

**REPORT TO NORSK HYDRO ASA BOARD OF DIRECTORS**

On 1 October 2007, Norsk Hydro ASA ("Hydro" or "NH") published a statement announcing that Hydro and StatoilHydro ASA ("StatoilHydro" or "SH") would cooperate with respect to inquiries into Hydro's former Oil and Energy operations in Libya, which Hydro acquired through the takeover of Saga Petroleum in 1999 and which had been transferred to StatoilHydro. On the same day, StatoilHydro issued a press release announcing a review of issues relating to Hydro's former Oil & Energy's operations in Libya.

This constitutes the final report of the investigating law firms, Wiersholm, Mellbye & Bech, advokatfirma AS ("Wiersholm") and Shearman & Sterling LLP ("Shearman & Sterling"), who were appointed pursuant to mandates from the Committee of Independent Directors of the Norsk Hydro ASA Board of Directors. Our review has been extensive, and we have inquired into a wide range of transactions throughout Hydro's former international oil and gas operations. Over the past year, we have particularly reviewed the following matters:

- certain payments related to Libyan assets acquired through Hydro's merger with Saga Petroleum in 1999;
- an agreement and related payments in 2003 related to a consultancy agreement relating to business opportunities in Kurdistan;
- the decision to enter into an EPSA in Angola with Sonangol and local partners selected by the Angolan government; and
- consultants proposed to be retained or actually retained by Hydro in a number of other countries.

The issues surrounding a Libyan consultant were reported to Økokrim, the U.S. Department of Justice, and the U.S. Securities & Exchange Commission during the weekend prior to the closing of the StatoilHydro merger on 1 October 2007. The mandates issued to the Wiersholm and Shearman & Sterling by Norsk Hydro's Committee and by StatoilHydro to separate investigating law firms, Simonsen Advokatfirma DA and Sidley Austin LLP, (together, the "investigating teams") provides that "the factual aspects of the case must be clarified in such a way and to such an extent that the authorities' expectations are met."

The investigating teams have met jointly with Økokrim on approximately a monthly basis, each time providing an update on the investigation and tendering document collections relating to certain matters under investigation. Similarly, the investigation teams met with the U.S. authorities on two occasions, in November 2007 and in July 2008, to update them on the investigation and to provide preliminary findings.

Both companies have agreed that the investigating firms will provide Økokrim with relevant facts and a presentation of their factual findings on 7 October 2008. The firms will report to the U.S. authorities shortly thereafter.

**1. THE MANDATE AND COORDINATION AGREEMENT**

The investigation was conducted under the supervision of a Committee of Independent Directors. This Committee issued formal mandates to Wiersholm and Shearman & Sterling to:

*“undertake an investigation of Norsk Hydro ASA’s (“Hydro”) previous operations in Libya, and any similar matters that arise in the course of the investigation. The investigation will determine the facts relevant to applicable Norwegian and US anti-corruption legislation [and]*

*. . . a review of consultancy agreements entered into after 1 October 1997 relating to Hydro’s oil and gas business outside of Norway, which in the opinion of the investigators present a risk of corruption,. . . .”*

The relevant legal background for this investigation generally consists of applicable transnational anti-corruption laws in Norway and the United States. Norway ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in 1998 and enacted implementing legislation effective 1 January 1999. Norway subsequently substantially amended this legislation with effect from 4 July 2003. Until 2007, Hydro was an issuer in the United States, and it was, therefore, subject to the U.S. Foreign Corrupt Practices Act providing that certain territorial jurisdictional requirements were met in specific cases. Both countries’ laws include statutes of limitations that bar prosecutions for actions prior to a certain date. In Norway, acts conducted prior to the 2003 amendments had a statute of limitations of two years; since the 2003 amendments, the statute of limitations is five to ten years depending on the characteristics of the conduct. In the United States, the period is generally five years, although Hydro, as part of its cooperation with the U.S. authorities, has agreed to suspend the running of the limitations period as of 1 November 2007. This report is not intended to make any legal assessments and will, according to the mandate, only lay out the relevant facts.

The mandates provided that the “employees’ fundamental rights to legal protection under applicable local law must be respected in the process.” To safeguard the rights during the investigation, Hydro retained Hjort law firm to represent its employees. Hjort had a team of lawyers available to represent employees that requested such assistance. Some of the employees used other counsel than Hjort.

