Annual Report and Accounts 1988

STATOIL

Den norske stats oljeselskap a.s

Den norske stats oljeselskap a.s

Contents

Board of Directors
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Jan Erik Langangen
Vice Chairman:
Arnfinn Hofstad
Directors:
Else Bugge Fougner
Marit Reutz
Ole Knapp
Bjarne Gravdahl
Petter Anda
Anne-Britt Andersen
Eivind Lønningen

Deputies:
Berit Wenaas
Kjeld Rimberg
Gunnar Langvik
Lars Bakka
Svein G. Øhrling
Tore Hugo Jensen
Tor Ragnar Pedersen

Corporate Assembly

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Vice Chairman:
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Members:
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Deputies:
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Knut Engdahl
Ragnhild Setsaas
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Lars P. Lundahl
Randi Kleppe
Johs. Bergsland
Arne Breistein
Reidar Nyland

Front cover:
Clearing up. From Jæren, Norway's south-western corner.
Photo: Leif Berge

Highlights

Amounts in millions of NOK

Profit and Loss Account

	The consolidated companies 1988	1987	1986	Statoil 1988	1987	1986
Operating income	**56 320**	60 822	49 190	**37 673**	42 422	32 015
Operating profit	**6 190**	7 995	6 601	**5 400**	7 825	5 657
Net financial items	**(2 121)**	(1 537)	(2 391)	**(2 052)**	(1 419)	(2 162)
Profit before extraordinary items	**4 069**	6 458	4 210	**3 348**	6 406	3 495
Profit before adjustments	**1 779**	3 458	4 210	**1 345**	3 406	3 495
Profit/(loss) for the year	**340**	(1 534)	1 145	**398**	(1 460)	1 348

Balance Sheet

	The consolidated companies 1988	1987	1986	Statoil 1988	1987	1986
Fixed assets	**49 438**	46 300	42 142	**46 765**	43 918	40 363
Current assets	**10 551**	9 942	8 269	**6 334**	5 538	4 254
Current liabilities	**9 990**	11 269	9 413	**6 440**	7 424	6 561
Long-term liabilities	**34 570**	31 235	27 379	**32 362**	29 320	25 490
Conditional untaxed reserves	**11 138**	9 708	8 227	**9 597**	8 410	6 804
Shareholder's equity	**4 280**	3 954	5 217	**4 700**	4 302	5 762

Other Highlights

	The consolidated companies 1988	1987	1986	Statoil 1988	1987	1986
Investments & acquisitions	**9 863**	11 685	8 427	**8 946**	10 475	7 473
Cash flow	**8 053**	6 429	5 979	**7 335**	6 131	4 886
Ordinary depreciation	**4 723**	4 527	3 593	**4 099**	3 920	3 080
Total rate of return *	**13.6%**	17.9%	14.6%			
Rate of return on shareholder's equity (after taxes) *	52.1%	42.7%	44.6%			
Equity ratio	**12.3%**	12.1%	15.7%			

*) Definition page 23

Personnel

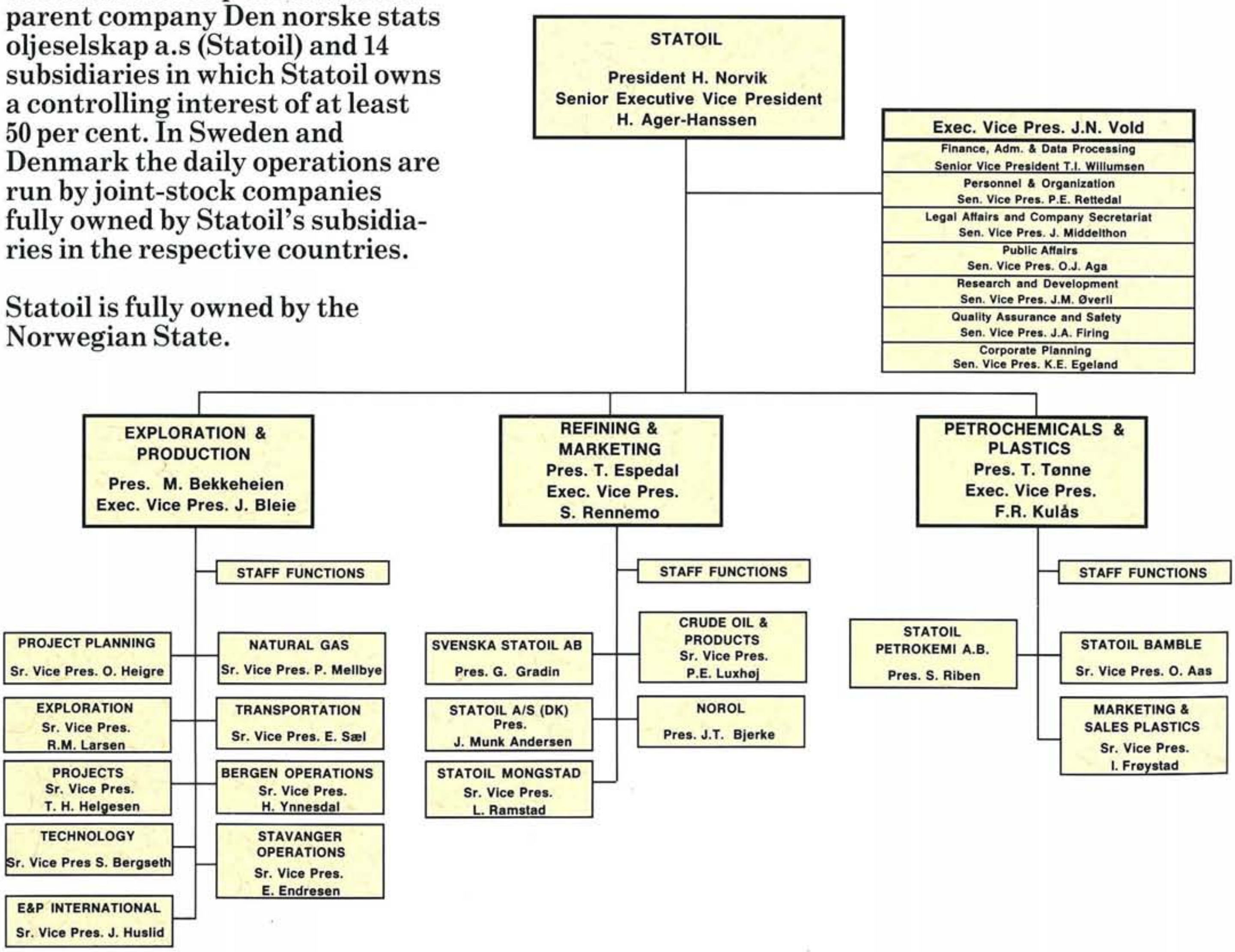
	The consolidated companies 1988	1987	1986	Statoil 1988	1987	1986
Number of employees at 31 Dec.	**11 167**	10 627	8 471	**7 731**	6 794	4 863
Salaries and related costs	**4 022**	3 619	2 584	**2 891**	2 469	1 601

The Statoil Group

Statoil's Executive Committee, from left: Tor Espedal, Martin Bekkeheien, Henrik Ager-Hanssen, Tore Tønne, Harald Norvik, Johan Nic. Vold and Jakob Bleie.

The Statoil Group consists of the parent company Den norske stats oljeselskap a.s (Statoil) and 14 subsidiaries in which Statoil owns a controlling interest of at least 50 per cent. In Sweden and Denmark the daily operations are run by joint-stock companies fully owned by Statoil's subsidiaries in the respective countries.

Statoil is fully owned by the Norwegian State.



A platform for further growth

1988 was a year of mixed results for the Statoil Group. On the credit side we recorded very strong results in Petrochemicals and Plastics for the second year running and good results in Norol. Income and results from upstream operations suffered from the impact of low oil prices. On the debit side, 1988 was a very poor year for Refining and Marketing. This was mainly due to costs associated with the expansion of the Mongstad refinery, but also low margins in several markets.

Seen as a whole, the results were not satisfactory. Profits before extraordinary items of approximately NOK 4.1 billion are clearly below par, measured by any scale. The results were weakened not only by relatively low oil and gas prices, but also by the Mongstad development. Management and staff are directing considerable effort towards these aspects of our business.

We were confronted with a most demanding task at Mongstad early in 1988. Extreme uncertainty prevailed regarding schedule and costs. Now the old refinery is on stream again, and we are approaching the completion of the new upgrading facilities. Uncertainty associated with commissioning and start-up has been greatly curtailed.

I would like to give credit to all those people who helped accomplish the Mongstad project and who have been able to keep up working morale and high spirits during a particularly demanding period.

We must prepare for fluctuating and low oil prices in the years ahead as well, and the process of adapting to these changing conditions has already started. The Group's operating and administrative expenditures were reduced by about NOK 350 million in 1988. Our target for the 1989-91 period is a further cut of NOK 2 billion. Productivity in all parts of our activities must be increased. There is a considerable potential for improvement, and we shall succeed in realizing this potential.

Our efforts to promote safety and reduce accidents were rewarded in 1988. But we must go further, and our goal is to halve the number of lost-time injuries over a two-year period.

The work to consolidate Statoil's financial standing is proceeding together with our commitments to research, development and innovation. For upstream operations, our criteria for commerciality is break-even at an oil price of USD 12 per barrel. New technology, creative application of known technology and effective exploitation of existing infrastructure are needed. Developments that are simple and relatively inexpensive to operate are essential - that is a lesson we have learnt already through our operatorships.

Statoil took an important step in the direction of meeting future demands for advanced technology last year by starting up the Tommeliten subsea production concept.

The importance of gas resources to Statoil is increasing. We are pursuing the plans for Sleipner, Troll and Zeepipe which will secure gas supplies to our Continental buyers from 1993. Under the framework of the Troll deal we signed an agreement for gas deliveries to Spain. The agreement for supply of two billion cubic metres of gas for electricity generation in the Netherlands is an indicator of a growing market potential for gas on the Continent, in the UK and in Scandinavia.

Another important task is our effort to enhance the quality of our organization through further development of professional qualifications and better management. The most efficient way of developing professional skills or leadership qualities among our employees is through demanding assignments during the daily routine. The most successful organization is one that has a systematic career planning programme for development of ever more competent professionals and leaders through regular transfers of staff.

Among other central challenges facing the Group, I would particularly like to mention the implementation of the joint venture with Himont Inc. in Antwerp; making new commercial discoveries offshore Norway; cost-effective completion of our offshore and onshore developments; improving safety throughout our Group; and negotiation of new gas contracts that will allow profitable field developments in the Norwegian sector.

In the longer term we have a major task in developing a wider international commitment. Our base will remain on the Norwegian Continental Shelf, but to succeed in establishing production in other areas, we must rely on patient long-term planning.

Our own expertise, combined with the right strategic alliances, will gradually provide Statoil with a more diversified and balanced portfolio of projects, upstream as well as downstream. It is essential to Statoil's organization to operate in a sufficiently long range perspective. It is of paramount importance, therefore, that the political handling of Statoil's development should command a broad consensus. This will consolidate Statoil's role and responsibility as Norway's most important oil company.

Statoil is currently in a process of considerable change and adaptation. We have set ambitious goals. Our ability to accomplish them depends on each individual employee's effort and adaptability. Experience from 1988 gives me reason to take an optimistic view of the future.

Harald Norvik

Report of the board of directors

The Statoil Group's consolidated operating income in 1988 was NOK 56,320 million. This decline of 7.4 per cent from 1987 was mainly due to the fact that the price of crude oil, expressed in Norwegian currency, was about 22 per cent lower in 1988 than in 1987. Consolidated profit before extraordinary items was NOK 4,069 million. Allowing for extraordinary items totalling NOK 2,290 million, profit before year-end adjustments was NOK 1,779 million, down nearly 50 per cent from the year before. After adjustments and taxes, net profit for the financial year was NOK 340 million in comparison with a loss in 1987 of NOK 1,534 million. Return on capital employed was 14.5 per cent.

During the first six months of the year considerable effort was made to re-establish the Mongstad project against a realistic budget and time schedule. At the same time the company carried out a comprehensive reorganization programme which resulted in the establishment of three Business Units: Exploration and Production, Refining and Marketing, and Petrochemicals and Plastics. During the second half Management performed a broad evaluation of the Group's strategic and financial position. A good foundation has been laid for a positive development in the 1990s. However, the Group's competitiveness and position in the market will hinge on a reduction of its expenditures and an improvement of the organization's adaptability and business orientation.

Crude oil loading on the Statfjord field.

The Board and Management have initiated a comprehensive Consolidation Programme to promote the further development of the Group, secure a satisfactory return on capital invested and strengthen the Group's financial standing. The company's target for the three-year period 1989-91 is to reduce costs by NOK 2 billion compared with current plans. The measures are being implemented in close cooperation with the employees' organizations.

