 tonnes |
| Ammonium | 37.6 tonnes |
| Unintentional oil spills | 441 m³ |
| Other unintentional spills | 0,5 m³ |

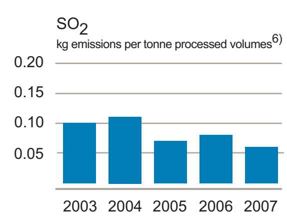
### WASTE

| | |
|---|---|
| Non-hazardous waste for deposition | 705 tonnes |
| Non-hazardous waste for recovery | 1,316 tonnes |
| Non-hazardous waste recovery rate | 65 % |
| Hazardous waste for deposition | 201 tonnes |
| Hazardous waste for recovery | 5,098 tonnes |
| Hazardous waste recovery rate | 96 % |

(1) Includes data for the refinery, crude oil terminal and Vestprosess facilities.
(2) Products delivered from the jetties
(3) Unintentional emissions of HC gas to air are included in figures for nmVOC refinery
(4) Regulatory requirements have been met for all parameters. Mongstad has been exempted from its emission permit obligations by the Norwegian Pollution Control Authority in relation to the concentration threshold for ammonia between 12 June and 1 December, due to temporary problems with ammonia concentrations.
(5) One incident in 2007 resulted in a relative large unintentional oil spill of 441 m3, this is a naphta leakage in a seawater cooler at the Vestprosess facility.
(6) Processed volumes are crude oil and other raw materials.




## KALUNDBORG

### ENERGY

| | |
|---|---|
| Electricity | 173 GWh |
| Steam | 112 GWh |
| Fuel gas and oil | 2,181 GWh |
| Flare gas | 96 GWh |

### RAW MATERIALS

| | |
|---|---|
| Crude oil | 4,541,000 tonnes |
| Other process raw materials | 17,000 tonnes |
| Blending components | 135,000 tonnes |

### UTILITIES

| | |
|---|---|
| Acids | 613 tonnes |
| Caustics | 1,116 tonnes |
| Additives | 1, 534 tonnes |
| Process chemicals | 310 tonnes |
| Ammonia (liquid) | 1,751 tonnes |

### WATER CONSUMPTION

| | |
|---|---|
| Fresh water | 1,775,300 m³ |


* Unintentional high emission of HC gas is due to an incident when a roof on a crude oil tank was damaged

### PRODUCTS

| | |
|---|---|
| Total | 4,509,600 tonnes |
| Nafta | 77,900 tonnes |
| Bensin | 1,397,000 tonnes |
| Jet drivstoff | 208,800 tonnes |
| LPG (butan, propan) | 78,400 tonnes |
| Gasssolje | 1 374,200 tonnes |
| Fyringsolje | 623,000 tonnes |
| ATS (gjødsel) | 4,700 tonnes |
| Fuel | 745,600 tonnes |

### EMISSIONS TO AIR

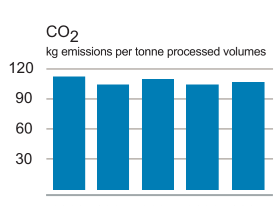
| | |
|---|---|
| $CO_2$ | 487,164 tonnes |
| nmVOC | 4,792 tonnes |
| Methane | 2,090 tonnes |
| $NO_x$ | 531 tonnes |
| $SO_2$ | 623 tonnes |
| Unintentional emissions of HC gas* | 30 tonnes |

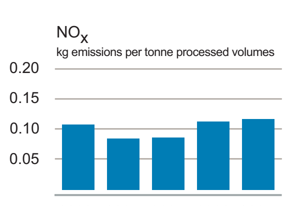
### DISCHARGES TO WATER

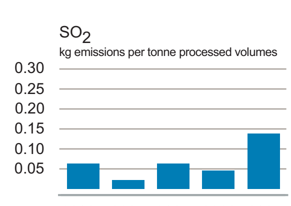
| | |
|---|---|
| Oil in oily water | 1.7 tonnes |
| Unintentional oil spills | 26.5 m³ |
| Other unintentional spills | 0.0 m³ |
| Phenol | 0.0 tonnes |
| Suspended matter | 12.6 tonnes |
| Nitrogen | 7.3 tonnes |

