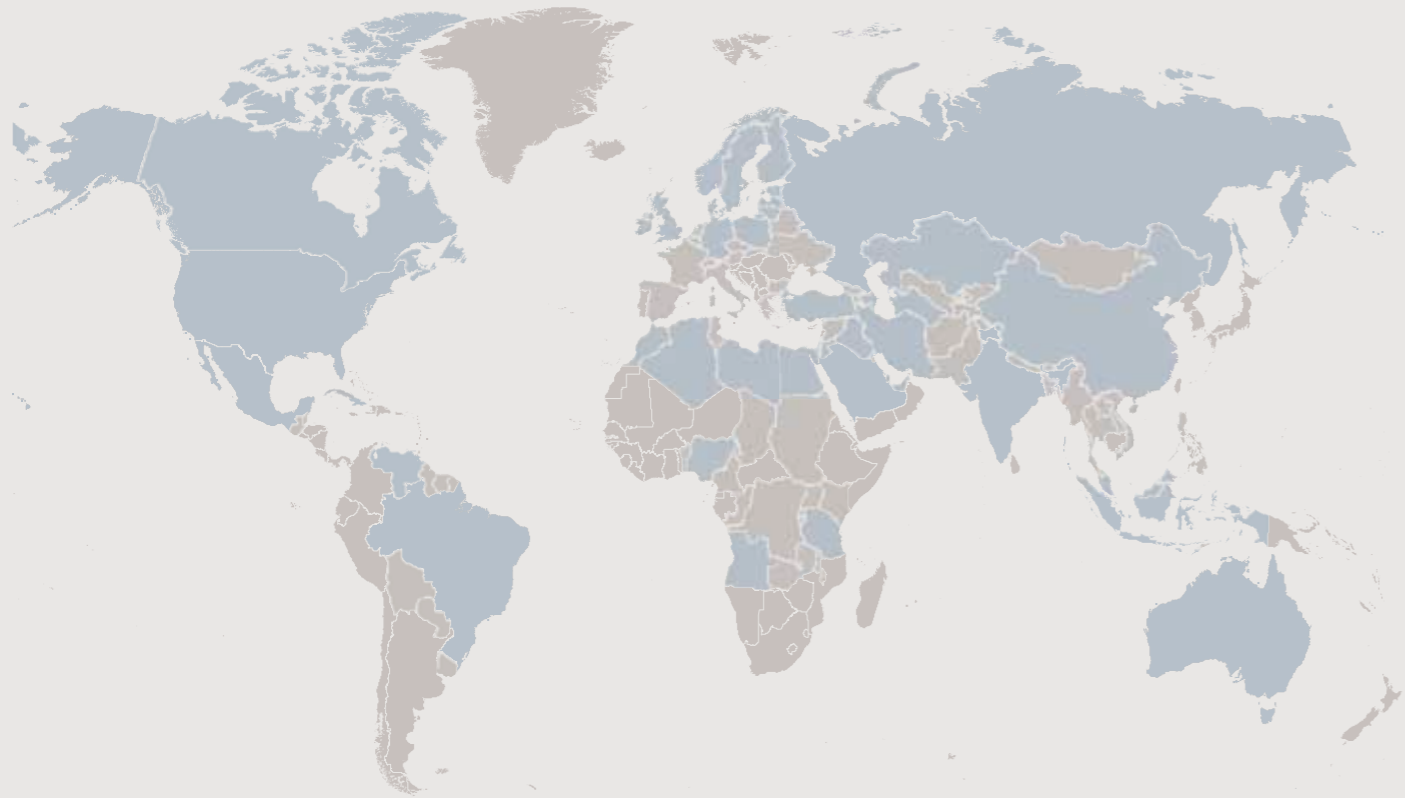
The background of the page is a photograph of an industrial facility, likely an oil refinery or power plant, at night. The facility is illuminated with warm yellow and orange lights, and several tall chimneys are visible. In the foreground, there are several bright, glowing white light trails that curve across the scene, suggesting movement or energy. The sky is a gradient of blue and green, transitioning from a deep blue at the top to a lighter green near the horizon.

# Energy Realities

Facing up to the energy challenges  
of tomorrow, today

**StatoilHydro**

# This is StatoilHydro



StatoilHydro is an integrated international energy company based in Norway with 29,500 employees in approximately 40 countries. We are focused on upstream oil and gas operations with more than 30 years' experience from the Norwegian continental shelf (NCS).

StatoilHydro came into being on 1 October, 2007, in the merger that combined Statoil and Hydro's oil and energy business.

We have more than 30 years of experience from the NCS, including pioneering complex offshore projects under the toughest conditions. Our culture is founded on strong values and a high ethical standard. Our headquarters are in Norway.

We are the leading operator on the NCS, and we are in an expansive phase internationally. StatoilHydro is also 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 39 producing oil and gas fields
- Equity production of 1.9 million barrels of oil equivalent per day in 2008
- Almost six billion barrels of oil equivalent in proved reserves
- World leader in carbon capture and storage
- One of the world's largest 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.

## Contents

Energy Realities .....	7
Facing the facts of the energy dilemma.....	11
Lifeline to Europe — and beyond .....	16
A rock solid energy supply.....	22
Our best-kept secret.....	28

The age of 'easy' oil and gas is drawing to a close.



World energy consumption is expected to increase by 1.6% annually for the next 20 years.

(IEA, World Energy Outlook 2008)



# Energy Realities

Our industry's dilemma is how to strike a sustainable balance between environmental impact and energy needs.

► [www.statoilhydro.com/ceoletter08](http://www.statoilhydro.com/ceoletter08)

We experienced a year of extremes in 2008. After a number of years of growth, the world now finds itself in a severe economic downturn. Oil prices peaked last summer at more than USD 140 per barrel, and have since declined by more than two-thirds. The global economy and our industry currently face more volatility and uncertainty than for a long time.

I believe StatoilHydro is well positioned to deal with this uncertainty. We are attacking the new realities with a strong balance sheet, a robust project portfolio and excellent people. We have made plans for upsides and downsides, and are prepared to react quickly to changing conditions. My priority is to steer through the turmoil with our financial flexibility intact, while continuing to deliver on our long-term strategy.

A downturn also represents an opportunity to achieve improvements. We want to work hard to reduce our own costs and to boost efficiency in the organisation. We will also work actively with our suppliers and partners to enhance quality and bring costs down to more sustainable levels. This will enable us to emerge from this crisis as an even stronger company.

Continuing to improve our operational performance and deliver projects on cost and schedule is our best protection against the turmoil. Our deliveries in 2008 were encouraging, and strengthened our industrial and financial platform. We increased our production and delivered on the production guidance we had given the market, we drilled more efficiently and improved our turnaround performance, and we strengthened our resource base by adding more than 3.5 billion barrels of oil equivalent (boe) through exploration and business development. I am proud of the fact that our people achieved strong deliveries while at the same time executing an extensive and complex merger.

The world's oil and gas resources are often found in areas which pose major development challenges, such as poverty, corruption and violations of human rights. We have to conduct our business with a high degree of transparency and within a clear performance framework defined by our values, health, safety and environmental principles, and ethical platform. Conducting an effective, efficient and profitable business within this framework is our best contribution to social development.

The safety of our people and those working for us is our overriding priority. We believe all accidents

can be avoided, and we are constantly working to improve our performance in sustainability and HSE. I am particularly pleased that HSE results on our offshore installations improved in 2008, and we are dedicated to maintaining this progress. In spite of that, we were very regrettably involved in two fatalities last year, which were unacceptable and tragic losses for us and for the next of kin.

The focus on climate change in recent years has highlighted one of the greatest dilemmas of our time: how to strike a sustainable balance between the climate effects of energy consumption and the need to ensure a secure supply of energy for the years ahead. Our industry finds itself at the intersection of these considerations. As an international energy company, we have an important contribution to make in finding the right balance.

This dilemma affects us on a daily basis. We endeavour to make our energy production even more cost-effective in order to improve the return on investment for our shareholders, and we are taking environmental actions to help solve the challenges which arise from the use of hydrocarbons. Our future licence to operate will increasingly depend on our performance in both dimensions.

Despite the best of intentions, it is a fundamental energy reality that the world is decades away from a low-carbon society. Hydrocarbons will continue to dominate the energy mix, and population growth and increased prosperity will continue to increase the demand for energy. It seems clear to me that the world needs to utilise every source of energy to meet rising demand. The challenge is how this energy can be developed and produced at the same time as we limit carbon emissions. It is important that the public debate on these topics reflects reality if society is to achieve concerted action in the future.

Technology development is a key part of our strategic response to climate change. One of our ambitions is to remain at the forefront of carbon capture and storage (CCS). The European test centre for CCS at Mongstad is a specific example of our efforts in

this respect. In a short- to medium-term perspective, we must continue to improve the efficiency of our operations with regard to both energy consumption and environmental impact.

