

Den norske stats oljeselskap a.s
Annual Report and Accounts 1974

The logo for Statoil, featuring a stylized blue oil drop icon to the left of the word "statoil" in a bold, lowercase, sans-serif font.

statoil

Den norske stats oljeselskap a.s

Statoil was established by a unanimous decision by the Storting on June 14, 1972. The Company's objectives, as stated in its Articles of Association, are as follows: Statoil has as its objective independently, or in participation or in co-operation with other companies to carry out exploration and production, transportation, refining and marketing of petroleum and related products and other activities in close relationship with this.

The pipelaying barge Choctaw I working on the Norpipe line from Ekofisk to Emden in West-Germany, so far the worlds longest offshore pipeline.



Report for 1974

Preface

The year 1974 has been a year of extensive and increasing activity for Statoil as a result of the tasks the Company has been given through decisions taken by the authorities. This has made continuous rapid growth of the Company's organization necessary so as to enable it to handle the State's business interests in the petroleum sector in the best possible way.

Internationally 1974 has been dominated by the new oil price structure and the changed situation in petroleum supply. Sharp inflation has greatly increased the cost of a number of the projects in which Statoil is engaged. At the same time Norwegian oil and gas reserves have increased in value. The international energy supply situation still seems to be less stable than it used to be. This gives Norway a certain global responsibility, a responsibility which is acknowledged by the Norwegian authorities. The role of the large private oil companies seems to have changed as a result of the nationalization of oil production in most of the large oil-producing countries and the expansion of the state-owned oil companies in these countries. But in Europe and elsewhere it also seems likely that state-owned companies will have increasing importance as part of the different countries' national oil policy. In West Germany, the United Kingdom, Canada and Australia steps were taken during 1974 to create oil companies under state control and ownership.

Relationship with the authorities

1974 saw a clarification of Statoil's situation, especially with regard to its relationship with the political authorities. It has always been quite clear that Statoil's objectives are to look after the State's business interests in the petroleum sector in accordance with the Articles of Association, rules and regulations laid down by the authorities at any given time. Statoil is thus an instrument for the political authorities and carries out the objectives decided upon by the

authorities. Statoil may not execute projects with significant political or practical implications before they are approved or cleared by superior political bodies. It is this principle which is now clarified and formalized by the new regulations and the Articles of Association for Statoil, approved by the Storting in June 1974.

The new Articles of Association provide that the Board shall put before the General Meeting all matters "which can be assumed to have important political aspects or aspects of principle and/or can have important social and socio-economic implications". The Articles also contain a list of the most important cases covered by this rule. The new Articles must also be seen in the light of the fact that the Storting decided that it shall have laid before it each year in the form of a Government White Paper "the main aspects of Statoil's plans and projects together with economic estimates and other items involving important questions of principle or political aspects". Statoil's plan for any year will normally be decided upon at a regular General Meeting in the spring of the preceding year.

These decisions have formalized the established practical pattern of the way business is handled between state-owned companies and their General Meeting i.e. The Ministry of Industry. Statoil's role and importance in Norwegian society had created a desire for such formalized rules.

The aim of these Articles is to ensure the overall governmental guidance and control which the Storting had indicated that it desired. The Company's special purpose, which is to carry out the decisions of the superior political authorities, has been underlined by these new Articles. It is a special characteristic of Statoil's activities that all the tasks of any importance have been given to the Company through decisions either by the Government or by the Storting. This applies to all participation

in offshore oil activity and participation in pipeline transportation systems (Norpipe), in the petrochemical complex at Bamble and in the marketing of the State's royalty crude oil.

The Board's task to a large extent is to ensure that Statoil discharges its duties with proper care in accordance with the authorities' wishes and in a way best suited to making the best possible use of the State's business interests. At the same time, it is quite clear that the Board's role should not be a passive one. The Articles of Association give the Board the necessary freedom to carry on business within the framework prescribed by the authorities at any given time.

It is also one of Statoil's tasks to act as an advisory agency to the authorities. In this connection Statoil will be in a position, thanks to its knowledge and expertise, to provide factual information, to put forward viewpoints and evaluations, and to make suggestions to the authorities as to the courses they should follow.

3. Concession round

During 1974 the Government pronounced its decision on the third concession round. In accordance with the rules laid down by the Storting, this was a limited allocation, with five concession areas, partly along the median line with UK waters, and partly in deepwater areas extending to 62 degrees north, close to the coast. While 50% state participation had earlier been the maximum, in the new concessions it is a minimum. Statoil's participation can be increased with the volume of eventual production and in certain cases can reach 75%. Statoil has been given the task, for the first time, of acting as operator for one area. This is the area covering Blocks 15/11, 15/12 and 6/3. The Company has prepared itself for its role as operator by, inter alia, leasing a drilling rig, supply ships, etc. An agreement on principles has been reached with Esso, which gives Statoil the opportunity to

draw on technical and other assistance from Esso to the extent that Statoil wishes.

As in the case of Statfjord (Blocks 33/9 and 33/12), Statoil may take over at a given time as operator of the other areas allocated, except for the area where Norsk Hydro is operator.

The conditions in the standard joint-venture agreements which the Government has negotiated are based on the same framework which the Ministry of Industry first laid down in the Statfjord concession in 1973, although some parts have been enlarged. Statoil's share of the exploration costs is met by the other partners and Statoil does not bear these costs, whether anything is found or not. The costs of development and production are borne by Statoil in full, in proportion to its participation percentage.

When there is a find, the partners (including Statoil) must decide within certain agreed time limits whether they wish to take part in the development of the find and in later production development.

Statoil shall not pay its share of the development costs accrued after the find is declared commercial before it has been decided that Statoil shall take part in the development.

The State's supervision and control is ensured partly through general rules about different licences and through regulations from the Government, and partly through Statoil, which through its participation percentage has a large say in decisions in the different joint ventures.

The key blocks

In February 1974 Statoil proposed a plan for the so-called

key blocks, which had been set aside for State development, after the Ministry of Industry had given Statoil this planning task earlier. For the blocks which in Statoil's judgment should be explored in the course of the next few years, Statoil submitted a plan whereby the State through Statoil on the one hand would have control with development and exploitation of possible finds, and which on the other hand would ensure the Company the necessary technical and other assistance. Through the proposed plan, the State will retain full ownership of any petroleum which might be found. Possible partners will be ensured the right to agreed amounts of produced petroleum from such finds through agreements which will enable the partners to recover the invested capital with interest and at the same time will give them a reasonable profit and a risk premium. In accordance with the wishes of the Government it is also provided that the Norwegian companies Norsk Hydro and Saga Petroleum shall be brought into the development in some of the key block areas in joint-venture agreements with Statoil.