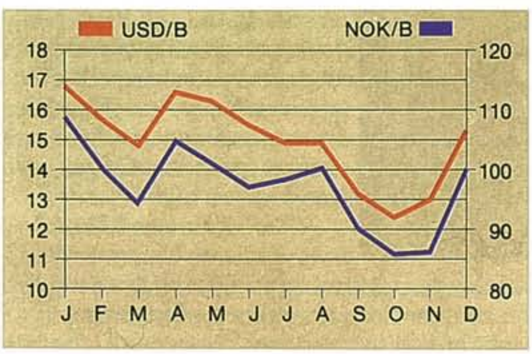
However, based on the market prospects as currently seen by the Board, it is not desirable to improve Statoil's competitive position solely through cost-curbing measures. Additional steps to this end could be reduction or deferment of planned investments and adjustment of the Group's portfolio through equity exchange or sales agreements. The Board has also requested the General Meeting to convert the remaining State loans to equity capital.

Throughout 1988, the Board has endeavoured to obtain a clearer assignment of roles between the company's General Meeting and Board of Directors. In the Board's view, the Group's financial standing and position in the market could be further enhanced by giving the Board a more clearly defined responsibility for the Group's operating and investment transactions in accordance with the provisions of the Companies Act. The Board has had a positive dialogue with the Norwegian authorities about these issues, and sees a movement in the right direction.

The crude oil market in 1988 was marked by considerable uncertainty and unstable prices. Opec's substantial output gave rise to abundant crude oil supply, resulting in a weak market and heavy pressure on prices. In November 1988 the Opec ministers reached an accord, effective for the first six months of 1989. The accord involves an overall output quota of 18.5 million barrels per day. Price

developments in the medium term depend on Opec's ability and willingness to observe its output quotas. We should also be prepared for low and unstable prices in the next few years. In the slightly longer term the Board expects that a rise in overall demand for oil and declining non-Opec production will increase the need for Opec oil and provide a potential for higher prices.

The Exploration and Production Business Unit (E&P) made an operating profit in 1988 of NOK 4,730 million and a net profit after financing costs of NOK 3,261 million. A comprehensive cost-effectiveness programme has been launched to make the unit more robust and provide better protection against falling prices.

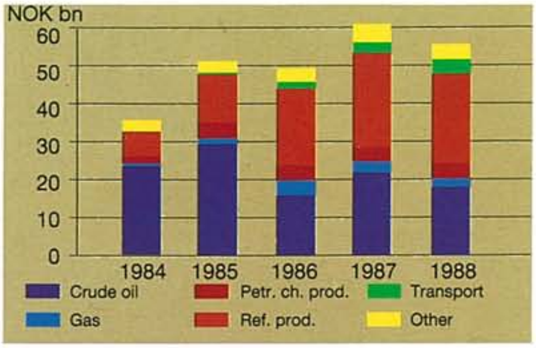


From the end of the 1990s crude output from Norwegian offshore fields currently on stream or approved for development could decline

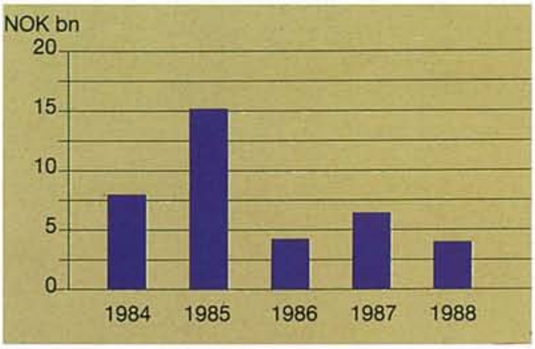
Mongstad with refinery and storage tanks. In the foreground, a tanker leaving the crude oil terminal, commissioned in 1988.

Crude oil prices in 1988. Brent Blend, fob Sullom Voe.

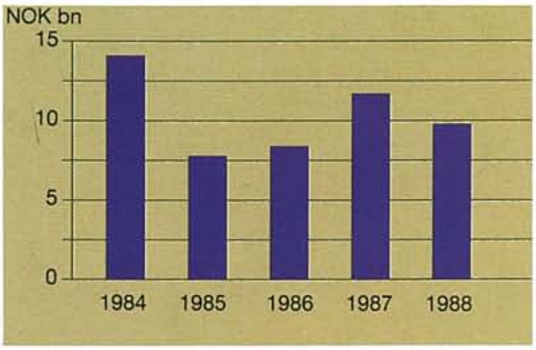
Consolidated operating income.



Consolidated profit before extraordinary items.



Consolidated investments and acquisitions.



rapidly. One of the greatest challenges for the Statoil Group is to increase its crude oil reserves to secure long term production and a basis for future operations.

The division of reserves in the Statfjord field between Norway and the UK is currently under redetermination. Any change in the allocation could have substantial economic impact on the company.

From Offshore Northern Seas 1988 in Stavanger. From left: President Harald Norvik, HRH Crown Princess Sonja, County Governor Kristin Lønningdal and Prime Minister Gro Harlem Brundtland.

Approximately two-thirds of proven petroleum reserves offshore Norway are gas. Efforts to secure a commercial market for these vast gas volumes have a high priority.

The Refining and Marketing Business Unit (R&M) achieved an operating profit of NOK 161 million and a net loss after allocated financing costs of NOK 417 million. These unsatisfactory results are strongly influenced by the financing costs of the Mongstad refinery and by the fact that the refinery was shut down nearly six months from September for conversion.

The Mongstad refinery was in 1988 written down by an additional NOK 2,000 million. The Board considers the value of the facility for accounting purposes to be in accordance with the assessment rules of the Companies Act, cf. section 11-10, subsection three.

As part of the effort to secure satisfactory operation of the integrated and expanded refinery, the Statoil Mongstad division has been singled out as a separate profit centre under the umbrella of the R&M Business Unit.

Statoil's three marketing subsidiaries in Scandinavia each have a leading position in the market. Due to price competition and low margins for some products in Sweden and Denmark the financial results were somewhat weaker than expected. The combined subsidiaries have strengthened their position, and have a total share of 20.2 per cent in the Scandinavian market.

Statoil's crude oil and products sales grew strongly in 1988. Statoil is one of the biggest participants in the North Sea market.

The Petrochemicals and Plastics Business Unit (P&P) generated excellent profits in 1988. Operating profit was NOK 1,299 million, and net profit after allocation of financial items was NOK 1,225 million. The good results can mainly be ascribed to favourable prices and marketing conditions, in addition to efficient operation of all production facilities.

The Statoil Group wants to strengthen its position in petrochemicals. This will be achieved through investments in new facilities and expansion of capacity of existing plants.

Finances

The Group's turnover in 1988 was NOK 51,783 million, a decline of 7.9 per cent from 1987. Foreign sales amounted to NOK 37,687 million. The Group's operating profit was NOK 6,190 million, while profit before extraordinary items was NOK 4,069 million. After extraordinary items related to write-down of the Mongstad refinery expansion and provision for reorganization costs, the profit before year-end adjustments was NOK 1,779 million.

Taxes for the consolidated companies are estimated at NOK 383 million. Consolidated profit was NOK 340 million. For the parent company the annual profit was NOK 398 million, which the Board recommends to be charged against the previously uncovered loss from 1987.

Total investments in 1988 were NOK 9,863 million, in comparison with NOK 11,685 million in 1987 and NOK 8,427 million in 1986. Funds financed from Statoil's own resources after taxes were NOK 8,053 million, corresponding to 59.6 per cent of the total capital spending including servicing of long-term debt.

Statoil's total interest costs on long-term debt in 1988 amounted to approximately NOK

A new generation of service stations was commissioned in 1988. This one is located near Malmö, Sweden.

2,700 million, corresponding to an average interest rate of about 9.1 per cent p.a.

The US dollar recovered slightly in 1988. The dollar exchange rate against the Norwegian krone fluctuated between NOK 6.15 and NOK 6.95, with an average rate for the year of around NOK 6.54.

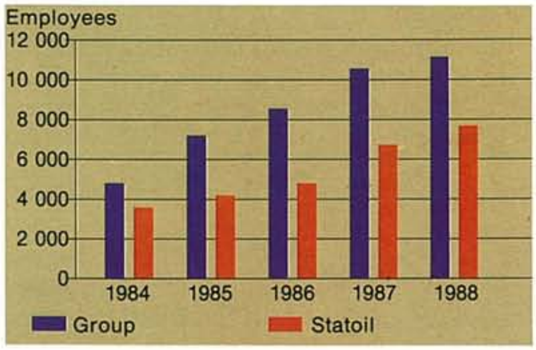
Allocation to the currency fluctuation reserve was reduced during the year by NOK 360 million, and amounted to NOK 453 million at the year-end.

Statoil enjoys a good position in the international financial market. During the year, the company signed new long-term loan agreements for NOK 8,650 million in total. Of this amount, NOK 2,000 million represented refinancing of domestic loans in Norwegian currency, which were paid off before expiry during the year. This improved the currency composition and reduced interest costs payable on the company's long-term credit facilities. Instalments on existing debt in 1988 were some NOK 1,760 million.

Consolidated long-term liabilities at the end of the year were about NOK 34.6 billion. The equity ratio was 12.3 per cent.

Employee relations

At the end of 1988 the Group payroll was 11,167 people. Of this total, 7,731 were employed by the parent company. Commissioning of new offshore activities were mainly responsible for an increase in total manpower of about 550.



Total payroll at year-end.

During the year much of the personnel and organization development work was directed at adapting the organization to the new corporate structure. The aim of this work is to obtain a flexible, profit oriented organization where employees are motivated and given ample opportunities for personal development.

The Board wants to commend the employees and Management for their ability to produce and implement the necessary organizational changes in an efficient manner.

Safety and security

The Group's safety and security operations are designed to protect life and health, the external environment, plant and equipment, expertise and information, and to safeguard production. The Board and Management give a high priority to reducing injuries in all units of the Group. As a result of the increased attention to this subject, good progress was made in 1988.

The number of lost-time injuries was redu-

The agreement for terminalling and pipeline transport of Zeepipe gas in Belgium is signed. Seated from left: Jacques van der Schueren, President of Distrigaz' Board and Statoil's President Harald Norvik.

ced by some 20 per cent. It is necessary, however, that this progress should continue at full strength. The initial objective is to achieve 50 per cent reduction in injuries over two years.

Outlook

The Board has initiated a number of measures to meet the challenges of achieving a better market position and improved financial standing. The effort demonstrated by Management and employees in effecting the organizational changes is the best basis for achieving a positive further development of the Group.

The long-term development of the Group also depends on the owner's attitude to the question of equity capital and the amount of freedom given to the Board to adjust the Group's overall portfolio of projects.

In the light of prevailing market conditions, the Board expects that the consolidated financial results for 1989 will not satisfy the criteria laid down by the Board. However, the Group's cash flow will improve further during the year and its capital requirement will be significantly reduced.

The Board anticipates that during the present year Statoil will be awarded operatorships of several promising blocks in the Norwegian sector. To strengthen Statoil's position and provide a foundation for long-term commercial development, Statoil's awards in promising blocks must at least equal those granted to other Norwegian and foreign operators.

The Group will also improve the commercial basis for a gradual expansion of Statoil's international exploration and production commitments.

The Board attaches much emphasis to the work aimed at developing a gas market in the Nordic countries. A rapid development of the Nordic gas market is particularly dependent on substantial long-term Swedish commitments to Norwegian gas.

Increased gas sales within the framework of the Troll agreement will be of great importance, both commercially and with regard to Statoil's position in the gas market. The company is also striving to sell more Norwegian gas to the UK. The US gas market is being considered as an outlet for LNG deliveries.

The Board anticipates that Statoil will be able to maintain its strong position in the Scandinavian retail market for petroleum products.

In Petrochemicals and Plastics, the present record high margins are likely to be slightly reduced in 1989. However, this Business Unit will still contribute strongly to the consolidated financial results again in 1989. The joint venture with Himont Inc. to construct a petrochemical plant in Antwerp will further strengthen the Group's position in this market.