Looking further ahead, we must gradually direct more skills and resources towards the commercial production of renewable energy. However, we should not underestimate the challenge involved in replacing fossil fuels as the most important component in the global energy supply. There is no quick fix. Further expansion of renewables will require more research and technological development as well as better collaboration between commercial enterprises, research institutions, universities and others. Last but not least, the provision of a stable and attractive investment framework by governments will be essential if investment in this area is to increase.

— *Helge Lund*



“ StatoilHydro’s results and deliveries in 2008 were strong, and we are well positioned to steer through the current economic downturn. Good exploration results and targeted business development strengthen our resource base and underpin our long-term growth strategy. ”

# Facing the facts of the energy dilemma

We live in challenging times. Stormy conditions prevail and the world's economic weather forecast is showing no signs of improvement yet. No one yet knows how big a storm the financial crisis is going to be.

▶ [www.statoilhydro.com/annualreport2008](http://www.statoilhydro.com/annualreport2008)

In StatoilHydro, we're reefing our sails to adjust our speed, but we're not altering course. As an energy company with long-term commitments to our customers, we have to maintain headway even in heavy weather. That means facing up to the energy challenges of tomorrow, today. And it means planning today, to provide the energy of tomorrow.

We cannot afford to be wrong-footed by changing market conditions or fluctuating oil and gas prices. Our customers—consumers, businesses, even countries—depend on us for reliable energy supplies, often decades ahead, and the demanding nature of our industry means that we also need many years to identify, explore and engineer the projects of the future.

That's why we're not losing track of our long-term goals even though oil prices have dropped radically in recent months. Rather, we're focusing on what we do best: concentrating on safe, efficient and sustainable operations, maximising recovery of resources from existing fields, and positioning ourselves strategically for growth in renewable energy and internationally.

We're focusing strongly on cost discipline, on realising synergies from the merger, and delivering on our production targets. That's not to say we don't

see challenges—but the challenges we see are further ahead than the current focus of world attention. And inherent in them is a major dilemma.

One side of the dilemma is probably the greatest challenge of our time: the now widely-accepted need to make radical reductions in emissions of CO<sub>2</sub> from fossil fuels so as to combat climate change.

But pulling in the opposite direction is the long-term trend for growth in the demand for oil and gas being driven by economic development and population growth. In the International Energy Association's World Energy Outlook 2008 Reference Scenario, which assumes no new government policies, world primary energy demand is estimated to grow by as much as 1.6% per year on average between 2006 and 2030—a cumulative increase of 45%.

A third consideration, along with the growth in demand, is the challenge of resource scarcity. It's easily overlooked in the current crisis, but when economic recovery comes, and it will, oil and gas prices are likely to increase, reflecting restrained capacity. Maturing fields are producing less, and new reserves of oil and gas are becoming harder to find. The age of 'easy' oil and gas is over. Remaining reserves are increasingly found in deep waters, harsh environments

“Energy Realities means focusing on the facts in the public debate on climate and energy. It means developing oil and gas responsibly, and investing in renewable energy. Above all, Energy Realities means taking a pragmatic, global approach to the global problem of climate change.”

and geologically challenging formations that require ever more complex and costly engineering solutions to develop.

As an energy company, we feel a responsibility to contribute to resolving this dilemma, and we believe that our strong technology focus and experience gives us much to contribute. We are already making significant contributions to mitigating emissions of CO<sub>2</sub>, developing renewable forms of energy, and securing long-term supplies of oil and gas for the future.

We see carbon capture and storage (CCS) as one of the most viable ways of achieving significant reductions in harmful CO<sub>2</sub> emissions to the environment. We are a leading CCS player with a track record going back over a decade, and several new projects in development. Our oil and gas operations on the Norwegian continental shelf are the most energy efficient in the world, emitting around a third of the world average of carbon dioxide per barrel produced. And we have a strong focus on developing a profitable business in renewable energy, with particular focus on offshore wind and biofuels.

But the truth is that renewable energy will not be able to make up the coming shortfall in energy supply in the foreseeable future—the quantities of energy needed are too large, and the lead times to get renewable energy into production too long. Research and development of advanced new offshore turbines or other forms of renewable energy will take many years yet, while bottlenecks in the supply of steel and manufacturing have constrained the growth of wind turbines. It's also a fact that no other energy source can currently match oil and gas for energy density or convenience, and that oil and gas must therefore remain the backbone of the world's energy supplies for several decades to come.

These uncomfortable truths are what we call Energy Realities—and they will have to be faced if the world is to avoid crippling energy shortages on the one hand, or disastrous climate change on the other.

Energy Realities means focusing on the facts in the public debate on climate and energy. It means acknowledging that fossil fuels will remain the

backbone of energy supply for many years to come. It means finding viable, responsible solutions as quickly as possible—using the best available technology and the highest environmental and safety standards. It means turning to harsh environments, deep waters and unconventional energy sources to secure the energy supplies of the future. It means opening up new areas on the Norwegian continental shelf and elsewhere to ensure continuity of development, and training enough new engineers for tomorrow. Most of all, Energy Realities means emphasising a global approach to the global problem of climate change—for example by showing how natural gas can help achieve significant overall reductions in emissions of CO<sub>2</sub> when it's used to replace more polluting forms of energy such as oil and coal.

In the short and medium term, we're convinced that natural gas offers the best practical solution to the challenges of Energy Realities. Not only is it efficient and reliable, it also offers a path to reduced carbon emissions and integration and symbiosis with renewable sources.

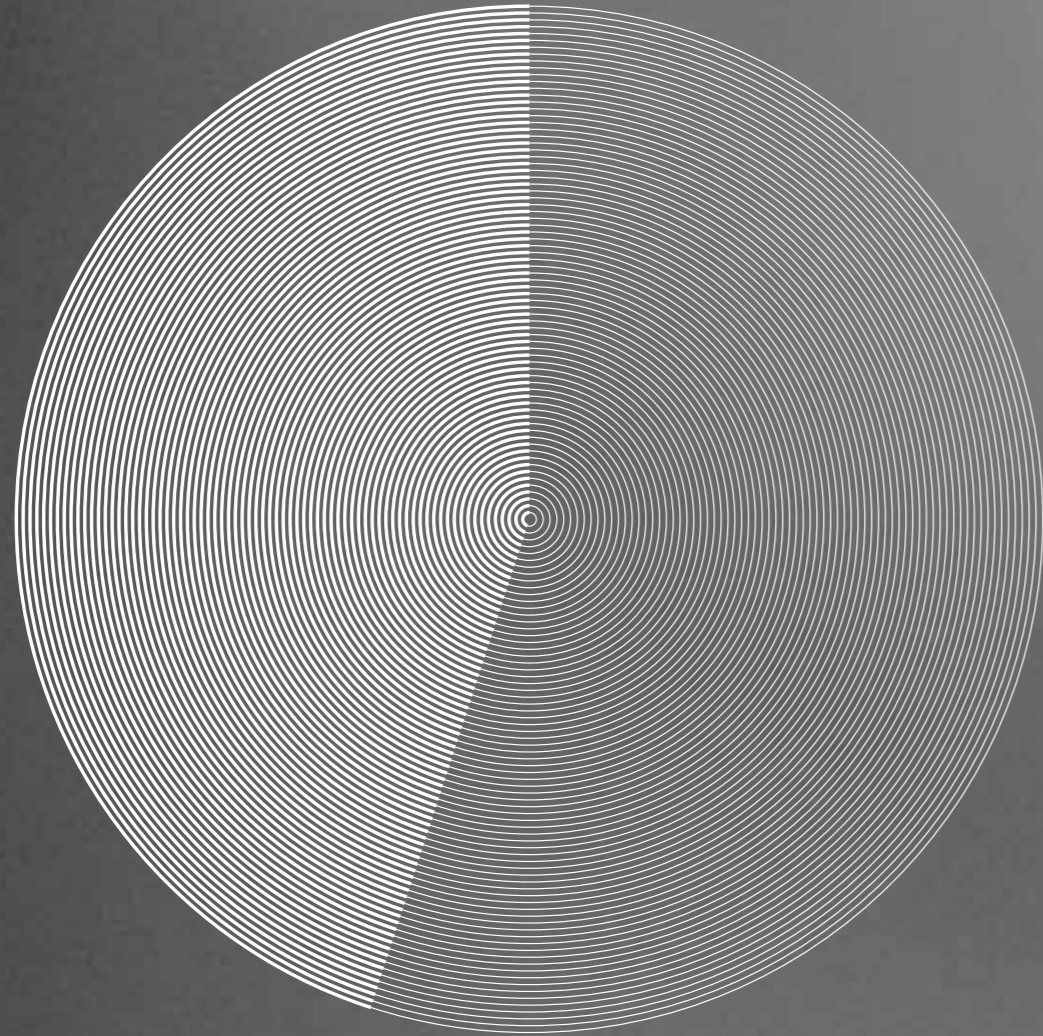
In this year's Annual and Sustainability Report on the web, we have chosen to highlight three sides of the natural gas story that illustrate a way forward. We show how the Norwegian continental shelf is gaining importance as a reliable supplier of natural gas, not only to Europe, but also to the rest of the world. Secondly, we take a look at our latest project in unconventional energy—the Marcellus shale gas play in the eastern United States. And thirdly, we demonstrate the importance of increasing the use of natural gas so as to achieve significant CO<sub>2</sub> emissions reductions from power generation.