In connection with the announcements of the results of the third concession round, the Ministry of Industry in principle made a decision on Statoil's plan for key block development. The Ministry informed Statoil that the planning necessary for the Ministry to grant production licences for blocks 24/12 and 1/9 could immediately be proceeded with regard to the tempo of development of the other key blocks, the Government would bide their time for the moment. Activity on the British shelf may, however, necessitate allocation of other key blocks in the near future.

It is here only reasonable to point out that other actions by the State may become necessary if structures are found on licensed Norwegian blocks where the structures stretch into unallocated areas.



Participation in petroleum exploration and production

Including the blocks allocated in November 1974, Statoil now holds participation rights in 37 blocks or parts of blocks on the Norwegian Continental Shelf, and also in four blocks on the Dutch Shelf. Three finds in the blocks where Statoil participates have been declared commercial; these are Frigg, Heimdal and Statfjord. The Dutch blocks were transferred to Statoil by decision of the Storting in May 1973, together with the other State participation agreements which the State had entered into up to that point.

The declaration of Statfjord as a commercial oil field in August 1974 is of great importance and consequence for Statoil as an oil company. The recoverable reserves are estimated at 400 million tons of oil (3,000 million barrels). Statoil holds a 50% ownership. The find also contains considerable amounts of associated gas. The Statoil/Mobil Group has submitted an application to the authorities for a production plan for Phase I of the Statfjord field development. Statoil's Board has advised the Ministry of Industry that Statoil should exercise its 50% ownership right.

The Storting approved in June 1974 the Petronord/Statoil Group's application for the landing of the gas from the Frigg field to St. Fergus in Scotland. As part of the approval, the State can demand that certain volumes of gas from the Frigg area should be landed in Norway. If gas is brought ashore in Norway, it could be the basis for the construction of a gas-fired power plant and further development of the Norwegian petrochemical industry. The Frigg field is now under development. The first deliveries to the UK were originally planned to take place in 1976. A technical mishap with one of the permanent platforms when it was about to be installed in the field, however, has adversely affected the time-schedule and deliveries cannot now be expected to start before the first half of 1977.

A division of the gas reserves between the British and Norwegian Shelves has not yet been made. Statoil's ownership of the Norwegian part of Frigg (Block 25/1) is five per cent.

The Heimdal Field, also a gas find, was declared commercial in April 1974. Statoil has an option to take a 40 per cent participation in the find. The estimated recoverable reserves of natural gas are approx. 60,000 million cubic metres. Statoil's Board have advised the Ministry of Industry that the option for State participation should be exercised.

Statoil is part owner of Statex a.s., whose object is the processing of seismic data and the establishment of a data bank to store of data from the Continental Shelf which the State will accumulate in due course. Statoil and Kongsberg Våpenfabrikk own 50% of the shares each. Statex commenced operation during the summer of 1974 and by the end of the year had built up a staff of about 50.

Participation in petroleum transportation

During 1974 the development of an organization for the pipeline company Norpipe a.s and its British sister company Norpipe Petroleum UK Ltd. was set in motion. Statoil owns 50% of the shares in both companies. The pipeline from Ekofisk to Teesside is expected to go into operation in the middle of 1975. Full operation of the oil pipeline cannot, however, be expected before the terminal and processing installations in Teesside are ready, presumably in the second quarter of 1976. At the same time it is expected that the gas pipeline to Emden will be ready for use. A substantial cost escalation has led to the need for an increase in Norpipe's equity capital.

Participation in petrochemicals

After guidelines had been drawn up by the Norwegian authorities, an agreement was reached early in 1974 between Norsk Hydro, Saga Petrokjemi and Statoil for

the construction of a Norwegian petrochemical plant at Bamble, Norway. The basis for this joint venture was the State's option to have NGL (natural gas liquids) from the Phillips Group's Ekofisk field landed in Norway. The Storting gave its decision on the project in June 1974. The State's option for the NGL contract was exercised and transferred to the three companies. The construction work started during the summer of 1974. The ethylene cracker owned by the joint venture company Noretyl is scheduled to go into operation in 1977. The polyethylene and polypropylene plants which are owned by the joint venture company Norpolefin are scheduled to go into operation in the period 1977—1980. Statoil has a 33% holding in both I/S Noretyl and I/S Norpolefin.

Marketing of royalty oil

In 1974 Statoil, after a request from the Government, commenced marketing the State's royalty oil from Ekofisk. Owing to technical difficulties at the Ekofisk field the volume in 1974 was less than expected. The oil is mainly sold in the form of refined products to customers in Norway, in the other Scandinavian countries and elsewhere in Europe. An agreement with A/S Norske Shell for refining the oil at the Sola refinery was entered into. Statoil's work in this connection has given the Company important experience which will be of great value for further work in marketing petroleum products. As in 1974, the Government has decided that in 1975 the State will take its royalty in kind from the Ekofisk production. The agreement with Shell for refining this oil has been extended through 1975, with the consent of the authorities.

Organization development

Statoil increased its staff during 1974 from 54 to 118 at the end of the year. This is a very rapid growth but recruiting has so far not been a problem. There has been a steady flow of well-qualified applicants and Statoil has already built up an organization

with considerable know-how and expertise. The Company is also in the fortunate position of being able, through its agreements with cooperating companies, to obtain special training for its personnel, both on the theoretical and the practical side. In addition, the Company is also able in various ways to draw upon the substantial personnel resources in cooperating companies. With the rather small organization the Company still has, it is of vital importance for Statoil that it should have the flexibility of being able to draw on other companies' know-how and assistance.

Future prospects

The Government has made it clear that Statoil will assume the main responsibility for the offshore operations north of 62 degrees northern latitude. Work on future exploration and development programmes in these areas is now in progress. This is carried out in close cooperation with the Norwegian Petroleum Directorate, the Ministry of Industry and other bodies. With the know-how the Company already has within its organization, and through the knowledge which will be built up during operational participation on the southern part of the Continental Shelf, it is felt that Statoil will be well prepared for the tasks which it will have to take on to carry out work in the northern areas. The Company aims to establish a branch office in North Norway during 1975.

It has been made clear by the political authorities that the State, through Statoil, ought to engage itself in a rational way in the distribution of petroleum

products. The rules and regulations will be drafted by the authorities. The same will apply to a similar engagement for the refining of oil.

With the considerable volume of petroleum which will in the future be handled by the State, there is no doubt a need to clarify what should be done with a future State-controlled refining and marketing organization.

Capital requirements

Statoil has earlier pointed out that the State's active business interest in the petroleum sector will lead to a considerable need for investment. The oil industry requires large amounts of capital, and there is a substantial time lag between the time the investment is made and the time it is recovered. Statoil will in the next few years be in an investment phase. On the other hand, it is reasonable to assume that these investments will be very beneficial to the Company when the different fields are brought into production. This is expected to have full impact in the 1980's.