Stavanger, 1 March 1989
The Board of Den norske stats oljeselskap a.s

Jan Erik Langangen
Chairman

Arnfinn Hofstad
Vice-Chairman

Else Bugge Fougner

Marit Reutz

Ole Knapp

Bjarne Gravdahl

Petter Anda

Anne-Britt Andersen

Eivind Lønningen

Profit and Loss Account

For the year ended 31 December 1988

Amounts in millions of NOK	*The consolidated companies*		*Statoil*	
	1988	*1987*	*1988*	*1987*
Operating income				
Turnover (1)	**51 783**	56 216	**33 997**	38 861
Other income (2)	**4 537**	4 606	**3 676**	3 561
Total operating income	**56 320**	60 822	**37 673**	42 422
Operating costs				
Direct costs	**18 475**	22 493	**13 875**	17 849
Salaries and social costs	**4 022**	3 619	**2 891**	2 469
Other purchase, production, selling and adm. costs (4)	**21 674**	20 552	**10 369**	8 910
Exploration costs	**1 259**	1 549	**1 127**	1 425
Depreciation (16)	**4 723**	4 527	**4 099**	3 920
Provision for bad debt (5)	**(126)**	143	**(188)**	83
Changes in stocks	**103**	(56)	**100**	(59)
Total operating costs	**50 130**	52 827	**32 273**	34 597
Operating profit	**6 190**	7 995	**5 400**	7 825
Financial income and financing costs				
Dividends received	**185**	175	**161**	174
Dividends from subsidiaries			**54**	41
Interest from consolidated companies			**138**	162
Interest receivable and other financial income (18)	**1 498**	1 359	**1 193**	1 086
Interest payable and other financing costs	**(3 804)**	(3 071)	**(3 598)**	(2 882)
Net financial items	**(2 121)**	(1 537)	**(2 052)**	(1 419)
Profit before extraordinary items	4 069	6 458	**3 348**	6 406
Extraordinary items				
Extraordinary income (6)			**305**	
Extraordinary costs (6)	**(2 290)**	(3 000)	**(2 308)**	(3 000)
Net extraordinary items	**(2 290)**	(3 000)	**(2 003)**	(3 000)
Profit before year-end adjustments	**1 779**	**3 458**	1 345	3 406
Year-end adjustments				
Year-end adjustments (7)	**(1 062)**	(1 657)	**(971)**	(1 756)
Taxes (8)	**(383)**	(3 318)	**24**	(3 110)
Total year-end adjustments	**(1 445)**	(4 975)	**(947)**	(4 866)
Profit/(loss) for the financial year	334	(1 517)	**398**	(1 460)
Minority interest share (9)	**6**	(17)		
Consolidated companies' share (10)	**340**	(1 534)		
Allocation of profit/(loss) for the financial year:				
Brought forward from previous year	**2 029**	495	**1 459**	(1)
Carried forward to new account	**(1 689)**	(2 029)	**(1 061)**	(1 459)
	340	(1 534)	**398**	(1 460)

Balance Sheet

at 31 December 1988

Amounts in millions of NOK	*The consolidated companies*		*Statoil*	
	1988	*1987*	*1988*	*1987*
Assets				
FIXED ASSETS				
Capital assets (16)				
Plant and offshore installations	**34 554**	30 428	**29 575**	25 534
Construction in progress	**10 017**	11 453	**9 692**	11 256
Ships	**38**	60		
Technical installations	**628**	732	**574**	661
Land and buildings	**1 613**	1 419	**1 470**	1 259
Long-term receivables and investments				
Investments in subsidiaries (13) (14)			**3 387**	3 054
Other long-term investments (15)	**524**	595	**415**	523
Long-term receivables	**1 776**	1 256	**263**	111
Long-term inter-company receivables			**1 389**	1 520
Unallocated excess value (14)	**288**	357		
Total fixed assets	**49 438**	46 300	**46 765**	43 918
CURRENT ASSETS				
Stocks				
Raw materials	**306**	421	**114**	149
Finished products	**1 432**	1 374	**359**	289
Short-term receivables				
Accounts receivable	**4 752**	4 863	**2 320**	2 332
Inter-company receivables			**814**	695
Other short-term receivables (12)	**2 741**	2 302	**2 306**	1 827
Cash and short-term deposits				
Cash, bank deposits (11)	**1 320**	982	**421**	246
Total current assets	**10 551**	9 942	**6 334**	5 538
Total assets	**59 989**	56 242	**53 099**	49 456

at 31 December 1988

Amounts in millions of NOK	*The consolidated companies*		*Statoil*	
	1988	*1987*	*1988*	*1987*
Liabilities and shareholder's equity				
Current liabilities				
Short-term bank loans and overdrafts	**273**	347	**15**	78
Withholding taxes and holiday pay	**1 517**	1 352	**476**	259
Accrued interest	**796**	659	**784**	638
Accounts payable	**2 501**	2 320	**1 244**	1 493
Inter-company payables			**124**	102
Taxes payable	**32**		**28**	
Accrued taxes	**357**	1 727	**8**	1 513
Other current liabilities	**4 514**	4 864	**3 761**	3 341
Total current liabilities	**9 990**	**11 269**	6 440	**7 424**
Long-term liabilities (17)				
Export credits	**957**	1 374	**957**	1 374
Bank loans	**11 122**	12 119	**10 506**	11 565
Bonds and notes outstanding	**17 735**	12 342	**17 711**	12 299
Loans from the Norwegian Government	**1 996**	2 329	**1 996**	2 329
Currency fluctuation reserve (18)	**453**	813	**449**	798
Other long-term liabilities	**1 849**	1 785	**743**	955
Deferred taxes (19)	**458**	473		
Total long-term liabilities	**34 570**	31 235	**32 362**	29 320
Conditional untaxed reserves (20)				
Accelerated tax depreciation on fixed assets	**9 749**	8 712	**9 303**	8 300
Other reserves	**1 389**	996	**294**	110
Total untaxed reserves	**11 138**	9 708	**9 597**	8 410
Minority interests (21)	**11**	76		
Shareholder's equity				
Restricted shareholder's equity				
Share capital 29.435.000 shares at NOK 100 each	**2 944**	2 944	**2 944**	2 944
Legal reserve fund	**2 817**	2 817	**2 817**	2 817
Unrestricted shareholder's equity				
Brought forward from profit and loss account	**(1 689)**	(2 029)	**(1 061)**	(1 459)
Currency gain/loss shareholder's equity	**208**	222		
Total shareholder's equity	**4 280**	3 954	**4 700**	4 302
Total liabilities and shareholder's equity	**59 989**	56 242	**53 099**	49 456
Guarantees (22)	**362**	194	**325**	149
Secured liabilities (17)	**229**	419		

Statement of Accounting Policies

The consolidated Financial Statements are based on the same accounting policies as those applied to the parent company. Companies included in the consolidated statements and Statoil's percentage interests therein are listed in note 13 to the Financial Statements.

Accounting Policies

Expensed items
- Expenditure related to licences in the exploration phase.
- Expenditure on research, special studies and development projects.
- Interest and other financing expenditure.
- Capitalized value of unpaid pension liabilities.

Capitalized items
- Expenditure incurred by the project organizations of fields under development.
- Field expenditure incurred after approval of Development and Production Plan.

Depreciation
Ordinary depreciation on oil and gas production installations is accounted for under each individual field or transportation system in accordance with the unit of production method.

Ordinary depreciation on other assets is calculated on the basis of their economic life expectancy.

The difference between ordinary depreciation and maximum tax depreciation is shown as accelerated tax depreciation.

Site Restoration and Removal Costs
Under the licence terms the authorities may order the licensees to remove the offshore facilities after production has permanently ceased. To cover Statoil's anticipated share of such removal costs, annual provisions are made in the Financial Statements. Such provisions are calculated according to the unit of production method (ref. Ordinary depreciation above), based on the current price level, an anticipated removal concept and expected likelihood of removal. They are included in the Profit and Loss Account under operating costs and in the Balance Sheet under long-term liabilities.

Foreign Currency
Items in foreign currency are translated into Norwegian kroner (NOK) as follows:
- Income, expenditure and fixed assets are recorded at the rate of exchange prevailing at the date of transaction/ acquisition.
- Current assets and current liabilities are translated at the rate of exchange prevailing on 31 December.
- Long-term liabilities and long-term receivables are translated at the exchange rates prevailing when the loans were drawn and the claims arose. If the debt/claim calculated by reference to rates of exchange as at 31 December differs from the respective book debt/claim for each currency, provision is made for unrealized currency loss. Similar currency gains are recognized as income only when such gains are realized, or to the extent that unrealized gains represent a reversal of previously provided unrealized losses.
- Unrealized currency losses in connection with forward buying are included in the Balance Sheet as short-term liabilities.
- In cases where the company has entered into currency swap agreements, the calculations of average exchange rate at drawdown and allocation to the currency fluctuation reserve have been based on open foreign exchange positions.

Stocks
Stocks of crude oil, petroleum products and equipment are valued at purchase/production cost or net market price, whichever is the lower.

Accrued Taxes
Stocks of crude oil produced by the company are recorded at production cost but, under the Petroleum Tax Act, are valued for tax purposes at a "norm price". Taxes which have arisen as a result of this timing difference are accrued to obtain agreement between realized income and net estimated taxes as shown in the Profit and Loss Account.

Royalty Oil
Statoil buys at a "norm price" from the Norwegian Petroleum Directorate all oil received by the Government as royalty in kind from fields in the Norwegian sector of the Continental Shelf. Statoil includes the costs of purchase and proceeds of sale of this royalty oil in its operating costs and operating income.

The Government's equity oil
As manager of the Government's direct financial involvement in the petroleum industry, Statoil markets the Government's equity oil. The title to such equity oil sold via the Mongstad crude oil terminal is transferred to Statoil at the offshore loading facility. Purchases and sales of this equity oil are included in Statoil's operating costs and operating income.

Partnerships and Limited Partnerships
Statoil's share of the income, expenditure, as-

sets and liabilities of partnerships and limited partnerships in which it has an interest are included in the company's Profit and Loss Account and Balance Sheet under the appropriate headings.

Consolidation

- Share capital (and pre-acquisition reserves) of subsidiaries are eliminated against the cost of investment in Statoil's books. Any assignable excess of purchase price over book value is assigned to the relevant assets and depreciated accordingly. Unallocated excess value is depreciated over 10 years. Calculation of excess value takes account of deferred taxes.
- Foreign subsidiaries are consolidated in accordance with the rate of exchange prevailing on 31 December. Currency gain/loss on shareholder's equity is charged against shareholder's equity as a separate item in the Balance Sheet.

Notes to the Financial Statements for 1988

1. Turnover is analysed as follows (amounts in millions of NOK):

	The consolidated companies		*Statoil*	
	1988	*1987*	*1988*	*1987*
Crude oil	19 064	22 697	20 612	25 287
Transport income	3 135	2 773	3 135	2 773
Gas	2 567	2 635	2 907	3 167
Refined products	22 621	24 686	5 106	6 063
Petrochemical products	4 396	3 425	2 237	1 571
Total turnover	51 783	56 216	33 997	38 861
Sold abroad				
Crude oil	15 638	20 070	17 205	21 556
Gas	2 352	2 585	2 692	3 117
Refined products	15 830	18 864	3 776	4 881
Petrochemical products	3 867	2 894	1 709	1 040
Total sales abroad	37 687	44 413	25 382	30 594

Consolidated turnover includes petrol tax and royalties at NOK 10,804 million.

2. Other consolidated income includes personnel services at NOK 2,882 million, other services at NOK 1,639 million and sale of seismic data at NOK 16 million.

3. Total remuneration to the members of the Corporate Assembly amounts to NOK 107,220, to the Board of Directors NOK 464,800 and to the President NOK 900,000.

4. This item includes petrol tax at NOK 9,029 million and royalties at NOK 1,775 million. It also includes provision for site restoration and removal costs at NOK 70 million. Total net liabilities as at 31.12.88, based on full removal of offshore installations, are estimated at NOK 332 million. Taking into account the Government's viewpoints on the likelihood of removal, as expressed in Report no. 22 (1988-1989) to the Storting (Parliament) - as well as international recommendations on limitations in the removal commitment - the provision of NOK 70 million covers the likely liability as at 31.12.88.

5. This amount primarily relates to previous funds for coverage of possible loss on receivables.

6. Extraordinary income in Statoil consists of proceeds from the sale of shares in Norpipe Petroleum UK Ltd. to Statoil (UK) Ltd., NOK 119 million, plus contribution to the Group from Norsk Olje a.s., NOK 186 million. The Mongstad refinery has been subject to an extraordinary write-down of NOK 2,000 million based on an overall assessment in accordance with the Companies Act. Extraordinary costs also include NOK 290 million associated with Statoil's corporate Consolidation Programme, as well as NOK 18 million write-down on Nutec shares.

7. Year-end adjustments comprise (in millions of NOK):

	The consolidated companies	*Statoil*
Accelerated depreciation (20)	1 037	1 003
Change in stock reserve	2	(8)
Consolidation fund	25	14
Investment fund	88	
Deferred taxes	(18)	
Other funds	(72)	(38)
Total	1 062	971

8. Taxes originate as follows (in millions of NOK):

Statoil Sweden	378
Statoil	(24)
Norol	18
Others	11
Total	383

9. Minority interest shares:

36.84% of the profit of NOK 1.8 million in Andenes Helikopterbase	0.7 million
36.67% of the loss of NOK 0.3 million in Sørøysund Eiendomsselskap a.s	0.1 mill.kr.
40% of the loss of NOK 18.2 million in Nutec a.s	7.3 mill.kr.
Total	6.7 mill.kr.

10. The consolidated profit and (loss) is analysed as follows (in millions of NOK):

	1988	*1987*
Statoil	398	(1 460)
Statoil Sweden	170	104
Statoil Denmark	(67)	(151)
Norol	21	84
Statoil Netherlands	(13)	9
Other subsidiaries	(57)	(21)
	452	(1 435)
Inter-company dividends	(54)	(41)
Consolidated companies' eliminations	(64)	(41)
	334	(1 517)
- Minority interest share	6	(17)
Consolidated companies' shares	340	(1 534)

11. Short-term deposits include a total of NOK 136 million of employee income tax withheld. The corresponding amount for the consolidated companies is NOK 147 million.