We believe that a rational and realistic approach is needed to solve the world's energy challenges, and that this must be backed by a willingness to act pragmatically and quickly. In such turbulent times this is no easy task, but StatoilHydro is on course to weather the storm today and lend our strength to solving energy challenges tomorrow. Our belief is that environmental sustainability is best achieved through sustainability also in a business sense.



# 45%

The International Energy Agency has estimated that energy consumption could increase by 45% between 2006 and 2030.



Source: World Energy Outlook 2008 Reference Scenario



# Lifeline to Europe —and beyond

This year's winter of discontent in European gas relations has highlighted the strategic importance of reliable supplies to all countries that rely on natural gas for their domestic heating, industry and power generation. Gas pipelines are literally lifelines of energy that nations across Europe have come to depend on.

► [www.statoilhydro.com/lifeline08](http://www.statoilhydro.com/lifeline08)

Through our export and marketing of gas from the Norwegian continental shelf (NCS) to Europe, StatoilHydro plays a significant role in securing Europe's supplies. We currently have a market share of around 15% in the European gas market and are the second largest supplier of gas to Europe.

Gas from the NCS is transported through a comprehensive pipeline network unparalleled worldwide, connecting the NCS to continental Europe and the UK. We have a significant (32%) interest in the NCS pipeline system owned by Gassled, which is the world's largest offshore gas pipeline transportation system, totalling approximately 7,800 kilometres. This network links gas fields on the NCS with processing plants on the Norwegian mainland, as well as terminals at six landing points located in France, Germany, Belgium and the UK, providing us with flexible access to customers throughout Europe.

Beyond Norway's borders, we also provide gas to Europe from the south, in pipelines from Algeria to Spain and Portugal, and we are actively developing new supplies from the east, such as the Caspian region and the Shtokman field in north-western Russia.

A new chapter in our gas story opened in 2007 with the first shipment of liquefied natural gas (LNG) from our Snøhvit field in northern Norway to southern Europe. LNG's transportability is also widening our horizons as a gas supplier to countries as far-flung as the USA and Japan—giving us greater market optionality and greater business and strategic flexibility, as well as providing lifelines of energy far beyond the boundaries of Europe.

#### Record gas sales

In Europe, StatoilHydro has a strong foothold in attractive markets, with first-class market positions in countries such as the UK, Germany, France and Belgium. We focus mainly on meeting our existing supply commitments through long-term sales contracts, but we also attain higher value by trading additional volumes on the liquid trading points for gas in Europe.

Gas exports from the NCS were at a record level in 2008 and are expected to grow. In 2008, StatoilHydro sold 39.3 billion cubic metres (bcm) of entitlement gas. In addition, we sold 32.0 bcm of NCS gas on behalf of the State's Direct Financial Interest (SDFI). Most of the gas was sold to European



customers under long-term contracts. Our market share is approximately 20–25% in Germany and France and approximately 15% in the UK.

#### Widening our horizons

Despite the recession, the underlying trend of world energy demand is upward as a result of economic development and population growth. As an attractive and versatile energy carrier, gas is expected to increase its share of a growing market. With 60% of our reserves now in gas, we are already expanding our horizons beyond Europe to position ourselves as an international gas player, exploiting our strategic positions in North America, north Africa and the Caspian region.

“Thanks to the transportability of LNG, we can ship gas anywhere in the world.”

For 20 years, we have supplied the US market with oil from the North Sea and the Norwegian Sea. In February 2008 we supplied gas for the first time to the USA from the NCS. Liquefied natural gas was shipped by tanker from the Snøhvit field in the Barents Sea and arrived at the Cove Point terminal in Maryland after a 12-day voyage from Norway. Our strategic investment in the Marcellus shale gas play through our deal with Chesapeake Energy Corporation last year will also contribute to supply stability in the US market.

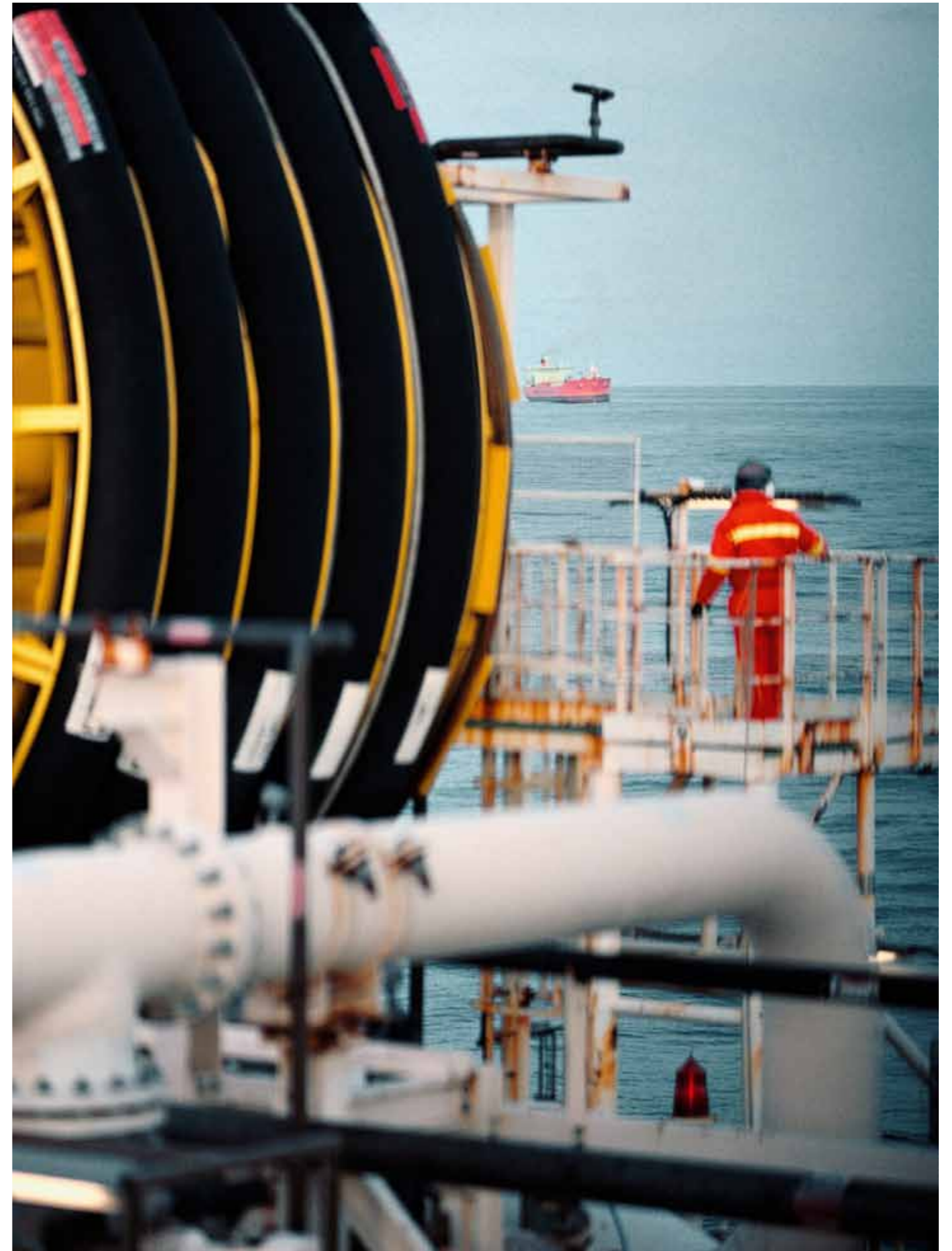
Thanks to its transportability, LNG from our production from the Snøhvit facility is now reaching customers even further afield. In March 2008 we made the first ever shipment of Norwegian gas to Asia, in the form of LNG from Snøhvit. The buyer was the Tokyo Electric Power Company at the Ohgishima terminal in Tokyo Bay.