Following advance notification to the authorities by the Company, the equity capital was increased by 150 million N. kroner in 1974 bringing the total to 305 million N.kroner. Statoil has applied to the authorities for an allocation of an additional 450 million N.kroner in 1975. In addition to the build-up of equity capital in the form of increased share capital, it is expected that Statoil will borrow substantially in 1975. This will partly be handled through the different joint venture companies, and partly be in the form of direct loans to Statoil. The main part of the

Stavanger, February 15, 1975

The board of Den norske stats oljeselskap a.s

Finn Lied *Ole Myrvoll*
 Finn Lied Ole Myrvoll
 Chairmann Vice-Chairmann

Aksel Fossen *Einar H. Moxnes* *Tore Sund* *Ottar Vollan* *Hans J. Ødegaard*
 Aksel Fossen Einar H. Moxnes Tore Sund Ottar Vollan Hans Johan Ødegaard

capital requirement for 1975 arises from Statoil's participation in the Statfjord project and in the petrochemical project at Bamble.

In March 1974 Statoil submitted to the Ministry of Industry the first estimates of the Company's capital needs for the period 1974—80. The question was thereupon put before the Storting in Storting Proposal no. 149 (1973—74).

The accounts for 1974

The profit and loss accounts for 1974 shows a loss of approx. 29 million N. kroner including estimated capital tax of N.kr. 500 000. The accumulated loss to date is approx. 43 million N. kroner.

Administrative and operating costs account for approx. 23 million N. kroner of the loss in 1974, while net interest expences amount to approx. 7 million N. kroner. The gross surplus on sale of oil products is approx. 2 million N. kroner.

With regard to the accounts further explanation is given in the Notes to the Financial Statement, which form part of this report.

The Board

At the General Meeting in June 1974, the former Chairman of the Board Mr. Jens Chr. Hauge, Vice-Chairman Vidkunn Hveding and Member of the Board Per M. Hanssen left the Board, having served on it since the creation of the Company in September 1972. The Alternate Member Aage Solbakken left the Board in April 1974, to take up a new position with another oil company. The present members of the Board were elected at the same General Meeting.

Review of the Projects

1974 has been a very active year for Statoil. The year was dominated by further development of existing projects, but some very important new projects have also been added during the year.

The Norpipe Companies

The laying of the oil pipeline from Ekofisk to Teesside in the UK was completed during the spring of 1974. The laying of the gas pipeline to Emden in West Germany proceeded largely according to schedule, and the maritime portion of the line was completed in November. By the end of the year some of the pipeline onshore in Germany and the compressor platforms still remained to be completed. It is expected that the oil pipeline will be operational in mid-1975, and the whole pipeline system, including the land installations in Teesside and Emden will be fully operational by mid-1976. The Norpipe pipeline system is at present the largest offshore pipeline project in the world.

Statoil owns 50 % of Norpipe, and the same proportion of the sister company Norpipe Petroleum UK Ltd. The remaining 50 % is owned by the Phillips Group. This group consists of the following companies:

Phillips Petroleum Company Norway	36.960 %
American Petrofina Exploration Company	30.000 %
Norsk Agip A/S	13.040 %
Norsk Hydro a.s.	6.700 %
Elf Norge A/S	5.396 %
Total Marine Norsk A/S	4.047 %
Aquitaine Norge A/S	2.698 %
Eurafrep Norge A/S	0.456 %
Coparex Norge A/S	0.399 %
Cofranord A/S	0.304 %

The head offices of Norpipe a.s are in Stavanger, and its organization is being developed in Norway and in Teesside. Norpipe Petroleum UK Ltd. is incorporated in London. The two companies have identical Boards of Directors.

The Chairman of both companies comes from Statoil. The capacity of the oil pipeline is 50 million tons of oil and condensate (NGL) a year, while the gas pipeline

will have a capacity of 12,000 million cubic metres of gas annually. This capacity can be expanded at a later date to 18,000 million cubic metres.

Frigg

Statoil owns five per cent of the Frigg Field. Frigg is located in Block 25/1 licensed to the French-Norwegian Petronord Group. Norsk Hydro owns 32,87 % and Elf Norge is the operator.

In June 1974 the Storting approved the landing of the Frigg gas in St. Fergus in Scotland. Two pipelines will be laid; during 1974 55 kilometres of the first line was laid.

Drilling in the Frigg area has resulted in a number of gas shows. It has been proved that part of the Frigg field stretches into Block 30/10, where Esso is the licence holder. Unitization negotiations with Esso have been initiated. Further drilling will be carried out in the Frigg area in 1975.

The division of the Frigg field between the UK and Norway was not clarified during 1974 because it was felt that further evaluation of the reservoir was needed

before a decision could be taken.

The development of the field started during 1974. A technical mishap with the first platform and a prolonged strike at one of the construction sites in Scotland may cause delays in the production start. The development programme schedule was revised at the end of the year, and it is now estimated that the first deliveries of gas through the pipeline will start in 1977.

In connection with the Frigg development the Norwegian Government has appointed a special negotiating committee for Frigg. The committee's task is to discuss with the British authorities the special problems of joint exploitation of the field on both sides of the median line, as agreed by the licensees. Since Frigg is the first field in the North Sea which straddles the median line, and where international partition problems occur, the outcome of the discussions will probably have important bearings on later problems of a similar kind.

Heimdal

The Heimdal structure in Block 25/4 was declared commercial in April 1974. Statoil has an option for a 40% participation in Heimdal. Statoil has recommended to the Ministry of Industry that the option should be exercised. The deadline for exercising the option is May 1975.

A well on a structure other than Heimdal in Block 25/4 was drilled in the autumn of 1974. The result was a small gas find, not considered commercial. During 1975, it is expected that two appraisal wells will be drilled on Heimdal proper, to gather more information from the field. Elf Norge is the operator for Heimdal.

Blocks with Statoil participation on the Norwegian continental shelf.

Upper picture:

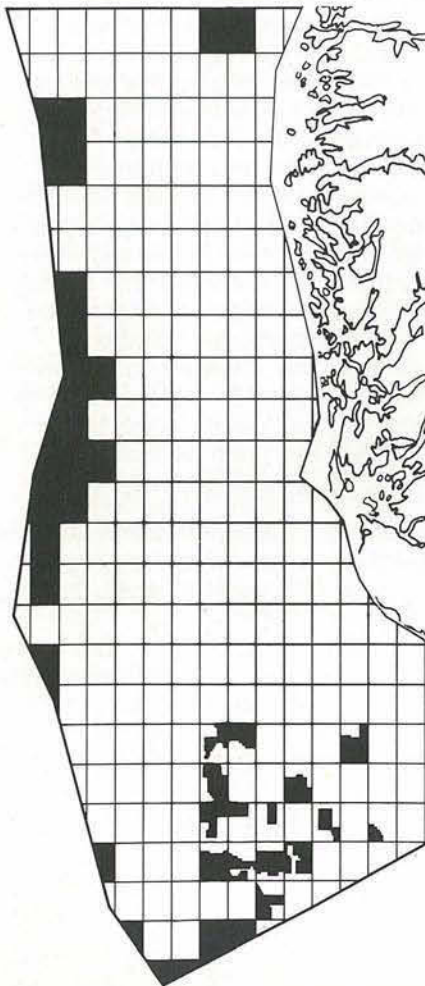
There are large dimensions on the pipelines. This is just one section.