12. This item includes NOK 61 million in receivables from employees.

13. Investments in subsidiaries (amounts in 1000):

	Book value	*Par value*	*Equity interest*	*Total company share capital*
Norsk Olje a.s	691 500	290 000	100%	290 000
Rafinor A/S	6 000	6 000	60%	10 000
Sørøysund Eiendomsselskap a.s	9 500	9 500	63.33%	15 000
Andenes Helikopterbase a.s	3 000	3 000	63.16%	4 750
Statoil Forsikring a.s	100 000	100 000	100%	100 000
Nutec a.s	18 000	36 000	60%	60 000
Statoil Netherlands B.V.	107 825	NLG 33 000	100%	NLG 33 000
Statoil Denmark a.s	1081 864	DKK 391 848	100%	DKK 391 848
Den norske stats oljeselskap, Sverige AB	1 090 482	SEK 800 050	100%	SEK 800 050
Statoil Finland OY	64	FIM 50	100%	FIM 50
Statoil France S.A.	227	FRF 250	100%	FRF 250
Statoil (UK) Ltd.	215 367	GBP 19 010	100%	GBP 19 010
Den norske stats oljeselskap Deutschland GmbH	23 233	DEM 6 900	100%	DEM 6 900
Statoil North America Inc.	39 806	USD 15	100%	USD 15
Total	3 386 868			

As Norsk Olje a.s owns 40 per cent of the shares in the partnership of Rafinor A/S, the consolidated share is 100 per cent.

14. Excess book value relating to the purchase of subsidiaries, as at 31.12.88:

	Excess value as at 31.12.88
Shares in Norsk Olje a.s	288
Shares in Den norske stats oljeselskap, Sverige AB	1 054
Shares in Statoil A/S (Denmark)	568
Total	1 910

Of the excess value recorded in Statoil A/S (Denmark) as at 31.12.88, NOK 288 millon has been included under fixed assets as unallocated excess value.

15. The investments are (amounts in thousands of NOK):

	Book value	*Par value*	*Ownership interest*	*Total company share capital*
Norpipe a.s	390 000	390 000	50%	780 000
Coast Center Base A/S	53	53	50%	105
Statfjord Transport a.s	420	420	42.04%	1 000
Vestbase a.s	400	400	40%	1 000
Norbase a.s	160	160	40%	400
Botnaneset Industriselskap A/S	3 000	3 000	18.5%	16 200
Helgelandsbase a.s	5 000	5 000	50%	10 000
Basetec A/S	15 000	15 000	33.3%	45 000
Norsea Gas A/S	567	567	2%	25 000
Norland GmbH	151	DEM 38	2%	DEM 1 900
Norsea Gas GmbH	492	DEM 100	2%	DEM 5 000
	415 243			

The shares are recorded at cost. The subsidiaries own a number of small blocks of shares in other companies amounting to a total book value of NOK 109 million. The consolidated companies' total book value of shares thus amounts to NOK 524 milliion.

Statoil also has the following shares in partnerships and limited partnerships:

Statpipe	60%
I/S Norpolefin	100%
I/S Noretyl	49%
I/S Gullfaks Transport	12%*
K/S Statfjord Transport a.s & Co.	37.64%
K/S Coast Center Base A/S & Co.	49.75%
Kårstø Metering & Technology laboratory	66 2/3%

*) Statoil's financial interest

16. Capital assets (amounts in millions of NOK):

Statoil	*Cost as at 1 Jan. 88*	*Addition during the year*	*Disposed of during the year*	*Transfers*	*Accum. deprec. at 31 Dec. 88*	*Net book value 31 Dec. 88*
Plants and offshore installations	38 249	1 090		6 787	16 551	29 575
Construction in progress	14 256	7 872	(455)	(6 981)	5 000*	9 692
Technical installations	1 452	146	(3)		1 021	574
Land and buildings	1 402	57	(6)	194	177	1 470
Total	55 359	9 165	(464)		22 749	41 311
The consolidated companies:						
Plants and offshore installations	46 752	1 920	(621)	6 812	20 309	34 554
Construction in progress	14 448	8 230	(655)	(7 006)	5 000*	10 017
Ships	179	3			144	38
Technical installations	1 607	169	(9)		1 139	628
Land and buildings	1 574	80	(41)	194	194	1 613
Total	64 560	10 402	(1 326)		26 786	46 850

*) NOK 5,000 million represents accumulated extraordinary write-down of the Mongstad refinery.
See note 20 for accelerated tax depreciation.

Net book value of above consolidated fixed assets analysed by business unit (amounts in millions of NOK):

	Net book values at 1 Jan. 88	*Additions in 1988*	*Disposed of in 1988*	*Ordinary deprecia-tion 1988*	*Extra-ordinary write-down*	*Net book value at 31 Dec. 1988*
Exploration & Production	33 420	3 838	(461)	(3 845)		32 952
Refining & Marketing	9 257	6 186	(396)	(609)	(2 000)	12 438
Petrochemicals & Plastics	1 304	378	(2)	(220)		1 460
Total	43 981	10 402	(859)	(4 674)	(2 000)	46 850

In addition to ordinary depreciation on fixed assets, depreciation in the profit and loss account also contains depreciation on unallocated excess value of NOK 49 million.

Expenditure on additions and proceeds of sales of fixed assets during the last five years:

	Plants & off-shore inst.	*Constr. in progress*	*Ships*	*Techni-cal inst.*	*Land & buildings*	*Total*
Statoil						
1984	1 219	12 252		154	356	13 981
1985 Additions	2 340	2 488		326	252	5 406
1985 Sales		9 082				9 082
1986 Additions	1 737	3 788		368	118	6 011
1986 Sales	107			11	43	161
1987 Additions	995	8 882		205	112	10 194
1987 Sales		226		84	19	329
1988 Additions	1 090	7 872		146	57	9 165
1988 Sales		455		3	6	464
The Consolidated companies						
1984	1 456	12 205		160	377	14 198
1985 Additions	2 737	2 502	1	344	271	5 855
1985 Sales		9 082				9 082
1986 Additions	2 402	3 843	4	393	143	6 785
1986 Sales	178			17	45	240
1987 Additions	2 118	8 914		262	128	11 422
1987 Sales	153	226		89	22	490
1988 Additions	1 920	8 230	3	169	80	10 402
1988 Sales	621	655		9	41	1 326

17. Long-term debt of the consolidated companies analysed by currency:

Amounts in millions	*Long term debt*	*Currency swap agreem.*	*Currency position*	*Average rate of exchange*	*Book value NOK*
Norwegian kroner (NOK)	5 136		5 136		5 136
U.S.Dollar (USD)	2 588	274	2 862	6.68	19 130
German Mark (DEM)	859	222	1 081	366.65	3 964
Japanese Yen (JPY)	72 640	(28 640)	44 000	4.43	1 950
French Franc (FRF)	1 135	(740)	395	104.81	414
Swiss Franc (CHF)	250	(100)	150	442.67	664
Pounds Sterling (GBP)	45		45	10.96	493
Danish kroner (DKK)	665	(200)	465	94.84	441
European Currency Unit (ECU)	100		100	7.75	775
Swedish kronor (SEK)	287		287	107.18	308
Kuwaiti Dinars (KWD)	17		17	22.59	384
Deferred taxes					458
Currency fluctuation reserve					453
Premium reserve					47
Total					34 570

Of the subsidiaries' domestic long-term debt, NOK 22 million is secured on vessels with a book value of NOK 21 million, and NOK 205 million is secured on installations, land and buildings with a book value of NOK 608 million. A further amount of NOK 2 million is secured by Statoil's Swedish operations.

Other long-term liabilities include for Statoil capitalized value of uncovered pension commitments, NOK 117 million. At 31.12.88 the pension scheme comprised 1,160 people. A discount rate of 4 per cent is applied.

The unused portion of long-term loan agreements translates to approximately NOK 1,238 million.

18. In 1988 Statoil's currency fluctuation reserve was reduced by NOK 349 million. The amount has been included in the profit and loss account as financial income. The corresponding figure for the consolidated companies is NOK 360 million.

19. In connection with the consolidation of Den norske stats oljeselskap, Sweden and Statoil A/S (Denmark), untaxed reserves at the time of acquisition have been split between shareholder's equity and deferred taxes. Estimated deferred taxes are NOK 458 million, of which NOK 273 million refer to Statoil's Swedish operations and NOK 185 million to Statoil A/S in Denmark.

20. Accelerated tax depreciation on fixed assets (refer also to note 16) (amounts in millions of NOK):

	Accumulated at 1.1.88	*Changes 1988*	*Accumulated at 31.12.88*
Plants and offshore install.	6 976	1 504	8 480
Construction in progress	1 167	(458)	709
Land and buildings	15	(12)	3
Technical installations	142	(31)	111
Statoil total	8 300	1 003	9 303
Statoil Sweden	105	28	133
Norol	222	27	249
Statoil Denmark	44	(11)	33
Other subsidiaries	41	(10)	31
The consolidated companies	8 712	1 037	9 749

Of the NOK 458 million reduced accelerated tax depreciation on Construction in progress, NOK 451 million applies to Troll unitization. The amount is expensed under Exploration costs and Financing costs with NOK 272 million and NOK 179 million respectively. Construction in progress has been reduced accordingly, ref. Notes 7 and 16.
Of the fixed assets, NOK 8,164 million refer to assets governed by the Petroleum Tax Act.

Other reserves comprise (amounts in millions of NOK):

	The consolidated companies		*Statoil*	
	1988	*1987*	*1988*	*1987*
Investment fund	433	345		
Stock reserves	322	320	41	45
Consolidation fund	234	209	79	65
Other funds	400	122	174	
Total other reserves	1 389	996	294	110

21. Changes in capital for minority interests (amounts in millions of NOK):

	1988	*1987*
Minority interests 1 January	76	176
Reduced minority interests Norol		(117)
Reduced minority interests Rafinor	(71)	
Equity paid in, Nutec a.s	12	
Share in annual profit/(loss)	(6)	17
Minority interests 31 December	11	76

22. Together with the other partner in I/S Noretyl, Statoil is jointly liable for the debt incurred in the name of the partnership. This comprises mainly accounts payable of approximately NOK 55 million in addition to Statoil's book share.

To finance pipelines and terminals in connection with the Ekofisk development, loan agreements were entered into between the owners of the installations and various banks. Statoil's total guarantee commitments under the loan agreements, if fully effective, would have amounted to approximately NOK 270 million as at 31.12.88.

The consolidated companies are responsible for guarantees to customers for a total of about NOK 37 million.

Liability and insurance
In connection with the company's offshore operations, including transportation, Statoil has, jointly with the company's other partners in the Norwegian sector, unlimited liability for possible claims for damages. The company has taken out insurance for this liability up to a total of approximately NOK 1,550 million for each incident. Liability for claims arising from pollution damage is limited to NOK 850 million. Statoil's assets are insured at their estimated replacement value.

Charter parties
Statoil had at 31 December 1988 signed charter parties for two drilling rigs. The remaining periods of hire are two years with options. In addition, Statoil has chartered five supply vessels and stand-by vessels to service these rigs.

Partnerships and Limited Partnerships
As a party to various partnerships, Statoil is jointly responsible together with the other partners for agreements signed by the partnerships.

Under the accounting agreements of the partnerships in which Statoil has an interest, the partners are entitled to audit the operators' accounts within two years after the end of the financial year.

Consolidated operating profit by Business Unit

The company was in 1988 reorganized into three Business Units (BU). The analyses by BU for 1988 and 1987 are therefore not directly comparable.

Amounts in millions of NOK	*Operating income*		*Operating costs*		*Operating profit*	
	1988	*1987*	*1988*	*1987*	*1988*	*1987*
Exploration and Production	**20 184**	20 268	**(15 454)**	(15 111)	**4 730**	5 157
Transportation		4 387		(2 172)		2 215
Refining and Marketing	**41 937**	49 001	**(41 776)**	(48 952)	**161**	49
Petrochemicals and Plastics	**4 533**	3 718	**(3 234)**	(3 144)	**1 299**	574
Inter-company transfers	**(10 334)**	(16 552)	**10 334**	16 552		
Total	**56 320**	60 822	**(50 130)**	(52 827)	**6 190**	7 995

Consolidated operating profit/(loss) by Business Unit foreign operations

Amounts in millions of NOK	*Operating income*		*Operating costs*		*Operating profit/(loss)*	
	1988	*1987*	*1988*	*1987*	*1988*	*1987*
Exploration and Production	**105**	172	**(303)**	(419)	**(198)**	(247)
Transportation				(9)		(9)
Refining and Marketing	**14 652**	15 684	**(14 578)**	(15 863)	**74**	(179)
Petrochemicals and Plastics	**2 644**	2 169	**(1 988)**	(1 849)	**656**	320
Inter-company transfers	**(25)**	(50)	**25**	50		
Total	**17 376**	17 975	**(16 844)**	(18 090)	**532**	(115)

Consolidated profit/(loss) before adjustments by Business Unit

Amounts in millions of NOK	*Operating profit*		*Allocated net financial items **		*Extraordinary costs*		*Profit/(loss) before adjustments*	
	1988	*1987*	*1988*	*1987*	*1988*	*1987*	*1988*	*1987*
Exploration and Production	**4 730**	5 157	**(1 469)**	(863)			**3 261**	4 294
Transportation		2 215		(233)				1 982
Refining and Marketing	**161**	49	**(578)**	(388)	**(2 000)**	(3 000)	**(2 417)**	(3 399)
Petrochemicals and Plastics	**1 299**	574	**(74)**	(53)			**1 225**	521
Corporate items					**(290)**		**(290)**	
Total	**6 190**	7 995	**(2 121)**	(1 537)	**(2 290)**	(3 000)	**1 779**	3 458

Consolidated profit/(loss) before adjustments by Business Unit - foreign operations

Amounts in millions of NOK	*Operating profit/(loss)*		*Allocated net financial items **		*Profit/(loss) before adjustments*	
	1988	*1987*	*1988*	*1987*	*1988*	*1987*
Exploration and Production	**(198)**	(247)	**22**	(7)	**(176)**	(254)
Tranportation		(9)				(9)
Refining and Marketing	**74**	(179)	**(55)**	(58)	**19**	(237)
Petrochemicals and Plastics	**656**	320	**(15)**	(14)	**641**	306
Total	**532**	(115)	**(48)**	(79)	**484**	(194)

*) Net financial items are allocated on business units in accordance with the following policy:
- Dividends received are credited directly to the individual business unit.
- Other net financial items are allocated on the basis of the Group's average capital employed in fixed assets within the individual business unit

Profit and loss accounts of the major subsidiaries

Amounts in millions of NOK	*Norsk Olje a.s*	*Svenska Statoil AB*	*Statoil Petrokemi AB*	*Statoil A/S (Denmark)*
Operating income	6 136	6 509	2 179	7 429
Operating costs	5 634	6 259	1 468	7 290
Depreciation	174	63	41	104
Total operating costs	5 808	6 322	1 509	7 394
Operating profit	289	187	670	52
Net financial items etc.	(8)	(9)	38	(4)
Profit before year-end adjustments	281	178	708	48

The three retail marketing companies Norsk Olje a.s (Norway), Svenska Statoil AB (Sweden) and Statoil A/S (Denmark) are included in the Refining and Marketing business unit. In the same business unit also crude oil distribution, refining and depreciation of excess book values are included (Note 14). The financial results of the above subsidiaries are therefore not comparable with those of the Refining and Marketing business unit.