The management of StatoilHydro issued mandates to Simonsen Advokatfirma DA and Sidley & Austin LLP with similar scope as the mandate for Hydro’s investigating team.

The companies agreed that their respective investigations would be entirely independent of each other in terms of factual analysis. However, to ensure maximum efficiency and minimum disruption of the companies’ operations, the mandates provided that the “work will be coordinated with the related investigation . on the same matter, so that the investigation will be as effective as possible.”

Accordingly, on 25 October 2007, the companies and the investigating firms entered into a Coordination Agreement to ensure that both investigations would have “equal access to the information collected in the course of the investigations.” The Coordination Agreement spelled out certain principles and procedures governing data collection, including, *inter alia*:

- each company would preserve relevant data in its possession;
- each investigation team would collect relevant data in a manner that complied with data protection requirements and other relevant privacy laws and regulations; and
- all collected data, except for privileged information or “business sensitive” information (i.e., information not related to the oil & gas business deemed confidential by Hydro), would be searched using agreed-upon search terms and then loaded into a common database.

With respect to interviews, the parties agreed, *inter alia*:

- that all interviews would be conducted jointly, with the investigating teams dividing responsibility for leading specific interviews depending on whether the witness was currently or previously employed by either of the companies;
- the companies would pay for counsel for their respective employees, if requested to do so;
- the witnesses could request that the interview be conducted in Norwegian or that an interpreter be present;

- the lead interviewer would draft a memorandum of the interview, which the other investigating team would provide comments, clarifications, and corrections, if any; and
- the witness would have the right, but not an obligation, to review and comment upon the memorandum of his or her interview.

## 2. INVESTIGATION PROCESS

### 2.1 Data preservation and collection

On 28 September 2007, Hydro directed its employees to preserve all documents and data. Subsequently, following the merger on 1 October 2007, StatoilHydro issued a similar directive to its employees. On 15 October 2007, the companies sent a letter to the Norwegian Data Inspectorate regarding the investigation and the planned review of e-mails and e-files of selected Hydro employees. The Inspectorate issued guidelines on 22 October 2007.

Hydro and StatoilHydro investigation teams coordinated data preservation, document and data collections, and processing of data. The investigation teams selected 231 persons for data preservation. Thereafter, the investigation teams identified individuals or departments with potentially relevant materials ("custodians") from whom documents and data were preserved and collected. A total of 104 custodians were identified as relevant for collection of data. From the majority of these custodians, the investigators carried out comprehensive forensic collections. In addition, the investigating firms requested that a small number of individuals with limited roles and knowledge related to countries other than Libya and Angola conduct narrower, detailed, and subject-specific self-collection of their own documents.

Prior to each collection, the custodian's employer sent a notice informing the custodian of his rights under the Norwegian Data Protection law and explaining the purpose of the collection and the process that would be used to process the data. Each custodian was asked to, and did, consent to the collection and processing of the data. Hydro requested that its employees exercise full openness in the investigation process and contribute to the best of their abilities to provide as much information as possible to the investigation team.

A Norwegian data reconstruction and forensic data consultant company worked with and supervised the main provider of IT services to Hydro and StatoilHydro in collecting data from Hydro employees and departments. The collected data was shipped to a US electronic discovery vendor which processed and hosted the collected data in databases accessible to the investigation teams. All in all, the investigating firms collected 3,500 GB of data adding up to a total of 35.5 million documents. The raw data was de-duplicated and searched with search terms, and the resulting data was placed into segregated databases for the respective teams to review separately for privileged, business sensitive, and private items in the data they collected. After this review over 1.4 million documents were shared for the investigation teams' review. The investigating teams then reviewed all shared data to determine its relevance to the matters under investigation. In addition, the investigating teams' forensic accountants used the data to track payments and do surveys of payments to determine if other matters required further investigation.