Lower left:

The pipeline on its way to the sea floor.

Lower right:

Technical control of a pipe section.





The gas from Heimdal has not yet been sold. There is an option to sell the gas to the British Gas Corporation, but no contract has been signed, and no decision about the landing of the gas has been taken.

The licensee for Heimdal is the Pan Ocean/Petronord Group. If Statoil's option is exercised the ownership will be as follows:

Pan Ocean Oil	
Norge A/S	19.375 %
K/S Femogtyvefire	
Norsk A/S	10.750 %
Bow Valley Exploration	
Norge A/S	8.000 %
Sunningdale Oils	
Norge A/S	3.875 %
Norsk Hydro a.s	6.228 %
Elf Norge A/S	5.233 %
Total Marine Norsk A/S	3.924 %
Aquitaine Norge A/S	2.615 %
Statoil	40.000 %

Statfjord

The Statfjord field in Blocks 33/9 and 33/12 was discovered in February 1974 and was declared commercial in August. Statfjord appears to be among the largest petroleum finds yet discovered in the North Sea. Development planning is under way. The Statoil/Mobil Group is planning a two-phase development for Statfjord. A plan for Phase I development has been submitted to authorities; this calls for one concrete production platform, now being constructed in Stavanger, Norway, and offshore loading of the oil into tankers. This development can at the earliest give a production start at the turn of the year 1977/78, subject to Government approval.

A later Phase II would call for more platforms, and pipelines ashore. Statoil has been given the task of submitting a plan for the different pipeline alternatives from Statfjord, and the first preliminary conclusions on this are expected in 1975.

It is possible that a smaller part of the Statfjord field stretches into Blocks 211/24 and 211/25 on the British shelf. The concessionaires on the British shelf started drilling on the possible

Statfjord extension on November 1974. No result of this drilling was available at the end of the year.

On the Norwegian side four wells have been drilled on Statfjord so far, and further drilling will commence when the drilling rig Norskald is back from British waters in the spring of 1975.

Statoil has a 50% participation, and there is a deadline in August 1975 for the decision as to whether or not to participate in further development. It has been recommended to the authorities that Statoil shall continue to participate in the development. Mobil Development Norway A/S is the operator for the Statoil/Mobil Group which consists of the following companies:

Statoil	50 %
Mobil Development	
Norway A/S	15 %
Norske Conoco A/S	10 %
A/S Norske Shell	10 %
Esso Exploration	
Norway A/S	10 %
Saga/Amoco Group	5 %
The Saga/Amoco Group consists of the following companies:	
Saga Petroleum A/S	45/24 %
Amoco Norway A/S	25/24 %
Amerada Hess Norwegian	
Exploration A/S	25/24 %
Texas Eastern	
Norway A/S	25/24 %

Petrochemicals

The construction work on a petrochemical complex at Bamble, Telemark, Norway started during the summer of 1974, after the Storting had approved the Government's recommendation for utilization of the condensate (NGL) from the Ekofisk area. The first part of the construction work consisted of the building of a new road through the area, and this work was completed in 1974. Initial surface works also started. The main contracts for the ethylene cracker and the polyethylene and polypropylene plants were awarded during the year.

The ethylene cracker will have an annual capacity of 300,000 tons of ethylene. Half of the ethylene will be utilized by Norpolefin, and the other half by Norsk Hydro for a vinylchloride plant, which in turn will be feedstock

for Hydro's polyvinylchloride (PVC) plant. The problems arising in connection with the PVC production have resulted in a delay of the final decision for a time-schedule for the vinylchloride plant, but this has not created major problems for the petrochemical project as such.

Marketing

Preliminary work on a practical solution of the marketing question has been carried out throughout the year. The marketing question has important national and socio-economic implications and the Ministry of Industry is now working on a national solution. It is expected that Statoil's role in this field will be determined during 1975.

Statex

A/S Kongsberg Våpenfabrikk and Statoil established the company Statex early in 1975. This company carries out the processing of seismic data from the Continental Shelf and one of its objectives is to establish a data bank for the Norwegian Shelf. Statex is also currently engaged in work in establishing a geological research laboratory in close collaboration with the Continental Shelf Division of the Royal Norwegian Institute for Scientific and Industrial Research. Statex is currently building up its administration in Stavanger.

Administration Building

Statoil is currently constructing an administration building in Stavanger. It will be completed during the autumn of 1975 and will provide office space for approximately 250 persons. This building will not, however, suffice for Statoil's long term needs. It has been decided to purchase a larger area at Forus, Stavanger, for future development.

Dusavig

In connection with operations in the North Sea and employment of the drilling rig, Statoil has acquired a site in Dusavig near Stavanger for development as a storage area for equipment and spare parts for the drilling operations.



Upper picture:
The site of the petrochemical complex
under construction at Bamble, Telemark.
The first part of the work was construction
of a new road through the area.
Surface work also started during 1974.
(Foto: Fjellanger Widerøe)

Lower picture:
Welding on the Ekofisk-Emden pipeline.





Statement of Profit and Loss for the Year 1974

	1974 N.kr.	1973 N.kr.
Sales, oil products (1)	98 151 846	
Crude oil and direct costs	96 276 406	
	<u>1 875 440</u>	
Salaries and social insurance	7 967 137	2 142 210
Directors' and General Managers' remuneration	306 100	289 200
Other administrative expenses	13 002 925	1 804 806
Research expenditure	320 999	116 839
Registration fees	<u>1 500 150</u>	<u>1 550 548</u>
	<u>23 097 311</u>	<u>5 903 603</u>
Loss before depreciation	21 221 871	5 903 603
Depreciation	304 163	173 385
Loss after depreciation	<u>21 526 034</u>	<u>6 076 988</u>
Interest income and other financial income	14 575 811	2 862 373
Interest on debts	21 535 012	5 691 212
Currency risk fund	<u> </u>	<u>4 759 945</u>
	<u>6 959 201</u>	<u>7 588 784</u>
Loss before taxes	28 485 235	13 665 772
Taxes	500 000	14 622
Net loss	<u>28 985 235</u>	<u>13 680 394</u>

Upper picture:

Persons are dwarfed inside one of the storage tanks at Norpipe's site in Teesside, England. Each tank holds approximately 750 000 barrels of oil.

Lower picture:

The Norpipe facilities at Teesside, England are among the largest in Europe.