Source and application of funds

Amounts in millions of NOK	*The consolidated companies*		*Statoil*	
	1988	*1987*	*1988*	*1987*
Source of funds:				
Profit before year-end adjustments	**1 779**	3 458	**1 345**	3 406
Ordinary depreciation	**4 723**	4 527	**4 099**	3 920
Extraordinary write-down plant under construction	**2 000**	3 000	**2 000**	3 000
Reduced minority interest	**(71)**	(117)		
Currency fluctuation reserve	**(360)**	(961)	**(349)**	(935)
Taxes payable	**(383)**	(3 318)	**24**	(3 110)
Deferred tax	**(15)**	16		
Equity paid in, Nutec a.s	**12**			
Other provisions reduced	**368**	(176)	**216**	(150)
Total own financing	**8 053**	6 429	**7 335**	6 131
New long-term loans	**5 458**	6 280	**5 198**	5 480
Total source of funds	**13 511**	12 709	**12 533**	11 611
Application of funds:				
Investments in fixed assets	**9 863**	11 685	**8 946**	10 475
Repayment of long-term loans	**1 760**	1 207	**1 807**	715
Change in working capital	**1 888**	(183)	**1 780**	421
Total application of funds	**13 511**	12 709	**12 533**	11 611
Components of change in working capital:				
Cash and short-term deposits	**338**	(97)	**175**	(24)
Short-term receivables	**328**	1 652	**586**	1 242
Stocks	**(57)**	118	**35**	66
Current liabilities	**1 279**	(1 856)	**984**	(863)
Change in working capital	**1 888**	(183)	**1 780**	421

Financial ratio analysis of the consolidated companies

	1988	*1987*	*Definition*
Net operating margin	**11.0%**	13.1%	Operating profit / Operating income
Gross profit margin	**7.2%**	10.6%	Profit before extraordinary items / Operating income
Rate of return (before tax)	**13.6%**	17.9%	Profit before extraordinary items + fin.costs / Average total capital
Rate of return on Shareholder's equity (after tax)	**52.1%**	42.7%	Profit before extraordinary items less taxes / Average Shareholder's equity incl. share in untaxed reserves

Value added statement

Amounts in millions of NOK	*The consolidated companies*			
	1988		*1987*	
Operating income	**56 320**		60 822	
- purchased goods and services used	**(30 263)**		(33 109)	
= gross value added from own activities	**26 057**		27 713	
- ordinary depreciation	**(4 723)**		(4 527)	
- extraordinary depreciation	**(2 000)**		(3 000)	
= net value added from own activities	**19 334**		20 186	
+ financial income	**1 683**		1 534	
= value added from own activities	**21 017**		21 720	
= total value added	**21 017**		21 720	
Which was utilized as follows:				
Employees				
Gross salaries and social benefits	**4 022 ***	**19.1%**	3 619 *	16.7%
Capital investors				
Interest etc. to lenders	**3 804**	**18.1%**	3 071	14.1%
Central & local government				
Royalties, taxes, petrol tax, etc.	**11 505**	**54.7%**	14 890	68.6%
Retained in business				
Retained earnings	**1 686**	**8.1%**	140	0.6%
Total value added	**21 017**	**100.0%**	21 720	100.0%
*) Including income tax withheld	**1042**		913	

Auditors' Report for 1988

We have audited the annual accounts of Den norske stats oljeselskap a.s and the consolidated Statoil Group for 1988. Our audit has been conducted in accordance with generally accepted auditing standards. The annual accounts for 1987 have not been audited by us.

The company's annual accounts and the consolidated annual accounts for 1988 have in our opinion been prepared in accordance with the provisions of the Norwegian Companies Act and with generally accepted accounting standards, and give a true and fair view of the financial standing of the company and the Group at 31 December 1988, and for the results of operations in the financial year.

The Board's proposed application of the annual profit of the parent company complies with the requirements of the Norwegian Companies Act.

The profit and loss account and balance sheet submitted for the parent company and its subsidiaries may be adopted as the accounts of Statoil and the Statoil Group for 1988.

Stavanger, 2 March 1989
ARTHUR YOUNG & CO. AS

Ernst Alsaker
State Authorized Public
Accountant

Recommendation from the Corporate Assembly

to the General Meeting regarding the annual report and accounts for 1988.

At its meeting on 15 March 1989 Statoil's Corporate Assembly discussed the annual report of the Board of Directors and the annual accounts of Den norske stats oljeselskap a.s and the Statoil Group.

The Corporate Assembly recommends that the General Meeting approve the annual report submitted, and fix the annual accounts in accordance with the draft presented by the Board of Directors.

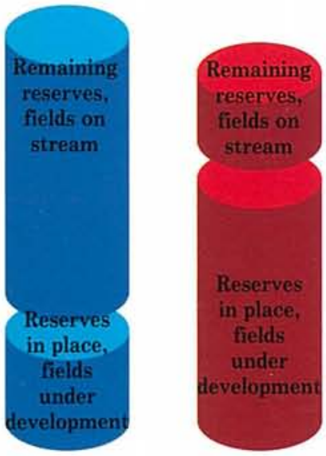
The subject matter to be presented to the General Meeting.

Stavanger, 15 March 1989

Oluf Arntsen
Chairman, Corporate Assembly

Reserves and production

Statoil's financial shares



Oil/ condensate

Gas

Fields under development	*Statoil's share in %*	*Total reserves in place*
DRAUGEN	19.6	
Oil, mill. Sm^3		13.1
Dry gas, bn. Sm^3		0.6
SNORRE	19.6	
Oil, mill. Sm^3		23.9
Dry gas, bn. Sm^3		1.4
NGL, mill. tonnes		0.7
TROLL*	11.88	
Oil, mill. Sm^3		3.6
Dry gas, bn. Sm^3		143-154
NGL, mill. tonnes		4.2
VESLEFRIKK	18	
Oil, mill. Sm^3		6.6
Dry gas, bn. Sm^3		0.5
NGL, mill. tonnes		0.2
OSEBERG		
GAMMA NORTH	14	
Oil, mill. Sm^3		0.1
Dry gas, bn. Sm^3		0.5
SLEIPNER EAST	20	
Condensate, mill. Sm^3		7,6
Dry gas, bn. Sm^3		10,2
GYDA	20	
Oil, mill. Sm^3		6.4
Dry gas, bn. Sm^3		0.6
NGL, mill. tonnes		0.4
TOTAL		
Oil/condensate, mill. Sm^3		61.3
Dry gas, bn. Sm^3		156.8-167.8
NGL, mill. tonnes		5.5

*) Approximately 1/3 of reserves assumed to be recovered in Troll Phase 1 and Troll TOGI.
Sm^3 = Standard cubic metre, i.e. approximately 6.29 barrels of oil or 35.31 cubic feet of dry gas.

Fields on stream	*Statoil's share in %*	*Total reserves in place*	*Total prod.at 1.1.88*	*Prod. 1988*	*Remaining res. 31.12.88*
MURCHISON	11.1				
Oil, mill. Sm^3		6.0	4.3	0.4	1.3
Dry gas, bn. Sm^3		0.1	0.1	0.0	0.0
NGL, mill. tonnes		0.2	0.1	0.0	0.1
STATFJORD	42.04661				
Oil, mill. Sm^3		202.5	81.3	17.3	103.9
Dry gas, bn. Sm^3		24.5	3.5	1.5	19.5
NGL, mill. tonnes		7.6	1.0	0.5	6.1
GULLFAKS	12				
Oil, mill. Sm^3		25.2	0.5	1.0	23.7
Dry gas, bn. Sm^3		1.7	<0.1	0.1	1.6
NGL, mill. tonnes		0.3	<0.1	<0.1	0.3
OSEBERG	14				
Oil, mill. Sm^3**		29.3	0.2	0.2	28.9
Dry gas, bn. Sm^3***		12.9	0.0	0.0	12.9
FRIGG	3.041				
Dry gas, bn. Sm^3		5.3	4.5	0.3	0.5
NORTH-EAST FRIGG	2.1				
Dry gas, bn. Sm^3		0.2	0.2	<0.1	<0.1
EAST-FRIGG	5.7307				
Dry gas, bn. Sm^3		0.5	0.0	<0.1	0.5
HEIMDAL	20				
Condensate, mill. Sm^3		1.1	0.2	0.1	0.8
Dry gas, bn. Sm^3		6.6	1.2	0.7	4.7
ULA	12.5				
Oil, mill. Sm^3		6.6	0.8	0.6	5.3
Dry gas, bn. Sm^3		0.3	<0.1	<0.1	0.3
NGL, mill. tonnes		0.3	<0.1	<0.1	0.3
EKOFISK*	1				
Oil, mill. Sm^3		1.9	0.1	0.1	1.7
Dry gas, bn. Sm^3		1.5	0.1	0.1	1.3
NGL, mill. tonnes		0.1	<0.1	<0.1	0.1
TOMMELITEN	28.26				
Oil, mill. Sm^3		1.8	0.0	0.1	1.7
Dry gas, bn. Sm^3		5.2	0.0	0.1	5.1
NGL, mill. Sm^3		0.3	0.0	<0.1	0.3
THE NETHERLANDS					
Oil, mill. Sm^3		0.8	0.4	0.1	0.3
CHINA					
Oil, mill. Sm^3		0.1	<0.1	<0.1	0.1
TOTAL					
Oil/condens., mill. Sm^3		275.3	87.8	19.9	167.7
Dry gas, bn. Sm^3		58.8	9.6	2.8	46.4
NGL, mill. tonnes		8.8	1.1	0.5	7.2

*) Production Licence 018
**) Including condensate.
***) Including reclaimed gas from Troll TOGI and Oseberg Gamma North.

Government's direct financial involvement

Fields under development	*Governm. share in %*	*Total reserves in place*
DRAUGEN	45.4	
Oil, mill. Sm^3		30.4
Dry gas, bn. Sm^3		1.4
SNORRE*	31.4	
Oil, mill. Sm^3		38.3
Dry gas, bn. Sm^3		2.2
NGL, mill. tonnes		1.1
TROLL**	62.696	
Oil, mill. Sm^3		18.8
Dry gas, bn. Sm^3		752-815
NGL, mill. tonnes		21.9
VESLEFRIKK	37	
Oil, mill. Sm^3		13.5
Dry gas, bn. Sm^3		0.9
NGL, mill. tonnes		0.4
OSEBERG		
GAMMA NORTH	45.4	
Oil, mill. Sm^3		0.2
Dry gas, bn. Sm^3		1.8
SLEIPNER EAST	29.6	
Condensate, mill. Sm^3		11.2
Dry gas, bn. Sm^3		15.1
GYDA	30	
Oil, mill. Sm^3		9.6
Dry gas, bn. Sm^3		0.9
NGL, mill. tonnes		0.6
TOTAL		
Oil/condensate, mill. Sm^3		122.0
Dry gas, bn. Sm^3		774.3-837.3
NGL, mill. tonnes		24.0

*) Including Phase 2.
**) Approximately 1/3 of reserves assumed to be recovered in Troll Phase 1 and Troll TOGI.
Sm^3 = Standard cubic metre, i.e. approximately 6.29 barrels of oil or 35.31 cubic feet of dry gas.