### WASTE

| | |
|---|---|
| Non-hazardous waste for deposition | 1,184 tonnes |
| Non-hazardous waste for recovery | 1,096 tonnes |
| Non-hazardous waste recovery rate | 48.1 % |
| Hazardous waste for deposition | 27 tonnes |
| Hazardous waste for recovery | 7,210 tonnes |
| Hazardous waste recovery rate | 99,6 % |



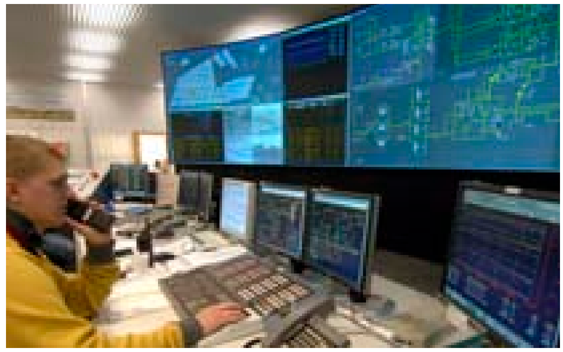
## KOLLSNES PROCESSING PLANT[1)] >

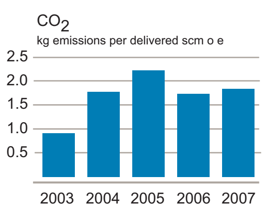
| ENERGY | |
|---|---|
| Electricity | 1,336 GWh |
| Fuel gas | 163 GWh |
| Flare gas | 183 GWh |
| Diesel | 0.41 GWh |

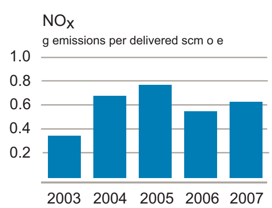
| RAW MATERIALS | |
|---|---|
| Rich gas Troll A | 31.3 bn scm |
| Rich gas Troll B | 2.1 bn scm |
| Rich gas Troll C | 2.4 bn scm |
| Rich gas Kvitebjørn | 1.1 bn scm |
| Rich gas Visund | 1.5 bn scm |

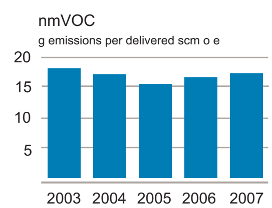
| UTILITIES | |
|---|---|
| Monoethylene glycol | 300 $m^3$ |
| Other chemicals | 76 $m^3$ |

| WATER CONSUMPTION | |
|---|---|
| Fresh water | 27,757 $m^3$ |



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| PRODUCTS | |
|---|---|
| Gas | 38.4 bn scm |
| NGL | 1.6 mill scm |

| EMISSIONS TO AIR[2) 3)] | |
|---|---|
| $CO_2$ | 74,330 tonnes |
| nmVOC | 25 tonnes |
| Methane | 33 tonnes |
| $NO_x$ | 701 tonnes |
| CO | 1,019 tonnes |

| DISCHARGES TO WATER[4)] | |
|---|---|
| Treated water/effluent | 142,750 $m^3$ |
| Total organic carbon (TOC) | 1.48 tonnes |
| Monoethylene glycol | 1.83 tonnes |
| Methanol | 1.15 tonnes |
| Hydrocarbons | 0.03 tonnes |
| Ammonium | 0.01 tonnes |
| Phenol | 0.01 tonnes |

| WASTE | |
|---|---|
| Non-hazardous waste for deposition | 187 tonnes |
| Non-hazardous waste for recovery | 171 tonnes |
| Non-hazardous waste recovery rate | 48 % |
| Hazardous waste for deposition | 63 tonnes |
| Hazardous waste for recovery | 636 tonnes |
| Hazardous waste recovery rate | 91 % |

(1) Gassco is the operator for the plant, but StatoilHydro is the technical service provider (TSP)
(2) The permit limit for emissions to air has been exceeded for nmVOC
(3) Unintentional emissions are not included in the figures for methane and nmVOC. However, these emission volumes are small
(4) Regulatory requirements for daily and monthly average values for emissions to water have been met.