Balance Sheet as at December 31, 1974

Assets		1974 N.kr.	1973 N.kr.
Current Assets (2)			
Cash in hand	60 080		19 868
Deposits with Norwegian banks	107 381 572		47 539 607
Deposits in foreign currency	<u>87 955 974</u>		<u>73 301 619</u>
		195 397 626	120 861 094
Short-Term Receivables (3)			
Accounts receivable	3 960 748		157 747
Interest earned but not due	<u>463 221</u>		<u>459 514</u>
		4 423 969	617 261
Investments and Long-Term Receivables			
Long-term receivables	951 346		763 297
Shares in Norwegian Companies (4)	192 650 000		192 150 000
Shares in Foreign Companies (5)	<u>37 458 980</u>		<u>37 458 975</u>
		231 060 326	230 372 272
Fixed Assets (6)			
Operation equipment	801 747		
Transportation equipment	239 000		117 000
Fixture and fittings	3 187 000		1 681 150
Installations under construction	28 415 285		
Participation in fields (options exercised) (7)	32 348 000		5 577 451
Real Estate	<u>6 987 048</u>		<u>335 230</u>
		71 978 080	7 710 831
		<u>502 860 001</u>	<u>359 561 458</u>

Stavanger,

Finn Lied
Chairmann

Ole Myrvoll
Vice-Chairmann

Aksel Fossen

Einar H. Moxnes

Audited, Auditor's Report submitted February 21, 1975

Karl-Johan Endresen

Certified Public Accountant (Norway)

Liabilities and shareholders' equity

		1974 N.kr.	1973 N.kr.
Current Liabilities			
Accounts payable	16 866 065		17 084 294
Interest payable	1 646 427		2 246 149
Provision for taxes	500 000		
	<u> </u>	19 012 492	<u>19 330 443</u>
Long-Term Debt			
Miscellaneous long-term debts (7)	32 348 000		5 577 451
Bank loans (8)	188 575 000		188 575 000
Mortgage debenture (regarding employees housing) ..	88 935		104 246
	<u> </u>	221 011 935	<u>194 256 697</u>
Currency risk fund		606 436	<u>4 759 945</u>
Shareholders' Equity			
Share capital (9)	305 000 000		155 000 000
Less Accumulated losses	42 770 862		13 785 627
	<u> </u>	262 229 138	<u>141 214 373</u>
Joint liability kr. 4 754 873 (10)			
		<u>502 860 001</u>	<u>359 561 458</u>

December 31, 1974
February 15, 1975

Tore Sund

Ottar Vollan

Hans J. Ødegaard

Arve Johnsen
Managing Director

Notes to Financial Statements December 31, 1974

General comments

The Profit and Loss Account for the year is charged for the following items:

- a) All expenditure relating to the Company's development and operational activities; also registration fees in connection with the increase of share capital.
- b) Expenditure relating to the purchase, collection and processing of geophysical data.
- c) All interest charges.

Depreciation

Fixed assets have been depreciated according to recommended rates, provided the fixed asset in question has come into use during the year.

Conversion principles for foreign currency

Foreign currencies have been converted to Norwegian kroner according to the following principles:

- a) Statement of profit and loss — Expenditure/Income is entered according to the exchange rate prevailing at the time of payment
- b) Balance sheet — Cash and short-term receivables are converted at the exchange rate prevailing at Dec. 31. — Long-term receivables/Investments are entered at the exchange rate prevailing at the time they were received/made — Current liabilities are converted at the exchange rate prevailing when the loans were drawn — Estimated currency losses according to these principles are entered against the Currency Risk Fund.

Shares in Norwegian and foreign companies (none of them quoted on stock exchanges) have been valued at purchase price.

Special comments

1) The sales income is derived from the sale of refined products. It is made up as follows:
 Norway 32 mill. N. kroner
 Exports 66 mill. N. kroner
 Total 98 mill. N. kroner

2) Of the Current Assets, deposits in foreign currency amount to N.kr 87 955 974. These deposits are all in US \$ and are valued at the exchange rate ruling on Dec. 31. of N.kr. 5,20 to the US \$.

3) Of the short-term receivables, N.kr. 385 352 is short-term finance for employees' housing.

4) Shares in Norwegian companies include Statoil's 50 % share in Norpipe a.s and Statex a.s. The total share capital of Norpipe a.s is N.kr. 384 300 000 divided into 3 843 000 shares of N.kr. 100 each, and of Statex a.s is N.kr. 1 000 000 divided into 10 000 shares of N.kr. 100 each.

5) Shares in foreign companies include Statoil's 50 % share of the equity capital of Norpipe Petroleum UK Ltd. which totals £ 5 415 228.

6) See detailed schedule of fixed assets below.

7) On May 24, 1973 Statoil exercised its option to acquire a 5 % interest in Production Licence No. 024 (Frigg). The book value of N.kr. 32 348 000 represents Statoil's estimated total costs to date in respect of this licence.

The Frigg field lies on both sides of the median line between the UK and Norway. The field will be developed as a unit and the accumulated costs to date are based on a preliminary division of the field.

The division of the field will be adjusted at a later date. The amount also includes Statoil's cumulative investments in Pipeline No. 2 to St. Fergus in Scotland with a Statoil share of 5 %.

According to the participation agreement (Petronord agreement) the Petronord Group will finance Statoil's share in full, including interest. The same amount is therefore entered as long-term debt. This debt will be repaid out of net production profits according to the agreement.

If repayment is not completed before the production licence expires, the rest of the debt will be waived. Statoil has an option to make prepayment of the debt, and thus take over the financing of its share.

8) Bank loans include loans in Norwegian currency amounting to N.kr. 25 000 000 and loans of US \$ 30 000 000 converted at the exchange rate prevailing when drawn (N.kr. 5,4525 to the US \$).

The exchange rate ruling at Dec. 31. was N.kr. 5,20 to the US \$.

9) The share capital was increased by N.kr. 150 000 000 during 1974. The amount was received in September 1974.

10) Statoil, together with the other partners in I/S Noretyl and I/S Norpolefin. is jointly liable for the joint-venture companies' debt.