Fields on stream	*Statoil's share in %*	*Total reserves in place*	*Total prod.at 1.1.88*	*Prod. 1988*	*Remaining res. 31.12.88*
GULLFAKS	73				
Oil, mill. Sm^3		153.5	3.0	6.3	144.2
Dry gas, bn. Sm^3		10.4	0.1	0.4	9.9
NGL, mill. tonnes		1.6	<0.1	<0.1	1.6
OSEBERG	51.04				
Oil, mill. Sm^3		106.9	0.6	0.6	105.7
Dry gas, bn. Sm^3		47.0	0.0	0.0	47.0
EAST FRIGG	1.4613				
Dry gas, bn. Sm^3		0.1	0.0	<0.1	0.1
HEIMDAL	20				
Condensate, mill. Sm^3		1.1	0.2	0.1	0.8
Dry gas, bn. Sm^3		6.6	1.2	0.7	4.7
TOMMELITEN*	42.38				
Oil, mill. Sm^3		2.7	0.0	0.1	2.6
Dry gas, bn. Sm^3		7.8	0.0	0.1	7.7
NGL, mill. tonnes		0.4	0.0	<0.1	0.4
TOTAL					
Oil/cond.,mill.Sm^3		264.2	3.8	7.1	253.3
Dry gas, bn. Sm^3		71.9	1.3	1.2	69.4
NGL, mill. tonnes		2.0	<0.1	<0.1	2.0

*) Including future phases.

According to Article 11 of Statoil's Articles of Association the Company is responsible for taking care of the interests of the Government related to the direct financial involvement the Government retains for itself in joint ventures for exploration, development, production and transportation of petroleum on or in association with the Norwegian continental shelf.

Statoil Group Activities

Balance Sheets for each Business Unit

After the Statoil Group was split into three Business Units each responsible for their own financial results, separate balance sheets for each Business Unit were also established on completion of the 1988 annual accounts.

The consolidated fixed assets, working capital and conditional untaxed reserves were assigned to the respective Business Units, which were then provided financing in the form of long-term loans and shareholder's equity. Shareholder's equity was allocated to each Business Unit so that their respective equity ratios corresponded to those of the consolidated companies at 31 December 1988. Based on these criteria, the opening balance sheets effective 1 January 1989 for each Business Unit were set up. These balance sheets are given at the beginning of each individual Business Unit's report below.

In this way the Business Units emerge for accounting purposes as separate companies/ groups within the consolidated Statoil Group.

Exploration and Production

Exploration and production (E&P) is a Business Unit within the Statoil Group, organized as a responsible profit centre. E&P is responsible for Statoil's upstream activities in Norway and abroad, covering exploration, project planning, development and operation of fields and transport facilities. Gas marketing is another main E&P activity.

E&P is organized in the following divisions:
- Exploration
- Project Planning
- Projects
- Stavanger Operations
- Bergen Operations
- Transportation
- E&P International
- Natural Gas
- Technology

Total number of employees: 5,543
Sales volumes produced in 1988: 23 million Sm^3 (standard cubic metres) oil equivalent.
Remaining discovered reserves (Statoil's financial share): 775 million Sm^3 oil equivalent
The main E&P events in 1988 were:

Projects:
- Development approved for Snorre and Draugen fields.

Key figures (In NOK million)

Profit and Loss Account for the year ended 31.12.1988:

Operating income	20 184
Salaries and social costs	2 253
Other costs and raw materials	9 574
Depreciation	3 627
Operating costs	15 454
Operating profit	4 730
Allocated financial items	(1 469)
Profit before year-end adjustments	3 261

Balance Sheet at 1.1.1989

Fixed assets	1 248
Stocks	47
Current assets	31 969
Total assets	33 264
Current liabilities	1 613
Long-term liabilities	20 536
Conditional untaxed reserves	9 150
Shareholder's equity	1 965
Total	33 264

- Agreement reached between Distrigaz of Belgium and the Norwegian Zeepipe group on shareholdings in the Zeebrugge gas terminal. Statoil will be operator for construction and operation of the terminal.
- Agreements on the sale to Conoco of a stake in Statpipe and purchase of a holding in Conoco's Victor gas field in the British sector.

Operations:
- Gullfaks B platform and the Tommeliten field came on stream.
- Production start-up from the partner operated East Frigg and Oseberg fields.
- Coordination and improved efficiency of services to Gullfaks and Statfjord field operations.

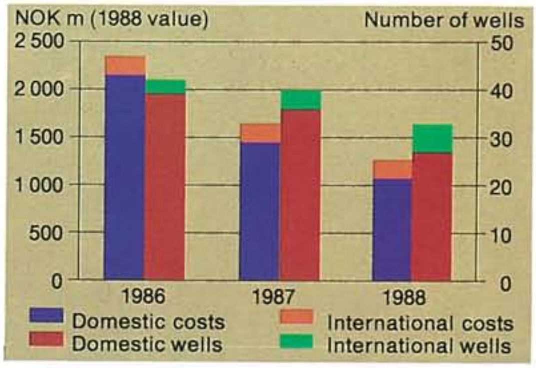
Gas sales:
- Gas sales agreement signed between Spain and Norway effective from 1996;
- Agreement reached to supply two new gas power stations in the Netherlands from the mid-1990s.

Top: The Edda platform (foreground) receives gas from the Tommeliten field, which came on stream autumn 1988.
Bottom: The Gullfaks C topsides and concrete base were mated near Aker Stord yard in February 1989. Left: Kjerstin Tveitnes, Stord.

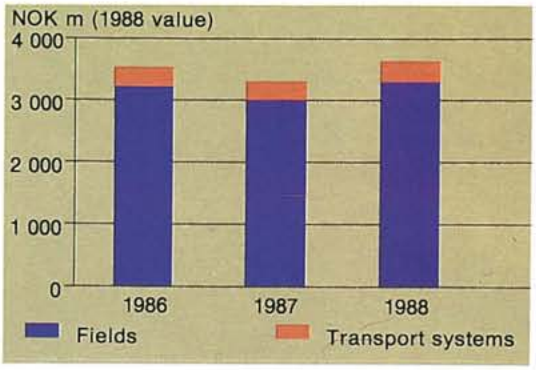

EDDA 2/7-C


GULLFAKS C
BLOKK 34/10
STATOIL
AKER

Exploration costs. Statoil's financial share.



Investments in fields and transport systems. Statoil's financial share.



NORWEGIAN CONTINENTAL SHELF

Exploration

Survey of exploration and production wells in the Norwegian sector in 1988:

	Expl. wells	*Delin. wells*	*Prod. wells*
Statoil	4	3	16
Other companies	15	7	39
Total	19	10	55

In 1988, 29 exploration and delineation wells were spudded in the Norwegian sector, seven fewer than in 1987. Statoil was operator of seven wells compared to eleven in 1987, and the company operated three drilling rigs.
The exploration results in 1988 did not meet expectations.
In the Barents Sea, Statoil proved minor reserves of gas in block 7226/11, and Saga made a small oil discovery in block 7125/1. Saga's discovery is interesting in view of the allocation of new blocks in the Barents Sea.
Exploratory drilling in new structures offshore mid-Norway did not produce the expected results. Delineation drilling on Smørbukk South, block 6506/12, confirmed estimated reserves.
In the North Sea, Phillips confirmed recoverable oil reserves in block 2/7. BP drilled two delineation wells in the Ula area, confirming additional reserves.

Fields under consideration

In 1988, a number of fields have been under planning for possible future development decisions.

The following fields are in a late phase of project development:

Statfjord North
Operator: Statoil
Statoil's financial share: 20%
Government DFI *: 30%
Total recoverable reserves:
Oil - 22.7 million Sm^3 (143 million barrels)
Gas - 1.5 billion Sm^3

Statfjord East
Operator: Statoil for Licence 037
Saga Petroleum for Licence 089
Statoil's financial share:
20% in Licence 037, 19.6% in Licence 089
Government DFI:
30% in Licence 037, 31.4% in Licence 089
Total recoverable reserves:
Oil - 15.5 million Sm^3 (98 million barrels)
Gas - 2.2 billion Sm^3

Statfjord North and the part of Statfjord East situated in licence 037 were declared commercial in February 1988. The rest of Statfjord East, in licence 089, is expected to be declared commercial in 1989. Negotiations on unitization of Statfjord East are in progress.

Various development concepts are under consideration.

*) DFI - Direct Financial Involvement. Statoil handles the Government's and Statoil's total holdings in the licences.

Brage
Operator: Norsk Hydro
Statoil's financial share: 19.6%
Government DFI: 31.4%
Total recoverable reserves:
Oil - 38.5 million Sm^3 (242 million barrels)
Gas - 1.4 billion Sm^3

In May 1988, the Government decided that development of Brage should be suspended for up to five years.

In 1988, the operator carried out an optimization study to improve the chosen development concept, consisting of an integrated drilling, accommodation and production platform. Towards the end of the year, activity was substantially reduced pending Government approval of the development.

Fields approved for development

Heidrun
Operator: Conoco
Statoil's financial share: 19.688%

Government DFI: 31.092% (before application of sliding scale)
Total recoverable reserves:
Oil - 120.0 million Sm^3 (755 million barrels)
Gas - 29.0 billion Sm^3

The Storting resolved in June to postpone discussion of the main phase of the Heidrun development. A revised development and production plan for the early production phase with an integrated production vessel was approved by the Storting in December 1988. After lengthy negotiations between the operator and the recommended main contractor, it emerged that there was great uncertainty about the completion of the project within the budget and schedule approved by the Storting. The operator therefore broke off negotiations in December 1988. In January 1989, the operator proposed to abandon its plans to hire a production vessel for early production on Heidrun. The proposal was approved by the other licencees.

A unitization agreement between the partners in blocks 6507/7 and 6507/8 was submitted to the Government in October 1988.

It was previously decided to award the operatorship for Heidrun's main production phase to Statoil.

Draugen
Operator: Shell
Statoil's financial share: 19.6%
Government DFI: 45.4%
Total recoverable reserves:
Oil - 67.0 million Sm^3 (421 million barrels)
Gas - 3.0 billion Sm^3

The Storting approved the development and production plan for the Draugen field in December 1988. The plan is based on plateau oil production of 90,000 barrels per day. In the first years of production, gas will be reinjected.

Production start-up is scheduled for August 1993.

Snorre
Operator: Saga Petroleum
Statoil's financial share: 19.6%
Government DFI: 31.4%
Total recoverable reserves:
Oil - 122.0 million Sm^3 (767 million barrels)
Gas - 7.1 billion Sm^3
NGL - 3.4 million tonnes

The development and production plan for the Snorre field, Phase 1, was approved by the Storting in May 1988. Before any decision can be made on the development of Phase 2, the operator must submit an updated field development and production plan for Government approval.

One of the elements of the updated plan will be exploitation of the additional reserves in the Snorre area.

To facilitate reception of oil and gas from Snorre at the Statfjord A platform, essential modifications to the platform will be carried out during 1989-1992.

The Statfjord field with the C platform in the foreground.

Troll
Statoil's financial share: 11.88%
Government DFI: 62.696%
Total recoverable reserves:
Oil - 30.0 million Sm^3 (189 million barrels)
Gas - 1,200-1,300 billion Sm^3
NGL - 35.0 million tonnes

About one third of the Troll reserves are expected to be recovered from the approved projects Troll Phase 1 and Troll-Oseberg Gas Injection (TOGI).

Phase 1
Operator:
Shell for construction of platform
Statoil for operation of platform
Statoil for construction and operation of condensate pipeline

The development comprises an integrated drilling, production and accommodation platform. Detailed engineering will start in late 1989/early 1990. Construction of the platform base is due to start in mid-1990, and the topsides in early 1992. The platform is planned to be installed in the eastern section of the field in summer 1995. Gas from Troll will be piped to Emden via the Zeepipe/Statpipe/Norpipe systems and to Zeebrugge via Zeepipe. Several options for landing of condensate in Norway through a direct line and via Oseberg are being considered. The first gas deliveries are scheduled for October 1996.

Troll-Oseberg Gas Injection (TOGI)
Operator: Norsk Hydro

TOGI will supply gas for injection in the Oseberg field. The advanced production start-up at the Oseberg field centre has made it necessary to step up deliveries of gas from TOGI. Production start-up for TOGI has now been fixed for 2nd quarter of 1991.

Total production of 25.5 billion cubic metres gas is planned from Troll East through of a subsea production system remotely controlled from the Oseberg field centre.

Veslefrikk
Operator: Statoil
Statoil's financial share: 18%
Government DFI: 37%
Total recoverable reserves:
Oil - 36.4 million Sm^3 (229 million barrels)
Gas - 2.5 billion Sm^3
NGL - 1.0 million tonnes

This field is being developed with a steel wellhead platform and a floating production unit. There is disagreement between the contractor, Moss Rosenberg Yard (MRV), and Statoil about the interpretation of the EPC (engineering, procurement and construction) contract. Negotiations with MRV are in progress to clarify the matter.

Pre-drilling of 6 production wells has been completed. The platforms will be installed on site in summer 1989. Production is due to start in autumn 1989.

Gas will be exported through Statpipe. Oil will be transported via the Oseberg pipeline system to Sture north of Bergen.