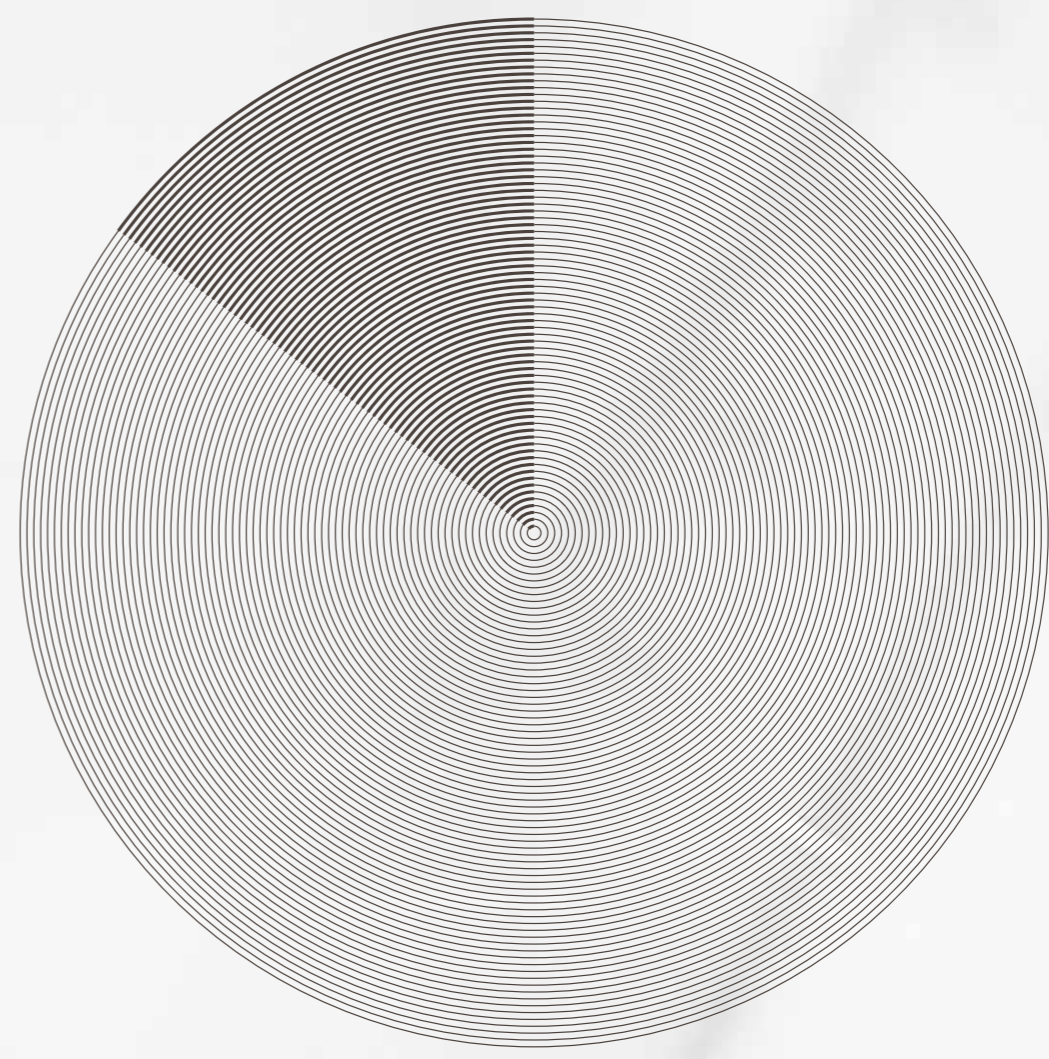
#### Further growth

We are also further developing our international gas positions. Our participation in Shtokman Development AG that aims to develop the gigantic Shtokman field on the Russian continental shelf is one example. In Azerbaijan we have a strong position through our share in the gas and condensates field, Shah Deniz, with the phase II development set to further strengthen our position in the Caspian region.

StatoilHydro also has a strong gas position in Algeria through the joint venture with Algeria's national oil company Sonatrach, and with BP for the gas fields In Salah and In Amenas in the Sahara. Together, these two fields account for a fifth of Algeria's total gas production. Algeria is the third largest gas supplier to Europe, after Russia and Norway. We are also operator of Hassi Mouina, an exploration licence in the Algerian Sahara that covers an area half the size of Denmark, where seven gas finds have already been made.

The foundation for future growth in our gas business is high quality in all sections of the value chain, from discoveries and development, to market adaptation, sales and transport. StatoilHydro has long experience with building gas value chains. Now we are investing in further development of the NCS, at the same time as we are developing international positions. We intend to play a key role as a stable, long-term supplier of energy for many years to come.





**15%**

**We play a significant role in securing Europe's energy supplies. With a 15% share of the European gas market, we are the second largest supplier of gas to Europe.**

Source: Norwegian Ministry of Foreign Affairs / Government.no

# A rock solid energy supply

As the era of 'easy' oil and gas production draws to a close, StatoilHydro is taking a long-term approach to securing the energy supplies of the future. Our quest is taking us to regions with harsh environments, deep waters and challenging geology. And it means crossing new frontiers to develop unconventional sources of energy. Shale gas is our latest venture.

▶ [www.statoilhydro.com/rocksolid08](http://www.statoilhydro.com/rocksolid08)

Shale gas is natural gas that is locked between layers of shale deposits, deep underground. One of the world's largest shale gas fields is found 1000 to 3000 metres below the surface in the Marcellus play in the Appalachian Basin of the north-eastern USA. In November 2008 we acquired a 32.5% interest in Chesapeake's Marcellus shale gas acreage as part of a landmark deal. Chesapeake Energy Corporation is the country's largest producer of natural gas.

Shale gas from the Marcellus formation will provide a stable, reliable and non-imported source of energy for American consumers for decades to come—right in the heart of the world's largest gas market.

Our alliance with Chesapeake is also strategic in that it paves the way for long-term close cooperation on exploration for new opportunities in unconventional gas worldwide—establishing a strong platform for developing our international gas value chain business, as well as building on our existing gas business in the USA.

## Shale gas geology

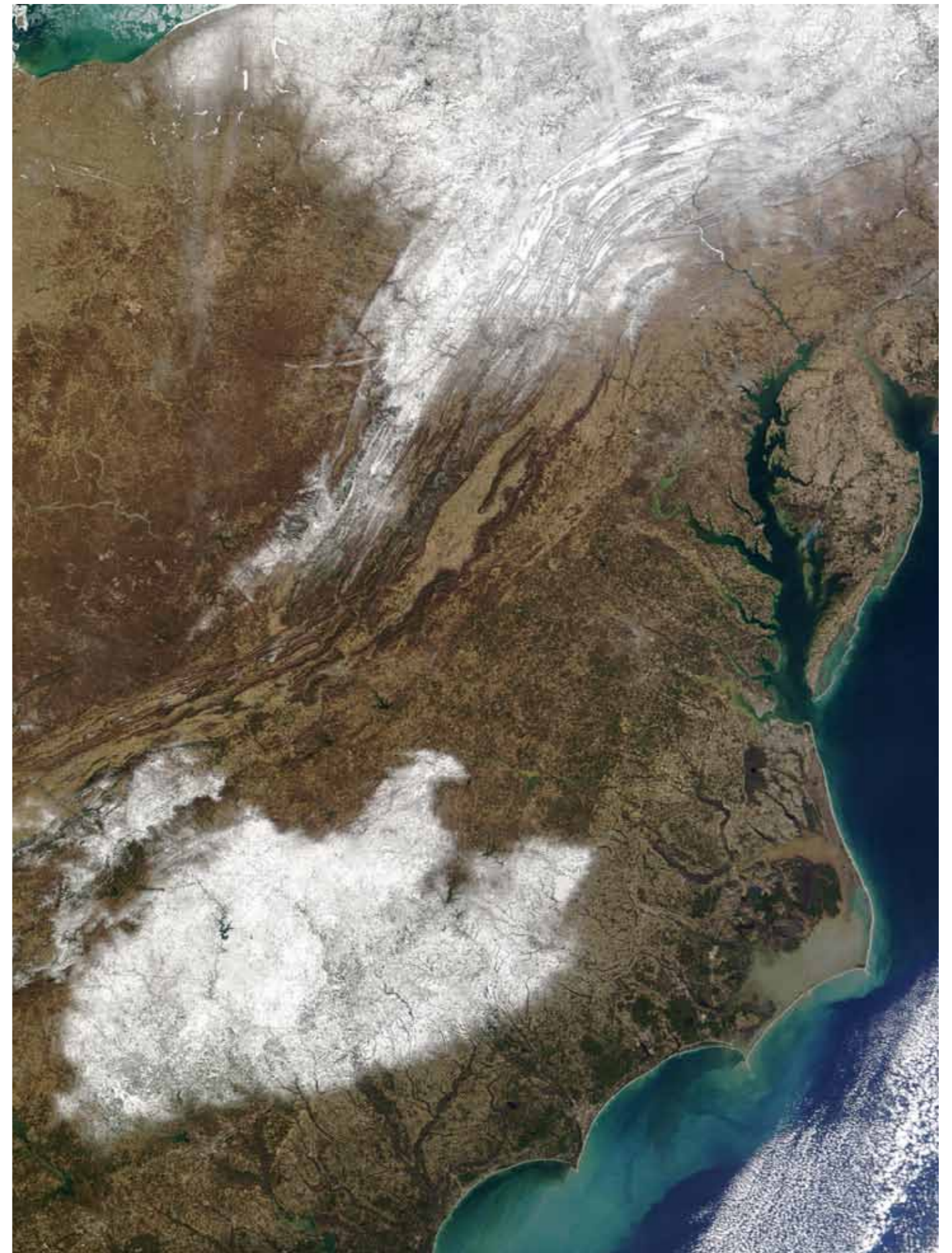
To understand how shale rocks can contain oil and gas, we have to go back 400 million years to the

Devonian period, when the rocks were deposited. As the sediments became compressed, their temperature increased and organic material they contained was converted to oil that saturated the rock pores. Much of the Marcellus formation was buried even deeper, so that gas formed under high pressure and temperature.