### 2.2 Hard copy documents

In addition to collecting data from individual custodians, the investigators collected electronic documents and hard copy files from centralized databases, departments, and storage locations. The investigators collected server data from Documentum, NH's general electronic document management system; from NH's Lotus Notes databases; and from Accounting and Procurement department databases. Through collection interviews with individual Hydro and StatoilHydro employees, the investigators identified additional electronic and paper document storage locations for various corporate departments likely to have maintained materials relevant to the investigation. This included departments such as the Corporate Management Board, Corporate Social Responsibility, Exploration and Production, Oil and Gas, Internal Audit, and Legal, as well as certain of StatoilHydro's business units outside Norway and departments of NH acquired through the merger with Saga Petroleum.

The investigators identified boxes of paper documents located at NH document storage warehouses likely to contain potentially relevant material based on the identity of the department or individual who had archived the box and by reviewing and searching the paper and electronic archive directories for relevant topics and terms. After retrieving and reviewing these boxes from NH warehouses at Notodden, Vestby, and Rjukan, investigators identified files for scanning. In total, the investigators scanned documents from 299 file boxes collected from the storage warehouses and individual and department hard copy files.

### **2.3 Accounting information**

In retrieving and processing accounting information, the investigation team retained the assistance of a Norwegian forensic accounting expert. StatoilHydro also retained the assistance of a forensic accounting expert. It should be noted that the Hydro's Oil & Gas accounting function and supporting documentation, had been transferred to StatoilHydro as a consequence of StatoilHydro's acquisition of Hydro's oil & gas businesses.

### **2.4 Interviews**

StatoilHydro and Hydro agreed in the Coordination Agreement to conduct joint interviews. Accordingly, the investigation teams discussed and agreed upon the individuals to be interviewed.

The interviews were mainly conducted in English, but the employees had the opportunity to require that part of or the entire interview to be conducted in Norwegian with a translator present. Some of the witnesses elected to use translators for the entirety of the interview and some elected to only respond in Norwegian. For these interviews simultaneous translators were employed. Other interviewees chose to have an interpreter available in case they experienced difficulties explaining themselves in English.

Both interview teams prepared relevant documents to be used at the interview. The witness and his or her attorney were given the right to review these documents before the interview, to the extent the witness had previously had access to, prepared, or received the documents.

A memorandum was prepared after each interview. All witnesses were given an opportunity to review and to comment on the memorandum of their interview.

In total the investigation teams have spoken with 72 individuals in Norway and elsewhere. In addition, four additional witnesses provided written responses to questions. Eleven individuals from whom interviews were requested refused to participate. These persons were either never or are no longer employed by Hydro or StatoilHydro.

## **3. LIBYA**

### **3.1 Introduction**

During the summer of 1999, Hydro submitted a bid to acquire the Norwegian oil company Saga Petroleum AS ("Saga"). Hydro formally took over Saga on 1 January 2000. The assets acquired from Saga included Saga's business in Libya.

After the merger of Hydro's and Saga's operations on 1 January 2000, all Hydro activities in Libya were conducted through Hydro's former subsidiary, Saga Petroleum Mabruk. Since 1 October 2007, Saga Petroleum Mabruk has been controlled by StatoilHydro. For the sake of simplicity, we use the phrase Hydro in this chapter even though we describe actions taken on behalf of Hydro's former subsidiary Saga Petroleum Mabruk.

### **3.2 Gammudi and Vexol**

#### **3.2.1 Blocks A & B - Saga's agreements with Mr. Gammudi and Vexol**

Saga formally retained Mr. Gammudi in 1999, before Hydro made a bid for Saga, to assist Saga in its efforts to obtain a license as an operator for Blocks A & B in Libya. Saga entered into two separate agreements with Mr. Gammudi.

The first agreement was a consultancy agreement with a fixed fee with Gammudi personally (retainer agreement). Saga agreed to pay Gammudi USD 75,000 per year for 5 years with a USD

700,000 early termination fee. The agreement with Gammudi was to terminate on 21 January 2004.

The other agreement was a result-based agreement with a success fee of USD 6.5 million if Saga was awarded and entered into an agreement (EPSA) with the National Oil Company of Libya ("NOC") for the operatorship of Blocks A & B. Saga entered into this agreement with Vexol, a South African company affiliated with Gammudi. This agreement would lapse without obligations if no EPSA for Blocks A & B had been entered into by 30 June 1999. Saga subsequently extended this time limit to 31 December 1999.