Oseberg Gamma North
Operator: Norsk Hydro
Statoil's financial share: 14%
Government DFI: 45.4%
Total recoverable reserves:
Oil - 0.5 million Sm^3 (3 million barrels)
Gas - 3.9 billion Sm^3

Gamma North is being developed to supply gas for injection into the northern part of the Oseberg field. The revised development plan for Oseberg 2 means that production start-up of the Gamma North project is now scheduled for October 1991. The field development and production plan was approved by the Government in December 1988.

Sleipner East
Operator: Statoil
Statoil's financial share: 20%
Government DFI: 29.6%
Total recoverable reserves:
Condensate - 38.0 million Sm^3 (239 million barrels)
Gas - 51.0 billion Sm^3

Engineering of the Sleipner A platform is progressing according to plan. The final decision about a landing point for Sleipner East condensate will be taken in 1989. Production start-up of the Sleipner A platform is planned for 1993.

Gyda
Operator: BP
Statoil's financial share: 20%
Government DFI: 30%
Total recoverable reserves:
Oil - 32.0 million Sm^3 (201 million barrels)
Gas - 3.0 billion Sm^3
NGL - 2.0 million tonnes

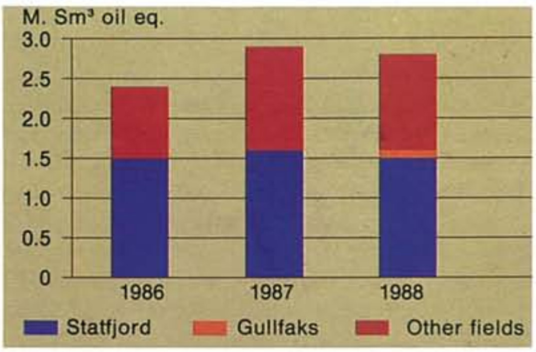
Development of this field is progressing according to plan, and was about 50% complete by the end of 1988.

Planned production start-up has been advanced to 1 July 1990. The gas has been sold to the Phillips group.

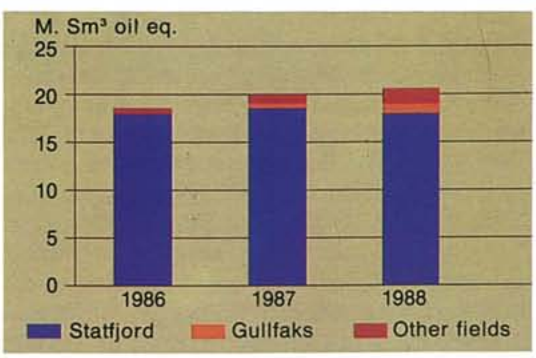
Fields in production

Statfjord
Operator: Statoil
Statoil's financial share: 42.04661%
Remaining total recoverable reserves:
Oil - 247.1 million Sm^3 (1,554 million barrels)

Produced sales volumes, gas. Statoil's financial share.



Produced sales volumes, oil/NGL. Statoil's financial share.



Oseberg platforms B, left, and A, right. The field was discovered by Statoil in 1979.

Gas - 46.4 billion Sm³
NGL - 14.5 million tonnes
Total sales volumes produced in 1988:
Oil - 41.1 million Sm³ (259 million barrels)
Rich gas (dry gas and NGL) - 4.7 billion Sm³

Average daily oil production was just under 710,000 barrels, compared to 720,000 barrels the previous year. By the end of 1988, around 49% of the total recoverable oil reserves of this field had been produced.

A redetermination of reserves between the Norwegian and British owners of the Statfjord field is currently under discussion.

The Norwegian Government decided in 1987 to reduce Norway's oil production by 7.5% as a contribution to stabilize oil prices. This practice was maintained throughout 1988, but as Statfjord's share of the production cut was transferred to Gullfaks, the Statfjord field was able to continue producing at full capacity.

New measures to improve cost effectiveness are continually being developed and applied to the operation.

Gullfaks
Operator: Statoil
Statoil's financial share: 12%
Government DFI: 73%
Remaining total recoverable reserves:
Oil - 197.6 million Sm³ (1,243 million barrels)
Gas - 13.6 billion Sm³
NGL - 2.2 million tonnes
Total sales volumes produced in 1988:
Oil - 8.6 million Sm³ (54 million barrels)
Gas - 0.5 billion Sm³
NGL - minute volumes

Average daily production in 1988 was 150,000 barrels, compared to 70,000 barrels in 1987. The increase is due to the start-up of Gullfaks B in February 1988, nine months ahead of schedule, and the drilling of a larger number of production wells.

In addition to the Government's production restrictions imposed on Gullfaks, the agreement from 1987 to transfer production restraints from the Norwegian section of the Statfjord field to Gullfaks was extended throughout 1988.

The Gullfaks platforms have always maintained a high level of plant availability, and the reservoir shows good production qualities. Gullfaks C, the last of the Gullfaks platforms, is due to come on stream in late 1989/early 1990, six months ahead of schedule.

During the year, investment in the Gullfaks development was reduced by a further NOK 3 billion to around NOK 57 billion. This is about NOK 11 billion lower than the original cost estimate.

Further improvements in operating efficiency were made in 1988, and the cost reduction programme continued.

Murchison
Operator: Conoco
Statoil's financial share: 11.1%
Remaining total recoverable reserves:
Oil - 12.7 million Sm³ (80 million barrels)
Total sales volumes produced in 1988:
Oil - 3.4 million Sm³ (21 million barrels)

Average daily oil production in 1988 was 58,000 barrels. In July 1988, the Norwegian partners completed their commitment to deliver oil due to the UK as a result of the redetermination of field reserves in 1986.

By the end of 1988 approximately 76% of the field's recoverable oil reserves had been produced.

Oseberg
Operator: Norsk Hydro
Statoil's financial share: 14%
Government DFI: 51.04%
Remaining total recoverable reserves:
Oil - 201.3 million Sm^3 (1,266 million barrels)
Condensate - 6.0 million Sm^3 (38 million barrels)
Gas - 92.0 billion Sm^3 (including reclaimed gas from Oseberg Gamma North and Troll-Oseberg Gas Injection).
Total sales volumes produced in 1988:
Oil - 1.1 million Sm^3 (7 million barrels)
Gas - 0.0 billion Sm^3

Regular production from Oseberg field centre started up on 1 December 1988, 4 months ahead of scheduled start-up. Average daily production in December 1988 was just over 130,000 barrels.

In late May/early June 1988 test production from the production vessel *Petrojarl 1* was completed. In total, *Petrojarl 1* produced around 1.6 million cubic metres (10 million barrels). The test production programme laid the foundation for an increased estimate of basic oil reserves by over 6 million cubic metres (38 million barrels).

In May 1988, the Oseberg group approved a revised development plan for the northern part of the Oseberg field. The plan includes production start-up in October 1991 for a platform with a planned capacity of 100,000 barrels per day.

The Frigg Area
Operator: Elf Aquitaine
Statoil's share in Frigg: 3.041%; North East Frigg: 2.1%
Statoil's financial share in East Frigg: 5.7307%
Government DFI in East Frigg: 1.4613%
Remaining total recoverable reserves:
Gas - 26.1 billion Sm^3
Total sales volumes produced in 1988:
Gas - 11.5 billion Sm^3

As a result of monitoring of the reservoir water level in spring 1988 and subsequent updating of the reservoir model, estimated recoverable gas reserves in the Frigg field were increased from 165 to 175 billion cubic metres.

Due to expected production reductions in 1989, it was decided to start shutting down wells at one of the two production platforms. It was further agreed to convert platform TP1 from a treatment to a riser platform.

After the successful completion of the East Frigg project, normal production from the field started on 1 October 1988, and has since then proceeded without problems. The final well is due to be commissioned in 1989.

Heimdal
Operator: Elf Aquitaine
Statoil's financial share: 20%
Government DFI: 20%
Remaining total recoverable reserves:
Gas - 23.6 billion Sm^3
Condensate - 3.8 million Sm^3 (24 million barrels).
Total sales volumes produced in 1988:
Gas - 3.7 billion Sm^3
Condensate - 0.6 million Sm^3 (4 million barrels)

The field is now in a plateau production phase.

Ula
Operator: BP
Statoil's share: 12.5%
Remaining total recoverable reserves:
Oil - 42.0 million Sm^3 (264 million barrels)
Gas - 2.6 billion Sm^3
NGL - 2.1 million tonnes
Total sales volumes produced in 1988:
Oil - 5.1 million Sm^3 (32 million barrels)
Gas - 0.3 billion Sm^3
NGL - 0.3 million tonnes

The Ula field is now in a plateau production phase.

Towards the end of the year, the operator increased the originally estimated oil reserves from 40 million Sm^3 (250 million barrels) to just over 52 million Sm^3 (330 million barrels).

The Ekofisk Area
Operator: Phillips Petroleum Norway
Statoil's financial share: 1%
Remaining total recoverable reserves:*
Oil - 171.6 million Sm^3 (1,079 million barrels)
Gas - 134.1 billion Sm^3
NGL - 12.6 million tonnes
Total sales volumes produced in 1988:*
Oil - 10.3 million Sm^3 (65 million barrels)
Gas - 9.4 billion Sm^3
NGL - 1.1 million tonnes

The recovery factor at the Ekofisk field has been increased as a result of current and planned enhanced recovery projects.

Well repairs and well stimulation also contributed considerably to increasing recovery.

The extended water injection project was approved by the Government in May 1988. The project will be operational from 1992. A nitrogen injection project to increase gas recovery is under consideration. A protective concrete barrier is under construction and will be installed around the Ekofisk tank in 1989.

*) Figures apply to licence 018's share of the Ekofisk area.

The field centre of the Ekofisk area. Statoil now has a holding of one per cent in Ekofisk licence 018.

Tommeliten
Operator: Statoil
Statoil's financial share: 28.26%
Government DFI: 42.38%
Remaining total recoverable reserves (both structures):
Oil - 6.2 million Sm^3 (39 million barrels)
Gas - 18.1 billion Sm^3
NGL - 1.0 million tonnes
Total sales volumes produced in 1988:
Oil - 0.2 million Sm^3 (1 million barrels)
Gas - 0.3 billion Sm^3
NGL - <0.1 million tonnes

Tommeliten consists of two structures, Alpha and Gamma. The first phase of the development consists of a subsea installation on Gamma tied back to the Edda platform in the Ekofisk area. Production started 3 October 1988. Total cost of the Gamma development was just below NOK 2.5 million.

Gas produced during the period 1 October 1988 to 1 October 1991 has been sold to the Ekofisk group.

No decision has yet been made to develop the Alpha structure.

Transport systems approved for development

Zeepipe
Operator: Statoil
Statoil's financial share: 15%
Government DFI: 55%

As a result of the Troll gas sales agreements, it has been decided to build a new transport system for gas to Zeebrugge in Belgium.

The first phase of the transport system will consist of a 40-inch pipeline from Sleipner to Zeebrugge. Zeepipe will also be connected to Statpipe/Norpipe by a 30-inch pipeline from Sleipner to the 16/11-S riser platform.

Project implementation started autumn 1988. Start-up of the first phase is planned for autumn 1993. The second phase comprises a pipeline from the Troll field.

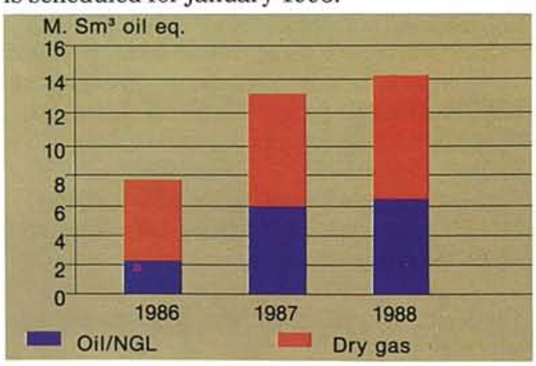
Zeepipe Terminal
Operator: Statoil
Statoil's financial share: 7.35%
Government DFI: 26.95%

The owners of the Zeepipe Terminal at Zeebrugge, Belgium, are the same as those of Zeepipe with the addition of Distrigaz with a 51% stake. The Zeepipe Terminal will receive and process gas from the Zeepipe pipeline.

Start-up is planned for autumn 1993. Project implementation started in autumn 1988.

Etzel Gas Storage Facility
Operator: Statoil
Statoil's share: 67%

In connection with the Troll gas sales agreements, the sales group have undertaken to maintain gas deliveries to the European continent for up to 14 days in the event of a shutdown. To be able to implement this undertaking, sellers have decided to build a gas storage facility at Etzel, West Germany, in the first phase with a working volume of approxima tely 500 million Sm^3. Completion of the facility is scheduled for January 1993.



Volumes transported in Statoil operated pipeline systems.

Transport systems in operation

Statpipe
Operator: Statoil
Statoil's share: 60%
Total volumes transported in 1988:
Rich gas - 4.5 billion Sm^3 to Kårstø, Norway
Dry gas - 7.4 billion Sm^3 to Emden, W. Germany
NGL - 1.0 million tonnes shipped from Kårstø

This gas transport system with associated facilities again had high availability in 1988. Dry gas from Statfjord accounted for about 43% of volumes in 1988, with Heimdal and Gullfaks supplying 48% and 9%, respectively. Operation and maintenance proceeded as planned, and the cost efficiency programme continued in 1988.