Technical breakthroughs in rock fracturing and cost reductions over the past five years have made recovery of these resources viable. Shale reservoirs are also widespread worldwide but have so far only been developed in the USA.

Gas-saturated shale exists in the deeper Pennsylvanian strata, up to 3000 metres below the surface—and these are the resources that StatoilHydro will now be helping to recover. We have experience with rock fracturing dating back to 1990. Since then we have conducted about 50 fracturing operations on a number of fields in Norway, Algeria and Nigeria.

The work of fracturing the rocks begins once drilling has ended. After perforating the bottom of the production casing, the borehole is filled with water and sand. Pumping this mix out under high pressure fractures the shale, and the fractures are



kept open by the sand. Once the wells begin production, gas will flow through these sand-filled fractures. An average shale gas well is expected to produce some 40% of the resources in place during the first five years. Production can continue for up to 65 years, although it diminishes over time.

Shale gas producers must comply with strict US protection standards for endangered species, wetlands and groundwater. Impact on the surface is small, since all the wells have horizontal reservoir sections, and several can be drilled from the same site. Several kilometres can separate drilling sites on the surface.

“ Shale gas from the Marcellus formation will provide a stable, reliable and non-imported source of energy for American consumers for decades to come—right in the heart of the world’s largest gas market. ”

#### Building on our US business

The Marcellus formation covers an area of 140,000 square kilometres, equivalent to 40% of Norway’s surface area. The shale gas in Marcellus lies near markets traditionally considered to be among the best paying in the USA. Chesapeake plans to continue to acquire leases in land over the Marcellus play, and StatoilHydro has the right to 32.5% participation in any new holdings.

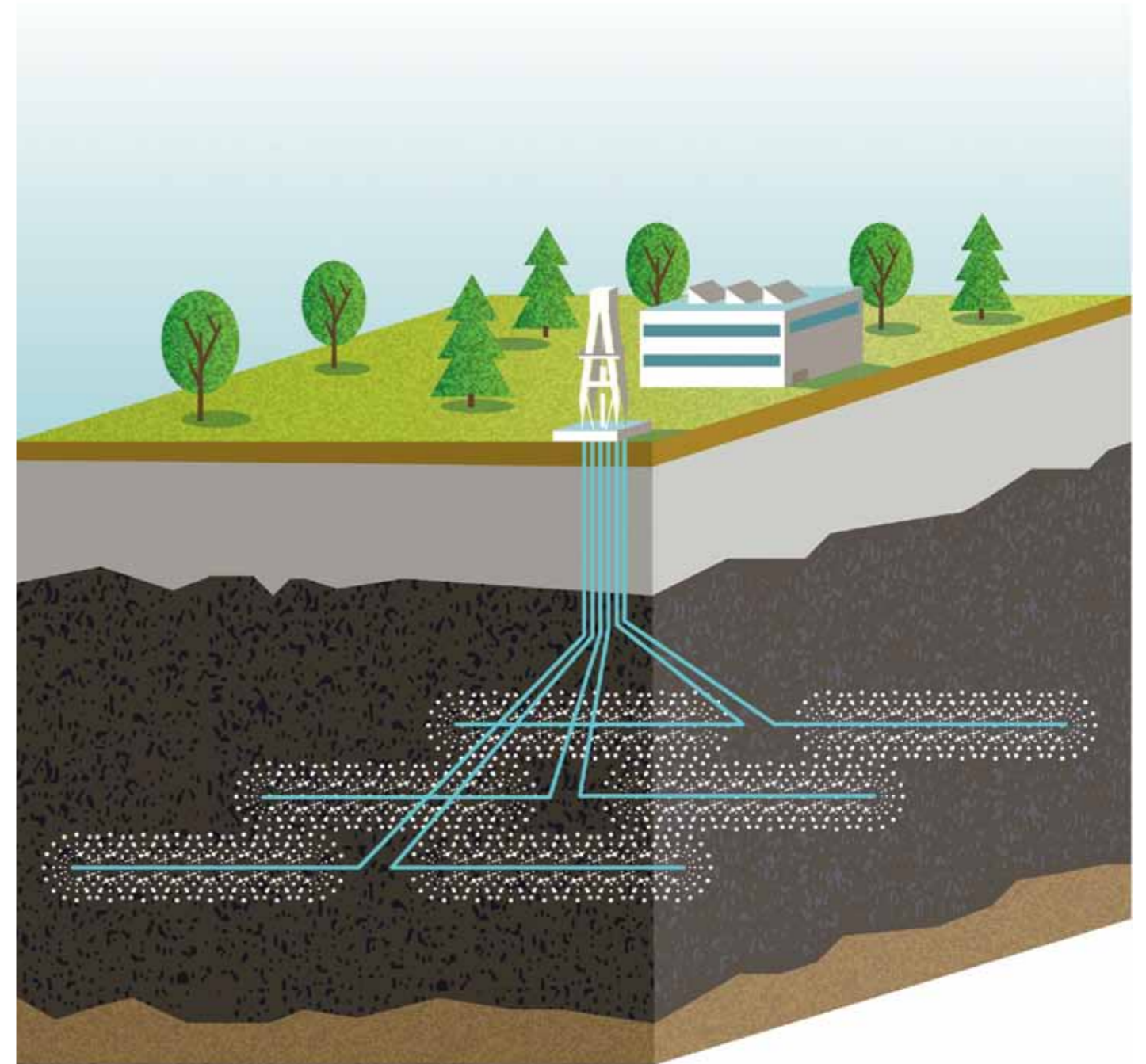
The recoverable reserves that StatoilHydro has purchased through the Marcellus agreement make up around 400 to 480 billion standard cubic metres (scm) of gas, or 2.5 to 3 billion barrels of oil equivalent (boe). For this, we paid USD 1,250 million. The

group has also undertaken to pay a further USD 2,125 million by carrying 75% of Chesapeake’s drilling and completion costs in 2009–12. StatoilHydro expects net positive cash flow from 2013.

In the future the Marcellus is expected to make a significant contribution to StatoilHydro’s reserves and production.

StatoilHydro already has a well-established gas position in North America. Since 2003 we have supplied LNG cargoes to the Cove Point terminal on the east coast of the USA, and early in 2008, the first shipment of gas from StatoilHydro’s Snøhvit field in the Barents’s Sea reached the American terminal. We also produce gas in the US sector of the Gulf of Mexico, and our Stamford office in Connecticut markets the gas.

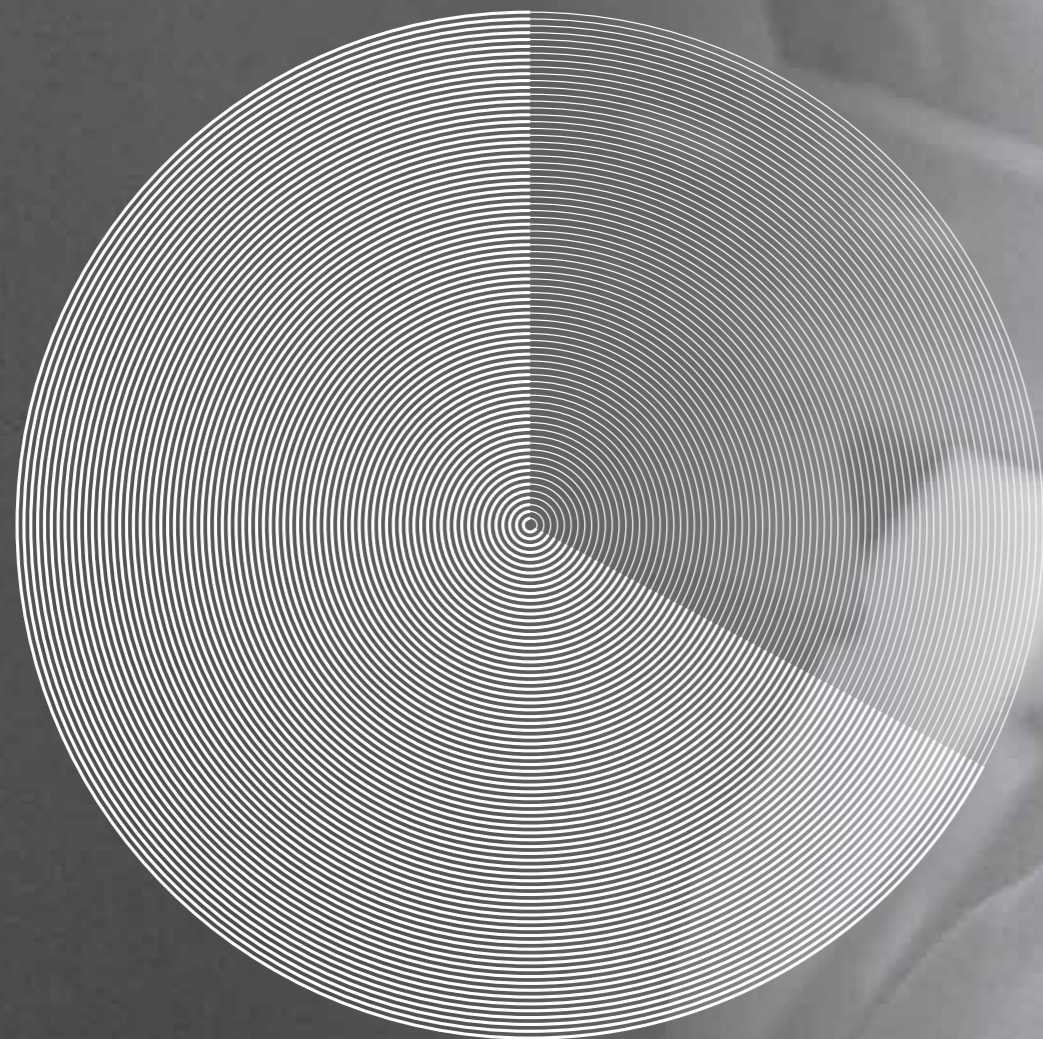
With our purchase of shale gas in the USA, we are strengthening our position in the world’s largest gas market. Shale gas will ensure our participation in the entire gas value chain—from production to transport and marketing of gas. The agreement we have entered into with Chesapeake provides us with a solid position in an attractive long-term resource base at competitive terms.