On 30 December 1999, the NOC informed Saga that it was ready to sign an agreement for Blocks A & B. However, although even prior to this notification Saga had taken formal steps to sign the agreement with the NOC, the EPSA was not signed before 1 January 2000. According to the strict wording of the agreement with Vexol, Saga's obligation to pay a success fee of USD 6.5 million lapsed on 1 January 2000, since there was no signed EPSA at that time.

### 3.2.2 Hydro's knowledge of Blocks A & B, the agreements with Gammudi and Vexol and the Libyan system of consultancy agreements

Hydro does not appear to have taken the possibility of Saga being awarded Blocks A & B into consideration as a value during its bid for Saga. Hydro's management learned that Saga might be awarded Blocks A & B in June 1999, shortly after its successful bid for Saga. At this stage, Hydro did not know of the agreements with Gammudi and his company Vexol.

In a meeting with Saga in late 1999, Saga's representatives informed Hydro about the agreements with Gammudi and Vexol. Saga also informed Hydro about the "Libyan system" of middlemen operating through consultancy agreements.

### 3.2.3 Hydro's initial reaction

The information disclosed by Saga in the late 1999 meeting was followed up in one or more internal Hydro meetings, which probably took place in December 1999 or January 2000, where the CEO at the time was informed of the matter. Hydro decided that the company and its employees should not participate in any illegal or unethical actions in Libya. Hydro also decided not to accept the offer to be granted a license for Blocks A & B due to the nature of the arrangement with Gammudi and Vexol.

By late January 2000, Hydro developed a "controlled liquidation" strategy that called for refusing Blocks A & B and withdrawing from Libya entirely. The main idea was to buy time by not clearly refusing Blocks A & B while Hydro internally prepared to withdraw from Libya in a controlled way. It would then refuse Blocks A & B and sell Saga's other assets in Libya, i.e., its shares in the Mabruk and the Murzuq fields.

### 3.2.4 Hydro enters into a new agreement with Vexol

Although Hydro believed at the time there was a high probability that Gammudi was an intermediary for one or more highly-placed Libyan officials on 1 February 2000, it entered into a new agreement with Vexol for the same USD 6.5 million for "past services" as the previous agreement entered into by Saga. The agreement provides that payment of some of this amount would not be due until the sale of Saga's Libyan assets or after two years, whichever occurred first. The new agreement has therefore a linkage between payments and NOC approval of sale of the Libyan assets.

Hydro's motives for entering into a new agreement and to make the payments, seems to be a combination of security-issues (security of Hydro's personnel, including those in Libya) and the desire to successfully sell its Libyan assets. In addition, Hydro recognized that Gammudi was taking the position that the NOC's letter of 30 December 1999 agreeing to sign the EPSA fulfilled the conditions for payment under the original Vexol agreement. The security issue was perceived as genuine: the Lockerbie affair was not forgotten, Gammudi was perceived to have a military background, Hydro interpreted his behavior and statements as threatening at times, and Hydro had personnel in Libya.

### 3.2.5 Hydro's attempt to sell the Libyan assets

From the spring of 2000 until early - summer of 2001, Hydro tried to sell its Libyan assets. Gammudi assisted in the sales process and was used by Hydro both to get advice on how Hydro should relate to Libyan authorities and to help in obtaining necessary approvals from NOC. Altogether Hydro met with or talked to Gammudi thirty-two times. During these meetings Gammudi purported to convey NOC's views and to predicate the contents of communications from NOC.

Initially Gammudi was eager that Hydro should first accept Blocks A & B and then sell its Libyan assets including Blocks A & B. Instead, Hydro decided to reject NOC's offer of Blocks A & B and to only sell its existing interests in Mabruk and Murzuq. NOC at first only allowed Hydro to offer its assets to the other partners in the licenses in Mabruk and Murzuq. Hydro, however, received only very low offers from its partners.

Throughout the process Gammudi repeatedly asked for advanced payment of the amounts not yet due under the second Vexol agreement and referred to people behind him. On 6 June 2000, Hydro agreed to pay USD 1 million in advance of the time set in the second Vexol agreement, conditioned upon Gammudi's "guarantee" that the sales process would now "proceed smoothly." On 13 March 2001, Hydro met with NOC to clarify NOC's approval of Hydro offering its assets to petroleum companies other than its partners in Mabruk and Murzuq. During this meeting, NOC stated *inter alia* that Hydro ought to have direct contact with NOC and desist from using consultants and middlemen. In March of 2001, NOC finally gave its approval to Hydro offering its assets to a number of other petroleum companies. After receiving such approval, Hydro paid the remaining amounts due under the second Vexol contract even though, by its terms, such payments were still not due. It is unclear from the evidence whether Hydro made this payment because Gammudi had "delivered" NOC's approval or because Hydro had decided to "terminate" its relationship with him.