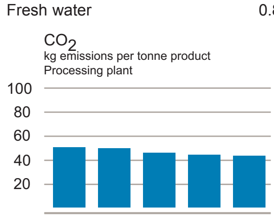
## KÅRSTØ GAS PROCESSING PLANT AND TRANSPORT SYSTEMS[1)] >

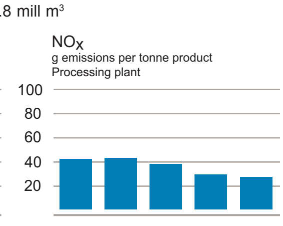
| ENERGY[2)] | |
|---|---|
| Fuel gas | 5,872 GWh |
| Electricity bought | 391 GWh |
| Diesel | 2 GWh |
| Flare gas | 149 GWh |

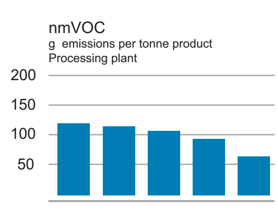
| RAW MATERIALS[3)] | |
|---|---|
| Rich gas | 22.70 mill tonnes |
| Condensate | 3.50 mill tonnes |

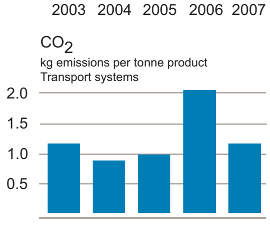
| UTILITIES/WATER CONSUMPTION | |
|---|---|
| Hydrochloric acid | 364 tonnes |
| Sodium hydroxide | 205 tonnes |
| Ammonia | 46 tonnes |
| Methanol | 160 litre |
| Other chemicals | 4 tonnes |

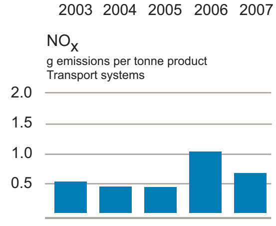
| WATER CONSUMPTION | |
|---|---|
| Fresh water | 0.8 mill $m^3$ |

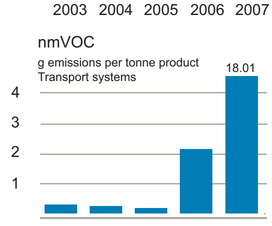



| PRODUCTS | |
|---|---|
| Lean gas | 18.67 mill tonnes |
| Propane | 2.89 mill tonnes |
| I-butane | 0.60 mill tonnes |
| N-butane | 1.12 mill tonnes |
| Naphtha | 0.73 mill tonnes |
| Condensate | 2.11 mill tonnes |
| Ethane | 0.90 mill tonnes |
| Electricity sold | 46 GWh |

| EMISSIONS TO AIR[4) 6) 8) 9)] | |
|---|---|
| $CO_2$ | 1,206,022 tonnes |
| nmVOC | 2,535 tonnes |
| Methane | 8,652 tonnes |
| $NO_x$ | 762 tonnes |
| $SO_2$ | 6,11 tonnes |
| Unintentional HC-gas emissions | 0 tonnes |

| DISCHARGES TO WATER[6) 7)] | |
|---|---|
| Cooling water | 345 mill $m^3$ |
| Treated water | 0.93 mill $m^3$ |
| Oil in oily water | 304 kg |
| Total organic carbon (TOC) | 6,4 tonnes |
| Unintentional oil spills | 0,01 $m^3$ |
| Other unintentional spills | 5,08 $m^3$ |

| WASTE[5)] | |
|---|---|
| Non-haz waste for deposition | 82 tonnes |
| Non-haz waste for recovery | 1421 tonnes |
| Non-haz waste recovery rate | 94,5 % |
| Haz waste for deposition | 9 tonnes |
| Haz waste for recovery | 892 tonnes |
| Haz waste recovery rate | 99 % |