Gas-saturated shale exists in the deeper Pennsylvanian strata, up to 3000 metres below the surface—and these are the resources that StatoilHydro will now be helping to recover. The work of fracturing the rocks begins once drilling has ended. After perforating the bottom of the production casing, the borehole is filled with water and sand. Pumping this mix out under high pressure fractures the shale, and the fractures are kept open by the sand.

2/3

If an older coal-fired power station is replaced by a modern gas power station, actual CO<sub>2</sub> emissions can be reduced by as much as two thirds.



Source: IPCC—Intergovernmental Panel on Climate Change



# Our best-kept secret

It doesn't show anywhere in our accounts. It's not included in our sustainability reporting. But it's our single biggest contribution to mitigating climate change worldwide. Our best-kept secret is the export of emissions reductions—by replacing coal with natural gas.

▶ [www.statoilhydro.com/secret08](http://www.statoilhydro.com/secret08)

Increased export of natural gas to Europe could provide a net cut in total emissions of carbon dioxide to the atmosphere by 90,000,000 tonnes per year—nearly twice Norway's total annual output of CO<sub>2</sub>. Since most of Europe's electricity is still being generated in coal-fired power stations that emit three times as much carbon dioxide emissions as a modern gas power station, and Europe is actively working to replace coal-fired power stations, the more natural gas we export to Europe, the lower total CO<sub>2</sub> emissions will be.

The European Union has set ambitious climate targets in the period leading up to 2020. Twenty per cent of the energy that is consumed is to come from renewable sources, CO<sub>2</sub> emissions are to be reduced by 20%, and energy efficiency is to be increased by 20%. Set against such a background, there is a need to increase the use of natural gas at the expense of more polluting energy sources.

In the report *Norway as an Energy Nation* presented to the Norwegian Minister of Petroleum and Energy by a consortium of Norwegian industries in 2008, one of the conclusions was that increased gas exports can be Norway's most important contribution to reductions in global emissions of greenhouse

gases. The report explains this through a calculation: if the export of natural gas from Norway to Europe increased by 30 billion cubic metres per year, and this gas were used to replace coal power, CO<sub>2</sub> emissions would be reduced by approximately 90 million tonnes, or nearly twice Norway's total emissions per year. Although considered optimistic, the calculation illustrates the scale of savings in carbon dioxide emissions that are achievable by replacing coal and oil with natural gas. By comparison, the potential for emissions reductions through Norwegian carbon capture and storage amount to some three million tonnes of carbon dioxide per year.

As the largest operator on the Norwegian continental shelf we are therefore contributing to lowering climate emissions in Europe. During the last 10–15 years, StatoilHydro's production and export of Norwegian gas has contributed to helping several countries in Europe replace coal with natural gas.

Fossil fuel power production in Europe has increased by approximately 30% since 1990. But in the same period, emissions of greenhouse gases from the same production have practically stood still. An important part of the explanation is increased use of gas in the power sector. From 1990 to 2005,



#### OUR CONTRIBUTIONS TO REDUCING CARBON EMISSIONS

- We export considerable quantities of natural gas which go to replace more climate-harmful energy sources such as coal and oil

- We are taking an active role in developing and implementing renewable energy solutions

- We have the lowest CO<sub>2</sub> emissions in the world per produced unit and are more than 60% more CO<sub>2</sub>-effective than the world average

- We have invested systematically in the development of environmental technology and improvements in our operations

- We are leaders in the field of carbon capture and storage (CCS). New projects can have a total emissions reduction potential of three million tonnes of CO<sub>2</sub> per year by 2020.

- We have initiated a strategic programme to identify new initiatives to reduce emissions from the Norwegian continental shelf, including ensuring effective development and implementation of new technology.

the use of gas for power generation increased from about 40 billion standard cubic metres to around 120 billion standard cubic metres annually. Without this tripling in the use of gas, emissions from the power sector in Europe would be considerably higher than they are today.

As a total approach to a global problem, replacing coal and oil with natural gas is probably the quickest, most effective and pragmatic solution to achieving significant emissions reductions that we can hope for in the short and medium term, and the best chance for Europe to meet its climate goals for 2020.

But gas is more than the most environmentally friendly fossil fuel. Its flexibility and availability means that it also makes the perfect partner for renewable energy sources that are variable in output, such as wind power. When the wind blows, wind turbines generate power; when there is a calm, gas power quickly takes over, ensuring continuity of supply. It's a symbiotic relationship that makes renewable sources more viable and can provide a springboard to the future and the low-carbon society. We are actively developing and implementing renewable sources of energy, such as offshore wind power.

#### Energy-efficient operations

Not only is natural gas more environmentally friendly than other fossil fuels when consumed, but our emissions from producing the gas on the NCS are the lowest in the world—only a third of the world average.

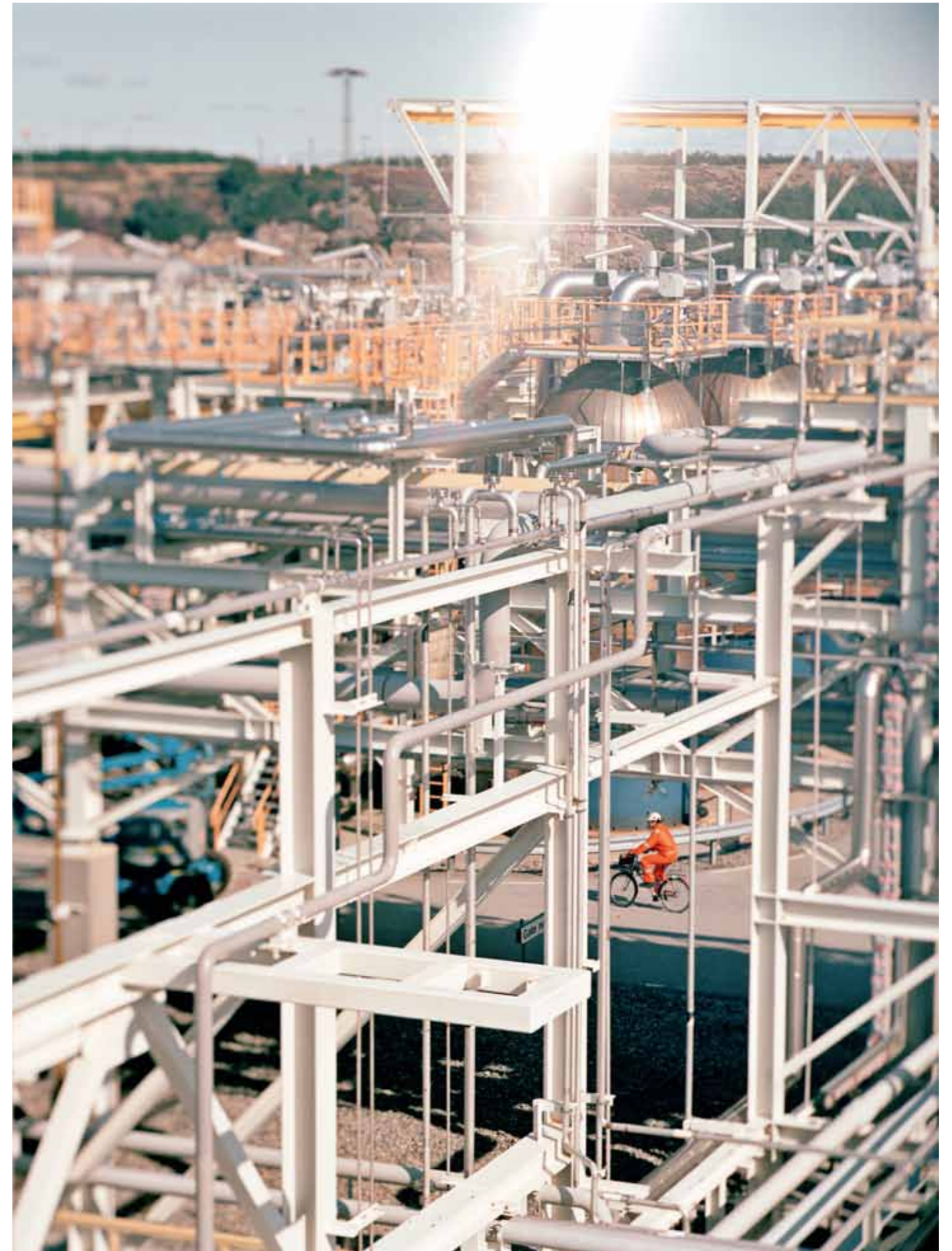
Emissions of greenhouse gases from production on the NCS lie at around a third of the world average for comparable installations and operations, due to a series of initiatives that have been implemented, or are being planned, by StatoilHydro and the rest of the industry to limit CO<sub>2</sub> emissions. In sum, these initiatives have contributed to reducing carbon dioxide emissions per produced unit on the NCS by 19 percent between 1990 and 2005.