### 3.2.6 Hydro's payments to Gammudi and Vexol

In total Hydro paid USD 7,425,000 to Gammudi and Vexol between January 2000 and August 2001. No contact is known to have taken place between Hydro and Gammudi or Vexol since August 2001.

### 3.2.7 Hydro's decision to stop the sales process and remain in Libya

In June 2001, after receiving unsatisfactory offers from its partners and learning of confirmed reserves in the Murzuq field, Hydro ended its efforts to sell its Libyan assets. The decision seems to have been based on commercial motives (the difficulty of selling and the increasing reserves in Murzuq), combined with the belief that, albeit difficult, it might be possible for Hydro to operate in Libya without becoming involved in corruption. In addition, Hydro held the belief that the operators of Mabruk and Murzuq were now more aligned with its opposition to the use of consultants. Slideshows prepared for Hydro's Oil & Gas management in April 2001 and its Corporate Management Board in June 2001 contain a slide that indicates that Hydro's consultant had possible government connections. Although the final payment under the second Vexol agreement had been made in March 2001, Hydro continued to make payments under the retainer agreement with Gammudi until August. Nevertheless, a memorandum to the senior management dated 9 May 2001 states that the Company no longer had "any pending commitments of this type".

The decision to end the sales process and to remain in Libya was proposed by the business unit. Subsequently, in September 2001, Hydro's new CEO, who had assumed the position in May 2001, recommended that the Board adopt the business unit's proposal to terminate the sales process and remain in Libya. On 17 September 2001, the Board of Directors made the final decision to remain in Libya. Documents prepared for the Board repeat that Hydro had terminated the relationship with the consultant and no longer had any pending obligation of such nature in Libya.

Some documents, third-party studies, and statements from some witnesses reflect a belief that the Libyan situation was improving as a result of the return of U.S. companies and from pressure on the oil companies from countries who had signed the OECD Convention against bribery of foreign officials. The statement given by NOC at the meeting with Hydro was also interpreted in this direction. Some Hydro employees, however, viewed the NOC's statement with skepticism, and there are documents and witness statements that reflect that some Hydro employees believed that no such improvement had taken place or should be expected to take place in the near future. Witnesses have since stated that, in their view, Hydro's assumptions were ultimately correct, as considerable changes were made in Libya by 2006 with regard to the awarding of licenses,

although there have been occasions during which Hydro faced apparent issues of potential corruption.

### **3.3 Consultants in connection with the Murzuq field**

#### **3.3.1 The First Murzuq Consultant**

Beginning no later than 1995, Saga evaluated certain blocks in the Murzuq basin. In 1995, it signed an Area of Mutual Interest agreement with several foreign oil companies. On 1 November 1997, the partners signed an EPSA for two blocks in the Murzuq basin, with Saga having a 20% interest. It appears that the operating partner retained a consultant in connection with negotiating the EPSA and a subsequent additional license. In 1998, Saga paid USD 700,000 for Saga's share of the consultant's fee for assisting in obtaining NOC's approval of the Murzuq EPSA.

Hydro had learned from Saga by at least December 2000 that the operating partners in both the Murzuq and the Mabruk fields had retained their own consultants. Hydro perceived these consultancy agreements to be problematic. Nevertheless, in December 2000, after receiving an invoice from the operator for the Murzuq field labeled "Expenses for North A Block," Hydro paid USD 300,000 for Saga/Hydro's share of the consultant's fee for assisting in obtaining approval of an additional area to the Murzuq license area. The payment was booked as "signature bonus." The executive that approved the payment states that the payment was made in the belief that the invoice was for legitimate expenses related to the license, although later Hydro documents reflect that, in hindsight, some viewed the payment as problematic. No direct contact between Saga or Hydro and the consultant is known.