	Pur- chased 1972	Pur- chased 1973	Pur- chased 1974	Total Pur- chase	Depre- ciated 1974	Accumu- lated Depreiation	Net Book Value Dec. 31
Equipment			801 747	801 747			801 747
Transportation Equipment		122 508	151 470	273 978	29 470	34 978	239 000
Fixtures and Fittings	14 500	1 834 527	1 780 543	3 629 570	274 693	442 570	3 187 000
Installations under construction (*)			28 415 285	28 415 285			28 415 285
Interest in fields (option exercised)		5 577 451	26 770 549	32 348 000			32 348 000
Real Estate		335 230	6 651 818	6 987 048			6 987 048
Total	14 500	7 869 716	64 571 412	72 455 628	304 163	477 548	71 978 080

(*) Participation in Noretyl and Norpolefin N.kr. 27 345 925

Analysis of Changes in Financial Position

		1974 N.kr.	1973 N.kr.
Capital used for			
Increase in Norwegian currency deposits		74 536 532	115 985 255
Increase in short-term receivables		3 806 708	609 817
Reduction of current liabilities		317 951	
Increase in long-term receivables		688 054	230 316 990
Purchase of fixed assets		64 571 412	7 869 716
Reduction of currency risk fund		4 153 509	
Net loss	28 985 235		
Depreciation	<u>304 163</u>	<u>28 681 072</u>	<u>13 507 009</u>
		<u>176 755 238</u>	<u>368 288 787</u>
Capital provided by			
Increase in short-term debt			19 272 145
Increase in long-term debt		26 755 238	194 256 697
Currency risk fund			4 759 945
Increase in issued share capital		150 000 000	150 000 000
		<u>176 755 238</u>	<u>368 288 787</u>

Organization, December 1974

Managing Director						
Exploration Department:	Technical Department: Hydrocarbon development technology:	Marketing Department:	Legal Department:	Finance and Economic Planning Department:	Administration Department:	Public Affairs and Information Department:
Geophysics, Regional Geology, Evaluation Geology, Production Geology, Competitor Activities	Drilling Well Completion Well Evaluation Reservoir Engineering Secondary Recovery Drilling Operations Production Operations Engineering Technology: Pipelines Offshore Structures Production Systems Sub-sea Technology Storage, Loading Safety, Environment Construction Offshore Down Stream Operations: Operations Technical Resources Project Development Planning Procurement of Materials and Services	Market - Analysis Market - Planning Transport and Sale of Gas, Crude oil and Finished Product on Norwegian and International Markets	Contracts Concessions Business Law Taxation Board Secretariate	Financing Budgeting, Corporate Planning Evaluation of Projects Economic Control Accounting Insurance Data Processing	Organization Personnel Management Purchasing - Office Insurance - Offices Office Services	Internal and External Information Public Affairs

The Departments activities in 1974

Exploration Department.

The Department had seven employees at the beginning of the year. New employees were added throughout the year. At the end of the year the staff numbered 27. Recruiting visits have been made to the Universities in Bergen, Trondheim and Oslo.

The need for additional training has been substantial and most of the personnel have participated in different courses and training assignments both inside and outside Norway.

The department had been given a number of important assignments, including detailed work on Heimdal and Stafjord and mapping and determination of the extent and volume of the Frigg

field. Other drilling operations on the Norwegian shelf, where Statoil holds ownership, have been followed up. During 1974 the department planned and carried out seismic exploration along a total length of 3.000 kilometres on the shelf south of 62 degrees North. Planning of seismic exploration for 1975 was initiated. Regional geological work south of 62 degrees was started and this work will continue in 1975.

Technical Department Hydrocarbon Development Technology section

This section of the department started 1974 with four persons. Most of the year was spent orga-

nizing the section and preparing plans for Statoil's own drilling operations in 1975. By the end of the year the section numbered 14 persons.

Training programmes were initiated and personnel have been training with the companies Elf, Amoco, Mobil, Conoco and Shell. The main tasks during the year have been in connection with the third concession round, key blocks, block and field evaluation. The section has also been engaged in follow-up work connected with the construction of the drilling rig which Statoil has chartered as from the summer of 1975, contracts for equipment, servicing, supply ships, rig maintenance, etc., have been

negotiated. Furthermore, the section is now engaged in recruiting drilling supervisors for the rig.

**Technical Department
Engineering Technology section**

By the end of 1974 this section had a total strength of 13. The section has given high priority developing know-how for pipe-laying technology. During the year it also built up competence in areas such as statics, material technology, construction technology and petroleum equipment technology. This work will be continued during 1975. In the near future areas such as pollution control, environmental data (waves, weather, wind, etc.) will be covered.

The Statfjord projects were given highest priority during the last half of 1974. A special group consisting of nine persons was created to study the transportation problems connected with the landing of the Statfjord oil. In the evaluation work the problems connected with landing of oil and gas in Norway have been thoroughly investigated.

**Technical Department
Down-stream Operations section**

The section for down-stream operations was organized during the year. By the end of the year its staff numbered 13.

The section works in three different fields, processing operations, technical resources and planning. The procurement of materials and services for Statoil is also one of the section's functions.

Processing operations include coordination responsibility for Noretyl and Norpolefin, Frigg and Heimdal. Some of the personnel will be trained under various agreements which Statoil has with its international partners. During 1974 our personnel attended a number of different courses or received on-site training with other companies in Europe and USA.

Marketing Department

The department employed eight persons at the end of the year. It

is organized in three sections: selling, buying and exchange of products; transport and supply; marketing planning and budgeting.

Since April 1974 the department has been responsible on behalf of the Ministry of Industry for the transportation, refining and selling of the royalty oil from Ekofisk. For the year 1974 this amounted to 262.000 tons of products.

Legal Department

By the end of 1974 the department employed four persons. Its main task is to be responsible for all the legal aspects of the Company's activities. During the year the department took part inter alia in the negotiations for new concessions and in the planning work in connection with the key blocks, in close cooperation with the Ministry of Industry. The department also took part in the negotiations regarding the creation of the petrochemical industry in Norway and subsequent development in this connection. The work of the secretariat to the Board of Directors is the responsibility of this department.

**Finance and Economic
Planning Department**

The department had a total strength of 14 at the end of the year.

It is divided into the following sections:

Finance and insurance
Economic planning and evaluation
Accounting
Economic control
Data processing

During the year substantial contacts were made with both the Norwegian and international finance and foreign exchange markets.

The department participated in finance committees for Frigg, Norpipe, Heimdal, Norpolefin and Noretyl.

Substantial work has been done to create budget systems and routines for economic control in Statoil. Economic evaluation of different projects has been carried out. Accounting systems for

Statoil are under development. Finance and salary accounting have been transferred to data processing. From the beginning of 1975 a large operation accounting system has been introduced. The data processing section is under systematic development.

Administration Department

The department employed 16 persons at the end of the year. Its main areas of responsibility are:

Personnel management
Organization
Office premises
Office equipment
Office services

The department's work load increased substantially owing to the large increase in the Company's total workforce. The same sort of development is expected during 1975.

Among the tasks which have needed and will need special attention are:

Recruiting
Housing
The planning of a future administration centre
Organization development
These tasks will call for additional personnel in 1975.

**Public Affairs and
Information Department**

This department was established in 1974 and by the end of the year had a staff of five. The department is responsible for the Company's external and internal information and additional public affairs.

During 1974 Statoil received a considerable number of visits from Norwegian and foreign authorities, news media, industrial representatives, political organizations etc. Extensive travelling has also been needed.

In addition, the department is working on a film about Statoil and on a number of different publications. Regular contact has been maintained with Norwegian and international press, radio and television. On behalf of the Statoil/Mobil Group the department is responsible for the information on the Statfjord project.

Articles of Association

Art. 1 The object of Den norske stats oljeselskap a.s is, either alone or through participation in and cooperation with other companies, to carry out exploration for and production, transportation, refining and marketing of petroleum and related products and other activities in close relationship with this.