#### Resolving the energy dilemma

Growth and a rising standard of living will drive demand for energy, and the world will remain dependent on fossil energy sources for a considerable time to meet demand. Natural gas is the fossil energy carrier that gives the lowest emissions of greenhouse gases, and gas will play a central role in the world's energy supply for several decades yet.

StatoilHydro's export of natural gas to Europe will continue to grow in the years to come. Side by side with our business target of continued expansion, we are preparing ourselves for a future where the climate challenge will be ever more central. The ambition is not to be a part of the problem, but part of the solution. It's about developing more environmentally friendly technology to produce energy in ways that give the lowest possible emissions, and by offering energy which gives the lowest possible emissions when it is consumed.

In practice, increased export of natural gas is the single most effective climate initiative that Norway and StatoilHydro can implement in the short and medium term.



# Facts & key events in 2008

## Business development

- On 21 February, Gazprom, Total and StatoilHydro signed a shareholder agreement for the creation of Shtokman Development AG for phase one of the Shtokman field.
- StatoilHydro ASA and Det norske oljeselskap ASA signed a sales and purchase agreement on 12 October for the transfer of Det norske oljeselskap's 15% interest in the Goliat field to StatoilHydro ASA. The transaction has effect from 1 January 2008. Also on 12 October, StatoilHydro Petroleum AS and Det norske oljeselskap ASA agreed on a swap of minor interests in three other licences.
- On 21 October, the European Commission announced that StatoilHydro had been granted permission to take over the bulk of the Jet retail chain in Scandinavia currently owned and operated by ConocoPhillips.
- On 12 November StatoilHydro formed a strategic alliance with Chesapeake Energy Corporation to jointly explore unconventional gas opportunities worldwide. Under this agreement we will initially acquire a 32.5% interest in Chesapeake's Marcellus shale gas acreage.
- On 11 December StatoilHydro completed the full acquisition of the Peregrino heavy-oil field off the coast of Brazil, after closing the deal to acquire the additional 50% stake from Anadarko and making StatoilHydro the operator.

## Access to new areas

- Internationally, StatoilHydro was the high bidder on 16 leases, of which 14 were joint bids with ENI Petroleum, in the Chukchi Sea lease sale 193 in Alaska announced on 6 February. StatoilHydro will be the operator of all 16 leases. In total, the group gained access to 20 new exploration licences during the year in the Gulf of Mexico, Alaska, Brazil, Canada and the Faroe Islands.
- In Norway, StatoilHydro was offered interests in 12 production licences in the Awards of Predefined Areas 2007 (APA 2007) on the Norwegian continental shelf (NCS). The company will be the operator of nine of the licences

## Exploration activities

- StatoilHydro delivered an extensive exploration programme in 2008. Of a total of 79 exploration wells completed before 31 December 2008, 40 were drilled outside the NCS. Thirty-five wells were discoveries, eight of which are located outside the NCS. An additional eight wells have been completed since 31 December 2008.

## Project development

- StatoilHydro maintained a high activity level in progressing projects into production. On 18 January, the plan for development and operation (PDO) of Yttergryta was submitted, only six months after the discovery was made. In 2008, StatoilHydro delivered three PDOs on the NCS: Yttergryta (18 January), Morvin (15 February) and the Troll Field project (27 June).
- Production from Gamma Main Statfjord on the Oseberg field in the North Sea commenced on 12 April, only 18 months after the oil deposit was proven. Production started from seven fields on the NCS during 2008: Volve (12 February), Gulltopp (7 April), Oseberg Gamma Main Statfjord (12 April), Vigdis East (15 April), Theta Cook (26 June), Oseberg Delta (27 June) and Vilje (1 August). Internationally, production commenced on Mondo in Angola (1 January), Deep Water Gunashli in Azerbaijan (22 April), Saxi and Batuque off the coast of Angola (1 July), the Agbami in Nigeria (29 July) and South Pars in Iran (1 October).

## Production

- Total equity production increased by 5% from 2007 to 1,925 mboe per day in 2008. Total liquids and gas entitlement production increased by 2% from 1.724 mboe per day in 2007 to 1,751 mboe per day in 2008.

## Market

- The first cargo of gas from the NCS arrived in the strategically important markets in the USA on 21 February and in Japan on 22 March.
- Gas filling into the storage caverns in the Aldbrough project in the UK started in August. This is a cooperation project for natural gas storage between the British company SSE Hornsea Limited (SSEHL) and StatoilHydro.

# Business strategies

StatoilHydro is continuing its strategy for value creation and growth and upholding its ambition to increase the equity production of oil and gas up to 2012, despite great uncertainty in the global economy and the oil market. Our long-term strategy remains unchanged, and we are taking firm action to manoeuvre through the current turmoil. StatoilHydro's strategy is to create shareholder value as an upstream-oriented, and technology-based energy company. This strategy can be summarised as:

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

In the short term, our main focus will be on delivering on our production targets and managing our cost base. This means delivering high operational performance, with a strong focus on health, safety and the environment (HSE). In the longer term our focus is to develop the current project portfolio with quality and at a competitive cost to enable us to grow profitably.

## Exploration & Production Norway

Our overall strategy on the NCS is defined as:

- Safe, efficient and reliable operations
- Capturing the full potential of the NCS in terms of developing profitable oil and gas resources

All activities in StatoilHydro are conducted with high focus on HSE in order to prevent harm to people and the environment.

As several fields on the NCS are maturing and production declines, high priority will be given to the implementation of measures to increase production from existing fields.

EPN aims to maintain and strengthen the NCS's position as the most energy-efficient petroleum region in the world.

## International Exploration & Production

Our long-term upstream growth ambition will mainly be achieved by growing internationally. Growth is being pursued through our four focus areas - deep waters, harsh environments, gas value chains and heavy oil.

These focus areas all draw upon our existing strong technical and project execution skills acquired through our experience from the NCS. We access new resources through advanced exploration activities, focused business development and long-term partnerships with national oil companies. Our international access strategy has increased the scale of our operations in terms of produced volumes, reserves and technological and geographical breadth. We aim to build a robust, diverse and long-life portfolio with significant optionality and flexibility.

## Natural Gas

NG's 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 large long-term gas sales contract portfolio and are continuously evaluating midstream and downstream opportunities in order to take further advantage of our existing infrastructure, access to supplies and experience in marketing of natural gas. Our downstream strategies may differ from region to region depending on our particular position in the area and the nature of the market in question. StatoilHydro aims to further develop its position on the NCS and internationally through increased production and investments in new fields and infrastructure aimed at serving the European and US gas markets.

## Manufacturing & Marketing

M&M's strategy is to contribute to the integrated oil value chain by selectively building competitive midstream and downstream positions. This strategy aims to maximise the value of our crude oil production and to strengthen and support the value of the group's upstream portfolio. Continued focus on safe, reliable and efficient operations is the basis for future growth in this segment. We will focus on further developing our position in North America to maximise the value creation from the group's crude production in the Gulf of Mexico, future production of extra heavy oil from Canada and Brazil, as well as our production imported to North America from other regions.

## Technology & New Energy

The objectives of the corporate technology strategy are to identify those technologies that will help the company to develop as a profitable, performance-driven, internationally competitive organisation; and guide its future growth in certain areas that can lead to substantial technology differentiation.