#### **3.3.2 The Second Murzuq Consultant**

In October and November 2001, the operator of the Murzuq field sought the partners' approval to retain a second consultant to assist in obtaining the NOC's approval for the development plans for Murzuq. The agreement provided for a success fee of USD 4.5 million for one field and up to USD 10.5 million for all three Murzuq fields.

Hydro and one other partner opposed the request, citing OECD concerns, i.e., that the payments would contravene the OECD Convention against bribery of foreign officials. A meeting was held where this issue was discussed at top level.

In May 2002, Hydro received an agreement from the operator for "exceptional overhead costs," which was perceived as a camouflage for payments to the second consultant. Hydro refused to sign this agreement. The operator told Hydro in June 2002 that it had made an agreement for a success fee of USD 4.5 million to secure that the development plan and production quota for one of the Murzuq fields would be approved. The operator sent Hydro in October an invoice for USD 900,000, which was equivalent to Hydro's share of USD 4.5 million. Hydro, however, again refused to pay. Hydro threatened to bring the matter before the steering committee but agreed not to do so when operator agreed not to seek Hydro's share of the payment. The development plan was signed in November that year. As far as is known, there have not been further discussions concerning the second consultant, there was never any direct contact between Hydro and the second consultant, and Hydro did not make, directly or indirectly, any payments to the second consultant.

### **3.4 Consultants in connection with the Mabruk field**

In 1994, Saga signed a Farm-in Agreement for a 25 % non-operator interest in Mabruk. At the same time, Saga entered into two side agreements with the selling operator partner related to the Farm-in Agreement.

In the first side agreement, dated the same day as the Farm-in Agreement, Saga agreed to pay the operating partner for "data acquisition and studies costs..." in the amount of (a) USD 3 million upon receipt of an invoice from the operator, (b) USD 500,000 once NOC approved the Farm-in Agreement, and (c) USD 2 million once the Management Committee decides to enter into the Second Period under the DPSA. The payments totalled USD 5,500,000. In the second side agreement, entered into in 1996, Saga Mabruk agreed to pay an increased amount upon the Management Committee's decision to enter the Second Period under the DPSA.

Following a meeting with an operator's representative on September 12, 2000, Hydro understood that the operator had retained a consultant to perform a similar function as had Gammudi for

Saga. The operator's representative explained that the operator had consulting and retainer agreements with a consultant and his company. According to notes from this meeting, the operator intended to charge Hydro for the remaining amount due under the second side agreement as well as for certain "overhead costs" calculated as 25% of USD 1 million. The investigation team has been informed that Hydro told the operator's representative that Hydro would not pay for the operator's consultants and would only cover, as a 25% partner in the Mabruk license, legitimate costs.

On 28 September 2000, Hydro received two invoices from the operator: one in the amount of USD 1,687,500 for "Final payment due pursuant to Agreement relating to Farm-Out Agreement" and the other in the amount of USD 250,000 for "Payment due in respect of your Participating Interest share of approved costs and expenses incurred and paid with respect to your joint venture." On 17 October 2000, Hydro paid a sum equivalent to USD 1,937,500 to the operator, accounting for the entire amount as "DPSA payment for phase 2." The evidence suggests that these payments may have been understood, at the time or later, as having been tied to the operator's consultant.

We have not identified any evidence suggesting that additional payments have been made under this agreement, and the payment made on 17 October 2000 appears to have been the last related to the side agreements.

### 3.5 NOC-appointed committee members etc.

#### 3.5.1 Introduction

The Mabruk and Murzuq agreements call for Operators Committees and Management Committees. NOC was entitled to designate members of the committees, and these persons were often, but not necessarily, NOC employees.

The foreign companies on the licenses paid NOC designates compensation, bonuses, medical expenses, and travel expenses to attend management committee meetings in Europe. The payments were approved in meetings of the foreign partners without the NOC members present and were booked as "non-recoverable costs". In addition, the foreign partners agreed to pay employees of the operating company retention bonuses. These payments were made in U.S. dollars to banks outside Libya.

#### 3.5.2 NOC's knowledge and later approval

This system of payments seems to have been in place at least from 2000-2001. Hydro appears to have learned of these payments in 2001. Over the next several years, the business unit discussed the payments on several occasions with Hydro's legal department.