Art. 2 The registered office of the Company is in Stavanger.

Art. 3 The share capital of the Company is N.kr. 305 000 000, divided into 3 050 000 shares of N.kr. 100 each.

Art. 4 The Company's Board of Directors, including the Chairman and Vice-Chairman, is elected by the General Meeting. The Board shall be composed of seven Directors. Two Directors shall be appointed by the General Meeting from among six nominees elected by and from among the employees in accordance with the rules then in force. For the two Directors appointed from among the six nominees who are elected by and from among the employees, one first and one second alternate shall be appointed from among the four other nominees. For the other Directors, two alternates shall be elected, one first and one second alternate member. The normal term of office of the Directors is two years.

Art. 5 Any two Directors jointly may sign for the Company. The Board may grant power of procurement.

Art. 6 The Board shall engage the Company's General Manager (Managing Director) and stipulate his salary.

Art. 7 The Company shall have a Board of Representatives consisting of 12 Representatives. Eight Representatives are elected by the General Meeting and four Representatives by and from among the employees in accordance with the rules then in force. The Board of Representatives shall meet at least twice a year.

The normal term of office of the Representatives is two years.

Art. 8 An Ordinary General Meeting shall be held each year before the end of May. General Meetings are held in Stavanger or in Oslo. Extraordinary General Meetings shall be summoned whenever so demanded by the shareholder or the Board.

Art. 9 The Ordinary General Meeting deals with:

- a) The annual report, annual accounts and the auditor's report.
- b) The question of adopting the annual accounts.
- c) The appropriation of profit.
- d) The election of the Company's officers an alternate officers, and the amount of their remuneration.
- e) The election of the auditor and the amount of his remuneration.
- f) Any other matters that are specified in the agenda accompanying the notice of meeting or that are taken up pursuant to the Companies Act, Section 69A, fourth paragraph.

Art. 10 The Board shall submit to the General Meeting, ordinary or extraordinary, all matters which are presumed to involve significant political questions or questions of principle and/or which may have important effects on the nation or its economy.

Such matters shall be deemed to include, inter alia:

- a) Plans for the next following year with economic surveys, including plans to cooperate with other companies.
- b) Essential changes of such plans as mentioned in a) above.
- c) Plans for future activities, including participation in activities of major importance in other companies or cooperation ventures in which the Company participates or plans to participate.
- d) Matters which seem to necessitate additional appropriation of Government funds.
- e) Plans for establishing new

types of activity and localization of important elements of the Company's operations.

- f) Plans to participate in the exploration of petroleum resources in or outside Norway, including the exercise of government participation option rights.
- g) Semi-annual reports on the Company's operations, including operations of subsidiaries and cooperation ventures with other companies of importance.

Matters which the Board submits to the General Meeting pursuant to this Article and, if possible, matters which the Ministry has announced that it wishes to consider at such General Meeting, shall, if possible, be set out in writing and delivered to the Ministry in good time before the General Meeting. If there has been no opportunity to submit matters as mentioned above to the General Meeting in advance, the General Meeting shall promptly be notified of the Board's resolutions. Whenever possible, matters as mentioned in a) and g) above should be submitted to the Board of Representatives for their opinion.

The General Meeting decides whether to take note of the Board's submissions under this Section, to approve them or alter them.

Art. 11 The provisions of the Companies Act shall be supplementary to these Articles of Association.

Participation agreements

Norwegian continental shelf

1969 licence:

Group:	Agreement type	Block	Statoil's share
Petronord	Carried interest	3/7 15/3 25/1-2	5 %
Amoco/Noco	Net profit	2/9 2/11	10 %
Esso	Net profit	15/6 25/8-10 30/10	17,5 %
Phillips	Carried interest	2/10	17,5 %

Changes in 1965 agreements

Murphy	Carried interest	2/3 3/1-5 9/10	5 %
Conoco/Gulf	Carried interest	3/2-3 8/6-9-12 9/4-9-11 10/5-10-12	10 %

Dutch shelf

In connection with changes in 1965 agreement with Conoco/Gulf

Conoco/Petroland	Carried interest	F/7 F/9 K/18 L/16	7,5 %
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1971 agreement:

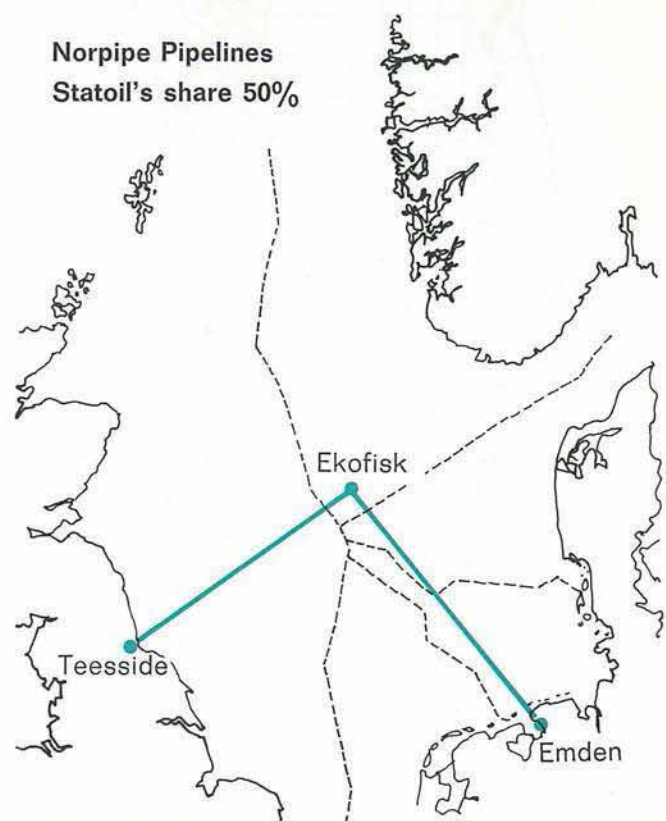
Group:	Agreement type	Block	Statoil's share
Pan Ocean/Petronord	Carried interest	25/4	40 %

1973 licence:

Statoil/Mobil	Carried interest	33/9 33/12	50 %
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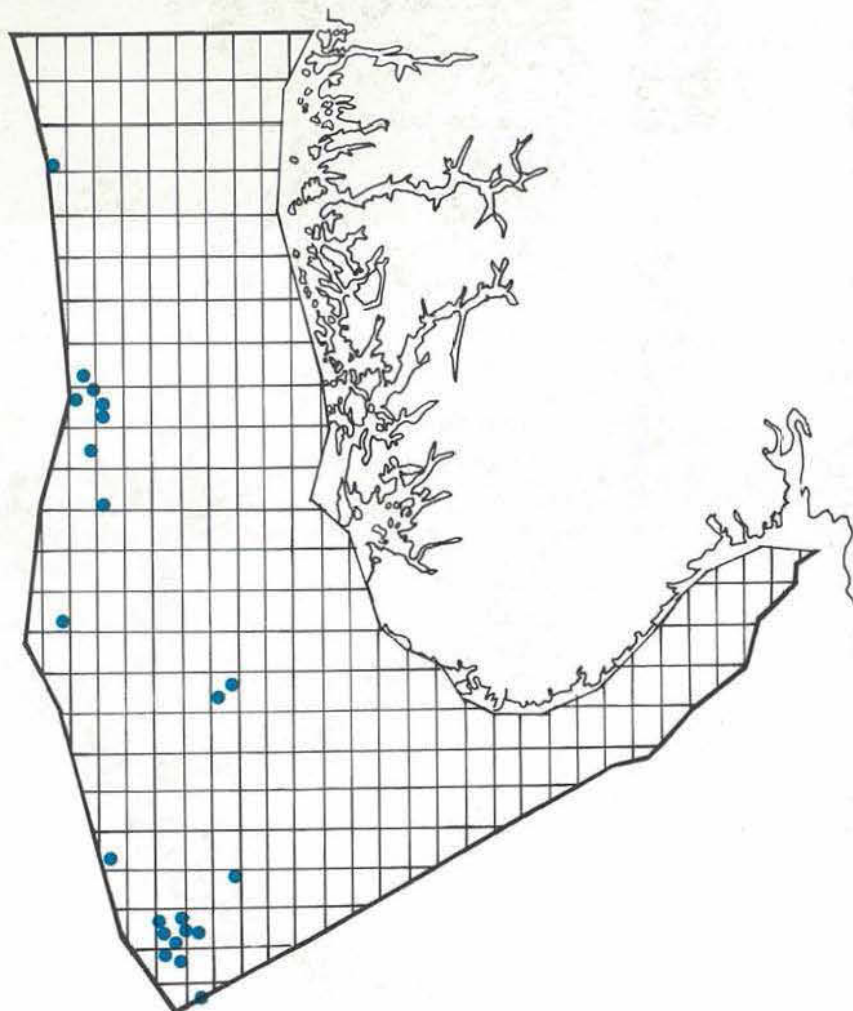
1974 licence:

				Maks. delt
Statoil/Esso	Carried interest	6/3 15/11-12	50 %	75 %
Statoil/Conoco Hydro	— → —	24/9	50 %	75 %
Statoil/Petronord	— → —	29/9 30/7	50 %	66 %
Statoil/Chevron/Saga	— → —	35/3	50 %	70 %
Statoil/Amoco/Mobil	— → —	36/1	55 %	70 %



Oil and Gas Discoveries on the Norwegians Continental Shelf

Phillips Group	block 7/11	Cod	Condensate	1968
Murphy Group	block 2/3	2/3	Gas	1969
Phillips Group	block 2/4	Ekofisk	Oil/gas	1970
Esso	block 25/8	25/8	Oil	1970
Amoco/Noco Group	block 2/5—2/4	Tor	Oil/gas	1970
Phillips Group	block 2/7	Eldfisk	Oil/gas	1970
Phillips Group	block 2/4	West-Ekofisk	Oil/gas	1970
Petronord Group	block 25/1	Frigg	Gas	1971
Phillips Group	block 17/12	Bream	Oil	1971
Amoco/Noco Group	block 2/5	SE-Tor	Oil/gas	1972
Pan Ocean/				
Petronord Group	block 25/4	Heimdal	Gas	1972
Phillips Group	block 2/7	Edda	Oil/gas	1972
Shell/				
Phillips Group	block 1/6—2/4	Albuskjell	Oil/gas	1973
Petronord Group	block 25/2	E-Frigg	Gas	1973
Phillips Group	block 17/12	Brisling	Oil	1973
Phillips Group	block 2/4	NW-Tor	Oil	1973
Statoil/Mobil Group	block 33/12	Statfjord	Oil/gas	1974
Esso	block 30/12	Odin	Gas	1974
Petronord Group	block 25/1	NE-Frigg	Gas	1974
Esso	block 15/6	15/6	Gas	1974
Petronord Group	block 25/1	SE-Frigg	Gas	1974
Amoco/Noco Group	block 2/11	Hod	Oil	1974



Den norske stats oljeselskap a.s

The Board:

Director Finn Lied, chairman, Skedsmo
Member of the Storting Ole Myrvoll, vice chairman, Bergen
Member of the Storting Aksel Fossen, Hordaland
District Governor Einar H. Moxnes, Sør-Trøndelag
Engineer Tore Sund, Stavanger
County councillor Ottar Vollan, Bodø
Economist Hans Johan Ødegaard, Stavanger

ALTERNATE MEMBERS:

For the members Lied, Myrvoll, Fossen, Moxnes, Vollan:
Professor Hans J. A. Kreyberg, Trondheim
Member of the Storting Kristin Lønningdal, Rogaland

For the members Sund, Ødegaard:
Engineer Erik Kastellet, Stavanger
Secretary Åse Gjerdsjø, Stavanger

* The Board members Sund and Ødegaard and the alternate members Gjerdsjø and Kastellet are elected among the Statoil staff.

AUDITOR:

Certified public accountant Karl-Johan Endresen

Board of Representatives:

Elected January 20, 1975
Member of the Storting Egil Aarvik, chairman, Akershus
Secretary Ronald Bye, vice chairman, Oslo
LO-secretary Odd Bakkejord, Bodø
Member of the Storting Bodil Bjartnes, Oppland
Teacher Grete Westergaard Bjørlo, Ålesund
Economist Erik Eik, Sandnes
Managing director Egil Flaatin, Mo i Rana
Engineer Ove E. Huus, Stavanger
Geologist Arne Lervik, Stavanger
Lord Mayor Arne Rettedal, Stavanger
Member of the Storting Kai Øverland, Sør-Trøndelag
Economist Hans Petter Aas, Stavanger

ALTERNATE MEMBERS:

Economical director Johannes Andreassen, Narvik
Engineer Ingebret Gausland, Stavanger
Lord Mayor Asbjørn Jordal, Kristiansund N.
Secretary Evy Bøverud Pedersen, Oslo
Economist Einar Slagstad, Stavanger

* The representatives Eik, Huus, Lervik and Aas and the alternate members Gausland and Slagstad are elected among the Statoil staff.

Administration:

Arve Johnsen, Managing director
Olav K. Christiansen, Manager Technical Department
Tor Espedal, Manager Finance and Economic planning Department.
Philip H. Halstead, Manager, Exploration Department
Arne H. Halvorsen, Manager Public Affairs and Information Department
Christian Halvorsen, Manager Administration Department
Eugene B. Muehlberger, Manager Technical Department
Jon Rud, Manager Legal Department
Erik Schanche, Manager Marketing Department
Helge Skinnemoen, Manager Technical Department

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