(1) Gassco is operator for the plant, but StatoilHydro is the technical service provider (TSP)
(2) Includes energy consumption Transportnett: 254 GWh fuel gas
(3) Excludes gas transport by Transportnett: 44 mill. Tonnes
(4) Includes emissions Transportnett: 51,355 tonnes $CO_2$, 29 tonnes NOx, 795 tonnes nmVOC, 7,511 tonnes methane and 0.2 tonnes $SO_2$
(5) Includes waste Transportnett: 8.1 tonnes to landfill, 88 tonnes to recovery and 166 tonnes hazardous waste.
(6) Regulatory requirements for emissions to air have been exceeded for $SO_2$ at the Kårstø gas processing plant
(7) Process water is not included in hazardous waste
(8) Emissions from the terminals in Germany, Belgium and France are included up to 30 June 2007. From 1 July, Gassco AS was both operator and technical service provider (TSP) for the terminals.
(9) nmVOC and methane emissions from cold flare on Draupner and the terminals are included from 2007.

# Report from Ernst & Young AS

## Assurance report

**To the stakeholders of StatoilHydro ASA**

*Scope of engagement*
We have been engaged by the corporate executive committee of StatoilHydro ASA to prepare an independent assurance report on the health, safety and environment (HSE) accounting for StatoilHydro ASA in 2007, as presented in the annual report and accounts for 2007 on pages 175-180.

StatoilHydro ASA's corporate executive committee is responsible for the HSE accounting. Our task is to issue a statement on StatoilHydro's HSE accounting based on our work.

*Reporting criteria*
As a basis for this assurance engagement, we have used StatoilHydro ASA's internal reporting criteria specifically developed for HSE, as described in the text on pages 175-180, together with relevant criteria in the sustainability reporting guidelines of the Global Reporting Initiative (GRI).

The company was until Sept 30th 2007 two separate entities with their own sets of internal reporting criteria. We have taken into account the at any time valid reporting criteria and governing documents, as well as former Norsk Hydro ASA'a previous practice for registering, aggregating, reporting and verification of HSE data. Certain biases in historical data for the complete corporate HSE account may therefore occur.

Work performed
Our work is performed in accordance with the SA 3000 (ISAE 3000), "Assurance engagements other than audits or reviews of historical financial information". The standard requires that we plan and execute procedures in order to obtain reasonable assurance that the HSE accounting as a whole is free of material misstatement.

Our work has included:
- discussions with the corporate management for HSE on the content and aggregation of the HSE accounting
- site visits to selected entities, selected based on an evaluation of the entity's nature and significance, as well as general and specific risks. During site visits we have interviewed managers and personnel who participate in collecting the figures for the HSE accounting
- review of the historic aggregation and verification of former Norsk Hydro ASA's HSE accounting
- testing, on a sample basis, to evaluate whether HSE data which are included in the corporate performance indicators and environmental posters are reported, registered and classified according to StatoilHydro governing documents and in line with referred or recognized standards and methods
- review of whether systems used for registering, adapting, aggregating and reporting are satisfactory, and evaluating whether the reporting is complete and that the collection of data, adaptation and presentation of results in the HSE accounting is consistent
- an overall analyses of the figures compared with earlier reporting periods
- assessment of whether the overall information is presented in an appropriate manner in the HSE accounting

We have evaluated the HSE data's reliability, and whether the HSE performance is presented in an appropriate manner. Our objective has been to investigate:
- the acceptability and consistency of the reporting principles
- the reliability of the historical information presented on the relevant pages in the annual report and accounts
- the completeness of the information and the sufficiency of the presentations

We believe that our procedures provide us with an appropriate basis to conclude with a reasonable level of assurance.