Hydro executives expressed their understanding that the payments were widely accepted and known by NOC and, in fact, that the NOC set the compensation levels. Hydro was told by several other oil companies that these payments were directed by officials at the highest levels of the NOC. Hydro understood that the NOC had established the system to ensure that its representatives were paid a sufficient wage, despite very restrictive Libyan laws on compensation.

In 2005, Hydro and at least one other partner expressed concern over the payments to the committee members and refused to make further payments unless the NOC stated its approval in writing. Later in 2005, however, the chairman of the Murzuq operating committee stated that he would not attend and participate in a meeting unless he received his payment. Faced with a potential stoppage of work in the producing Murzuq field, the Murzuq operating partner agreed to make the payment.

On 25 April 2006, the chairman of the NOC sent a letter to the operators stating that *"please be advised of NOC approval to continue paying the compensation and other related travel expenses according to the same arrangement followed in previous years, paying it directly to NOC representatives in the said Committees as before and until further notice."* Subsequently, in October 2006, the NOC issued an official decree, citing a number of statutes, directing that its representatives on the management committees could be paid compensation within certain limits. The foreign partners thereafter again began paying the NOC members of the committees. A 2006 Internal Audit report notes that the payments had previously raised concerns, but had recently been brought to transparency.

#### 4. OTHER COUNTRIES

In accordance with the mandate to the investigating firms, we have reviewed whether Hydro retained or paid consultants in connection with Hydro's oil projects in a number of countries, including Angola, Kurdistan, Iraq, Iran, Russia, Nigeria, Venezuela, Brazil, and Ivory Coast. Where Hydro retained agents or considered agents, the investigators reviewed what payments were made and what Hydro knew of the consultants' activities. We have not located any evidence that improper payments were made by Hydro or on Hydro's behalf by any of the consultants. Indeed, on a number of occasions, Hydro walked away from business opportunities due to concerns over transparency and integrity.

In July 2004, Hydro signed a Joint Study Agreement with Sonangol, which had a 24-month "Licencia Precaria" for a block in Angola. The agreement effectively granted Hydro a participating interest in a license. In July 2005, the Angolan government approved a Production Sharing Agreement ("PSA") for the block, granting interests to Sonangol (50 %), Hydro (20 %), and two local companies (15% each). The two local partners' interest was not welcomed by Hydro, and Hydro was not, in spite of a due diligence process, able to determine the identities of the owners of one of these local companies. Hydro (and now StatoilHydro) has still not identified the owners of this local partner. As a consequence, Hydro initiated mitigating steps in negotiating the terms of the Joint Operating Agreement and in the organization, staffing, and internal controls of the operating company in order to avoid possible conflict of interest situations. The investigators have not identified any evidence that improper payments were provided by Hydro to a public official in connection with the license. Further, we have not identified any evidence that Hydro "carried" either of the local partners.

Demands for contribution to social projects, including education for local people, water projects etc. have been included as part of the obligations in the PSA/signature bonus for some of the licenses in Angola. Prior to 2003/2004, Hydro was a member of the Foundation of Eduardo de Santos ("FESA"), a charity in the name of Angola's president, and contributed USD 100,000 annually. In 2003/2004, however, it terminated its membership. We have not identified evidence that Hydro's payments to FESA were forwarded as improper payments to a public official.

In 2003, Hydro entered into agreements with a Norwegian businessman and a foreign politician to obtain their assistance in negotiating an agreement related to potential petroleum activities in the Kurdish part of Iraq. Senior Hydro executives questioned whether the agreement, and in particular the use of a foreign politician, was transparent, and, following an ethical evaluation, Hydro concluded that it could only go forward with the agreement if arrangement with the foreign politician could be transparent. Initially the foreign politician confirmed that disclosure of his relationship with Hydro would not be a problem.

At a later stage Hydro became aware that the foreign politician actually would not disclose that he was engaged by Hydro. Hydro then concluded that the agreement should be terminated. The Letter of Engagement with the consultant was terminated in November 2003.

Hydro did, however, pay GBP 145,971 subsequent to the termination of the agreement, a sum equivalent to the minimum fee under the contract. Although it may be questioned whether this payment was necessary under the terms of the contract, we have been informed that this was done to avoid having a possible legal battle.

Oslo 6 October 2008

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