To StatoilHydro, climate change is both a challenge and a business opportunity. Our focus is on building a business with significant economic value creation in the short and long term, with particular emphasis on off-shore wind, sustainable bio-fuels and carbon management.

## Projects

Our strategy is to develop high quality projects as planned and in a safe and reliable manner. Our ability to utilise the company's world-leading technology, execute projects in complex surroundings and demonstrate our core expertise in new markets is of vital importance for opening up new business opportunities. The fight for global resources is fierce, but familiar to StatoilHydro. The real challenge is inflicted by local market, local practices, new standards and new cultures. These unfamiliar settings impact price, availability, quality and lead times for deliveries.

# Sustainability

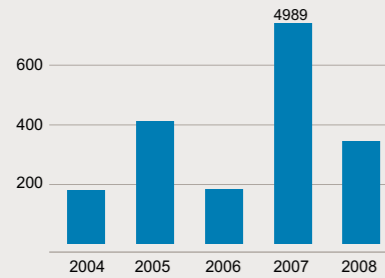
We recognise that our continuing business success depends on our ability to effectively manage the variety of environmental and social challenges, risks and opportunities with which our operations are faced.

Our ambition is to operate with zero harm to people, society and the environment, in accordance with our principles for sustainable development. Our policies and

requirements apply to all operations we control and to all staff and contractors at those operations. We expect our partners and suppliers to have standards consistent with ours.

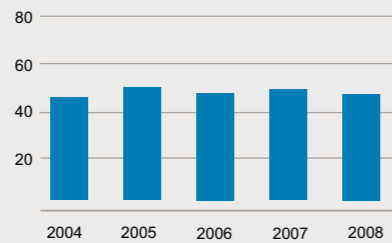
By adhering to solid standards for HSE, business integrity and social responsibility we believe that we are able to identify risks at an early phase.

## OIL SPILLS



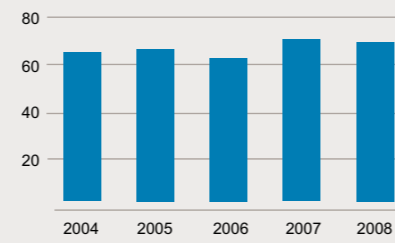
Definition: Accidental oil spills to the natural environment from StatoilHydro operations (in cubic metres)

## NITROGEN OXIDES EMISSIONS



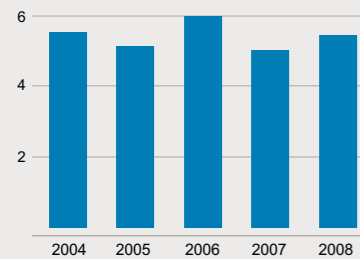
Definition: Total emissions of nitrogen oxides in thousand tonnes from StatoilHydro-operated activities

## ENERGY CONSUMPTION



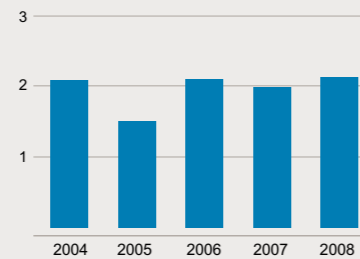
Definition: Total energy consumption in terawatt-hours (TWh) for StatoilHydro operated activities

## TOTAL RECORDABLE INJURY FREQUENCY



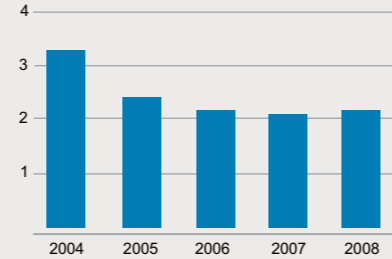
Definition: The number of fatalities, lost-time injuries, cases of alternative work necessitated by an injury and other recordable injuries, excluding first-aid injuries per million working hours.

## LOST-TIME INJURY FREQUENCY



Definition: The number of lost-time injuries and fatal accidents per million working hours.

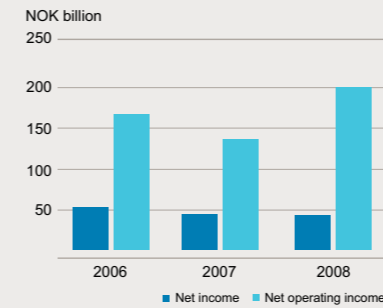
## SERIOUS INCIDENT FREQUENCY



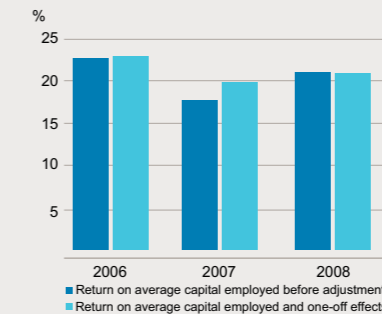
Definition: The number of incidents of a very serious nature per million working hours (1).

# Key figures

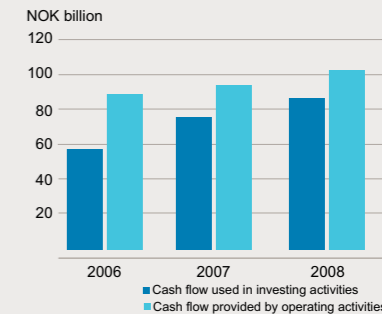
## INCOME



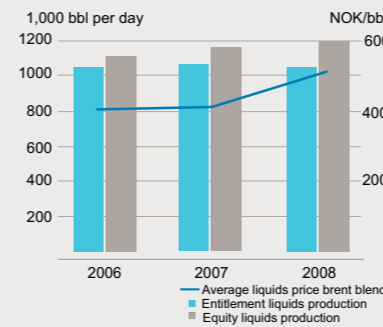
## RETURN



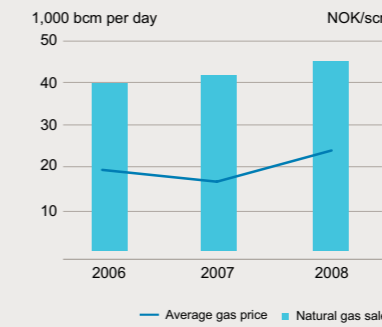
## CASH FLOW



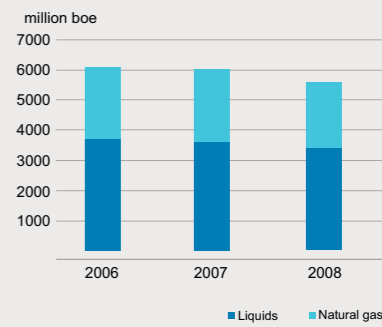
## OIL PRODUCTION/PRICE



## GAS PRODUCTION/PRICE



## PROVED OIL AND GAS RESERVES



# 2006–2008

(in NOK billion, unless stated otherwise)

	2008	2007	2006
<b>Financial information</b>			
Total revenues	656.0	522.8	521.5
Net operating income	198.8	137.2	166.2
Net income	43.3	44.6	51.8
Cash flow provided by operating activities	102.5	93.9	88.6
Cash flow used in investing activities	85.8	75.1	57.2
Interest-bearing debt	75.3	50.5	54.8
Net interest-bearing debt	46.0	25.5	43.8
Net debt to capital employed	17.5%	12.4%	20.5%
Return on average capital employed after tax	21.3%	17.9%	22.9%
<b>Operational information</b>			
Combined equity oil and gas production (thousand boe/day)	1,925	1,839	1,778
Proved oil and gas reserves (million boe)	5,584	6,010	6,101
Reserve replacement ratio (three-year average)	60%	81%	76%
Production cost NOK/boe	38.1	44.1	28.4
<b>Share information</b>			
Ordinary and diluted earnings per share	13.58	13.80	15.82
Share price at Oslo Stock Exchange on 31 December	113.90	169.00	165.25
Dividend paid per share <sup>1)</sup>	7.25	8.50	9.12
Weighted average number of ordinary shares outstanding	3,185,953,538	3,195,866,843	3,230,849,707

<sup>1)</sup> See shareholder information section for a description of how dividends are determined and share repurchases.

**Design:**

NODE / SDG / StatoilHydro

**Creative direction:**

Ole Dokka, StatoilHydro

**Content editor:**

Colin Dobinson, StatoilHydro

**Pre-press and printing:**

Kai Hansen and Ålgård Offset

**Images:**

Manfred Jarisch front cover, pages 2–3, 4–5, 6, 10, 13, 14–15, 19, 20–21, 26–27 and 31

Kjetil Alsvik page 9

Øyvind Hagen page 29

Apfel Zet page 17, 25

NASA page 23

<http://visibleearth.nasa.gov/>

This publication is printed on totally chlorine-free environmentally-friendly paper.



STATOILHYDRO ASA

4035 Stavanger

Telefon: 51 99 00 00

[www.statoilhydro.com](http://www.statoilhydro.com)