*Conclusions*
Based on our work related to the HSE accounting on pages 175-180, we believe:
- StatoilHydro ASA has established a management system for HSE, and continuous improvement is actively pursued
- the HSE accounting includes information on all matters relating to HSE which are relevant to the group as a whole
- the information presented is consistent with the stated criteria
- the data tested is in general based on defined and consistent methods for measuring, analysing and quantifying data
- the HSE performance indicators and environmental posters are in accordance with information submitted by the various entities, and illustrations of trends are in accordance with presented historical data

Stavanger, 8 April 2008
ERNST & YOUNG AS

Erik Mamelund
State authorised public accountant

# General information

**Annual general meeting**
The annual general meeting of StatoilHydro ASA will be held at (address) on Tuesday 20 May at 17.00.

Shareholders who wish to attend the general meeting are requested to give notice to this effect by 16.00 on 16 May to:

DnB NOR Bank ASA,
Verdipapirservice,
Stranden 21,
NO-0021 Oslo

Telephone: +47 22 48 35 84
Telefax: +47 22 48 11 71

All shareholders can be represented at the meeting by a proxy with a written authorisation. Notice of the meeting will be given in advertisements in the newspapers Stavanger Aftenblad, Aftenposten, Dagens Næringsliv and Finansavisen.

**Dividend**
The board of directors' proposal for the distribution of dividend will be decided at the general meeting, and disbursement of the dividend is scheduled to take place on 30 May 2008. The dividend will be paid to the shareholders listed in the shareholder register in the Norwegian Central Securities Depository as of 20 May 2008.

**Performance reporting**
The following dates have been scheduled for quarterly reporting in 2008:
First quarter: 13 May
Second quarter: 1 August
Third quarter: 3 November

The results will be made public at 08.00.
The dates may be subject to change.

**Information from StatoilHydro**
The annual report is available in a printed and electronic version and the quarterly reports in an electronic version in Norwegian and English. The company also prepares an annual report on Form 20-F and quarterly reports on Form 6-K in English for the US Securities and Exchange Commission. These reports and further information about our activities are available on request from StatoilHydro's investor relations or corporate communications entities.

Shareholders registered as owners in StatoilHydro in the Norwegian Central Securities Depository can now have the annual report and notice of the general meeting sent electronically. If you wish to take advantage of this opportunity or you would like more information about it, see www.vps.no/erapport.html.

Addresses
The address of StatoilHydro's head office:
StatoilHydro ASA, NO-4035 Stavanger, Norway
Telephone: +47 51 99 00 00
Telefax: +47 51 99 00 50
Investor relations: ir@statoil.com

A complete list of addresses and phone numbers in StatoilHydro is available at:
www.statoilhydro.com/adresser

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| Øyvind Hagen | pages 2 , 6, 7b, 9 , 10, 26, 29, 40a , 54 |
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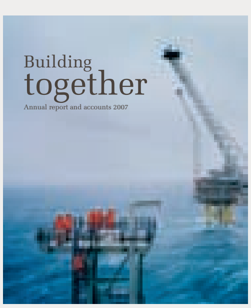
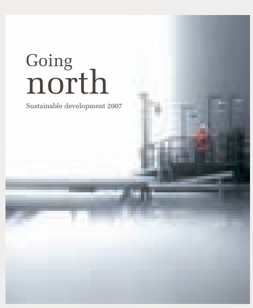
# StatoilHydro's reports 2007



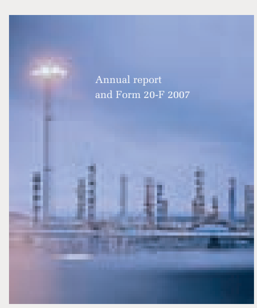

StatoilHydro

The annual report and accounts contains the directors' report, the financial analysis, the annual accounts (IFRS) and the HSE accounting. In addition come articles which give a good picture of our operations and governance systems as well as our plans and strategies.




StatoilHydro

This sustainability report provides information about our commitments, results and ambitions as a member of society. Key topics are values, ethics, human resources policies, financial performance and effects, the environment and social responsibility.




StatoilHydro

The 20-F report provides a detailed and extensive review of our operations. Its title refers to the document from the US Securities and Exchange Commission which specifies what the report must contain.


StatoilHydro

The financial statements 2007 Norwegian accounting principles contain the accounts for StatoilHydro ASA, in accordance with the Norwegian accounting principles (NGAAP).

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