Statoil and Conoco have signed an equity transfer agreement for Conoco to take over a 1.75% stake in Statpipe from 1 January 1989.

Oseberg Transport
Operator: Norsk Hydro
Statoil's financial share: 14%
Government DFI: 51.04%
Total volumes transported in 1988:
Oil - 0.6 million Sm^3 (4 million barrels)

West Sigma **spudded an exploration well for Statoil in the Dutch sector autumn 1988.**

Transport of oil from the Oseberg field started on 1 December 1988, four months ahead of schedule. The first oil cargo from the Sture terminal was shipped on 15 December 1988.

Frigg Transport
Operator: Total
Statoil's share: 24%
Total volumes transported in 1988:
Dry gas - 10.5 billion Sm^3

Through swap agreements with Elf and Total, Statoil increased its stake in FNA (Frigg Norwegian Association, the Norwegian part of Frigg Transport) from 5% to 24% with effect from 1 January 1987. In accordance with existing swap agreements, Statoil's share will increase further to 29% as from 1 January 1996.

Ula Transport
Operator: Statoil
Statoil's share: 100%
Total volumes transported in 1988:
Oil - 5.1 million Sm^3 (32 million barrels)
NGL - 0.3 million tonnes

The pipeline system has been functioning satisfactorily.

An oil pipeline from the Gyda field will be connected to the system and is scheduled to come on stream in autumn 1990. The project is progressing according to schedule.

Norpipe a.s and Norpipe Petroleum (UK) Ltd.

Operator: Phillips Petroleum
Statoil's share: 50%
Total volumes transported in 1988:
Oil - 22.2 million Sm^3 (140 million barrels)
Gas - 15.3 billion Sm^3

Norpipe a.s owns the oil and gas pipelines from the Ekofisk area to Teesside and Emden, respectively. Norpipe Petroleum UK Ltd. owns the crude oil processing, storage and shipping facilities at Teesside.

In 1988, Statoil received dividends worth NOK 132 million from Norpipe a.s and NOK 28 million from Norpipe Petroleum UK Ltd.

Norsea Gas A/S, Norsea Pipeline Ltd., Norsea Gas GmbH and Norland GmbH
Operator: Phillips Petroleum
Statoil's share: 2%

Through swap agreements with Elf and Total, Statoil has taken over 2% shares in Norsea Gas A/S and Norsea Pipeline Ltd. and in the holding companies Norsea Gas GmbH and Norland GmbH.

Statoil received a total of NOK 3 million in dividends from these companies in 1988.

INTERNATIONAL

International offshore exploration wells spudded in 1988:
Denmark: 2 exploration wells
The Netherlands: 1 exploration well
China: 2 exploration wells
UK: 1 exploration well

Exploration
The cost of Statoil's international exploration in 1988 amounted to about 15% of the company's total exploration activity.

Sweden
Statoil was allocated shares in a concession area in the Swedish sector of the Baltic in November 1988. A seismic programme will be implemented during a three year period. Statoil and Shell share operatorship in the concession area. There is no drilling obligation in the licence.

Denmark
Statoil Efterforskning og Produktion A/S (E&P)
Statoil's share: 100%

Operating income: NOK 11 million
Operating loss: NOK 48 million
Loss before extraordinary items:
NOK 56 million

Statoil E&P owns shares in and operates two concessions on the Danish continental shelf. The company also has a stake in an onshore concession. In 1988, Statoil was operator for an offshore exploration well in the Graben area and also participated in an onshore well. Traces of hydrocarbons were found but no production test was made.

United Kingdom
In the British sector, Statoil (U.K.) Ltd. has interests in two licences. Drilling began in one of them in 1988 but had to be interrupted because of a tightening of safety regulations by the British Government.

Statoil signed an agreement with Conoco for the purchase of a 5% stake in a licence in the British sector. The licence includes the Victor gas field, which is already in production.

West Germany
Den norske stats oljeselskap Deutschland GmbH has a 75% stake in and is operator of two concession areas in the German sector, which were seismically mapped in 1987 and 1988. A decision on further exploration will be based on these surveys.

No drilling obligations are attached to these concessions.

The Netherlands
Statoil Netherlands B.V.
Statoil's share: 100%
Operating income: NOK 79 million
Operating loss: NOK 29 million
Loss before extraordinary items:
NOK 13 million
Investments in 1988: NOK 2 million

Statoil Netherlands B.V. spudded its fourth exploration well in the Dutch sector in 1988. Drilling of well L9-4 will be completed early 1989.

An application for new licences in the Dutch sector was submitted to the Dutch Government.

Kotter field
Operator: Conoco
Statoil's share: 6.375%
Remaining total recoverable reserves:
Oil - 3.1 million Sm^3 (19 million barrels)
Total sales volumes produced in 1988:
Oil - 1.0 million Sm^3 (6 million barrels)

Logger field
Operator: Conoco
Statoil's share: 7.5%
Remaining total recoverable reserves:
Oil - 1.7 million Sm^3 (11 million barrels)
Total sales volumes produced in 1988:
Oil - 0.6 million Sm^3 (4 million barrels)

China
In the Yellow Sea, Statoil participated in a Cluff Oil operated licence. After two dry exploration wells were drilled in the concession area, the licence was relinquished in October 1988.

In the South China Sea, Statoil has a 100% owned licence (Qiong Dong Nan). An exploration well - which proved to be dry - was spudded in late 1988. Further evaluation of drilling results will be needed to decide whether to continue exploration drilling in the licence.

The Beibu Field
Operator: China National Offshore Oil Corporation (CNOOC)
Statoil's share: 9.8%
Remaining total recoverable reserves:
Oil - 0.2 million Sm^3 (1 million barrels)
Total sales volumes produced in 1988:
Oil - 0.3 million Sm^3 (2 million barrels)

In August 1988, the operatorship of this field was transferred from Total to CNOOC. Daily oil production in 1988 was approximately 6,000 barrels.

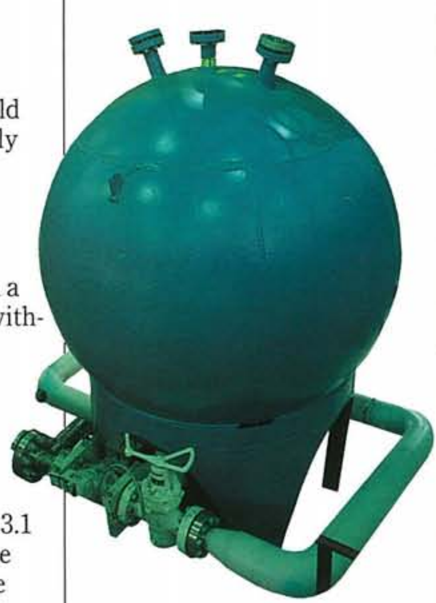
Malaysia
Statoil participated offshore Malaysia with a 20% stake in a block operated by Elf, but withdrew from the licence in autumn 1988.

GAS MARKETING

Dry Gas
Statoil's total sales of dry gas in 1988 were 3.1 billion cubic metres, of which sales from the Statfjord, Heimdal and Gullfaks fields were 1.8, 0.7 and 0.1 billion cubic metres, respectively.

Jointly with the other licencees in the Troll field, Statoil entered an agreement in 1988 for annual sales to Spain of about 1 billion cubic metres gas, with deliveries starting in 1996. In order to supply Norwegian gas to France and Spain, Statoil signed a contract with Distrigaz of Belgium and negotiated another with Gaz de France for transporting the gas through these two countries.

Together with Norsk Hydro and Saga, Statoil signed a general agreement with the Dutch national power authority to supply two gas power stations planned at Eemshaven with an annual 2 billion cubic metres gas from the mid-1990s.



Unique gas weighing equipment has been designed at Kårstø Gas Metering and Technology Laboratory.

In connection with the Troll gas sales agreements, Statoil is heading further negotiations with a view to purchasing storage services in France and Belgium. Statoil also heads the Troll group's negotiations with Italy on possible gas deliveries, and with Ruhrgas of Germany to allow access for Norwegian gas to Austria.

The gas negotiations group, under the management of Statoil, in 1988 carried out negotiations on potential sales of gas to Norway, Sweden and Denmark. In Norway, negotiations are currently in progress with a number of customer groups about potential gas deliveries for electricity generation. Discussions are also in progress on the use of gas as feedstock for ammonia production.

Statoil and Norsk Hydro have completed a cooperation agreement with the gas transportation company Enron, with a view to gas sales of around 2.5 billion cubic metres to the North American market. In this connection, a project is under preparation to ship liquefied gas from the Kårstø terminal to the US east coast.

OTHER ACTIVITIES

Kårstø Metering and Technology Laboratory

Operator: Statoil
Statoil's share: 66.67%

This high technology research laboratory is in the introductory and calibrating phase. Its activities will consist of development of improved metering technology at high pressure and for large gas flows.

From the interior of a service station.

Page 39: It takes people to render service. John Djuuhus Olsen works at one of Statoil's stations in Copenhagen.

Refining and Marketing

Refining and Marketing (R&M) is a Business Unit within the Statoil Group, organized as a responsible profit centre. R&M is responsible for Statoil's crude oil and gas liquids marketing, refining, product marketing and retail marketing. Included in the activities of this Business Unit are the Mongstad operation and Statoil's retail marketing subsidiaries Norsk Olje a.s (Norol) in Norway, Svenska Statoil AB in Sweden and Statoil A/S in Denmark.
Number of employees: 3,687

Key figures (In NOK million)

Profit and Loss Account for the year ended 31.12.1988:

Operating income	41 937
Salaries and social costs	1 032
Other costs and raw materials	40 097
Depreciation	647
Operating costs	41 776
Operating profit	161
Allocated financial items	(578)
Loss before extraordinary costs	(417)
Extraordinary costs	(2 000)
Loss before year-end adjustments	(2 417)

Balance Sheet at 1.1.1989

Fixed assets	5 144
Stocks	1 289
Current assets	13 401
Total assets	19 834
Current liabilities	5 675
Long-term liabilities	11 071
Conditional untaxed reserves	1 297
Shareholder's equity	1 791
Total	19 834

R&M activities in 1988 were dominated by the following trends and main events:
- Strong fluctuations in the price of both crude and refined products.
- Statoil's crude oil terminal at Mongstad came on stream in March.
- Substantial improvement in refinery margins over the year.
- Continued competition and partly squeezed margins within retail marketing; however, progress in the main markets.
- Development of the Mongstad refinery, due to be completed in spring/summer 1989.
- Shut-down of the Mongstad refinery from September and for the rest of the year due to conversion work.
- Brief shut-down of the Kalundborg refinery in spring 1988 for scheduled annual turnaround.
- Substantial investments at the Kalundborg refinery, including adjustments to meet new, tighter environmental standards.

Crude Oil and Products Sales Division
Operating income: NOK 22,654 million
Operating profit: NOK 429 million
Investments in 1988: NOK 233 million


STATOIL
SuperDiesel
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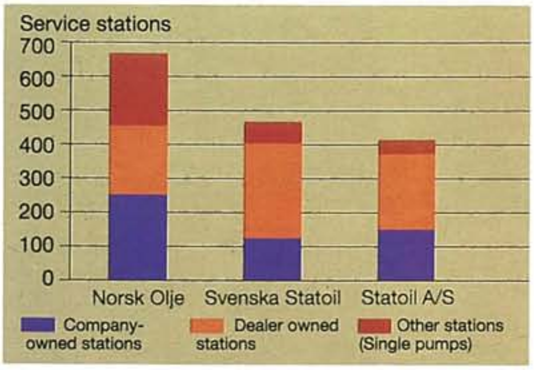
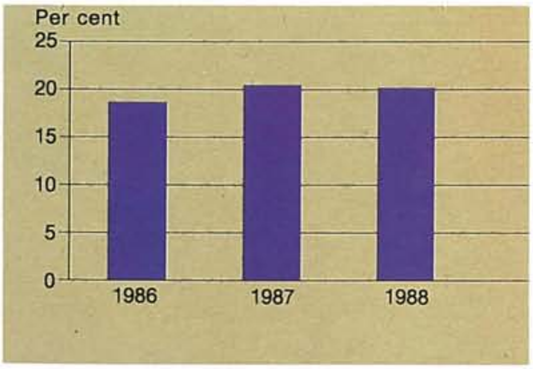
STATOIL

Statoil's retail network at 1.1.1988.



Statoil's Scandinavian market share, all products.



Page 41: Busy construction activity at Mongstad throughout 1988.

Marketing of Crude Oil, Gas Liquids and Refined Products
In 1988, Statoil had access to 26.2 million tonnes of crude compared to 22.7 million tonnes the previous year. Crude was sold in a market dominated by over-production and strong price fluctuations. At the beginning of the year, the price level was around USD 18 per barrel for Brent Blend, the reference oil for North Sea trading. At times the price level sank to under USD 12 per barrel, but at the end of 1988 it was just over USD 16 per barrel. Sales of Statoil crude were satisfactory.

Statoil's crude oil terminal at Mongstad was commissioned in March. The terminal is an important factor in the marketing of crude, particularly with the US markets in mind.

Access to gas liquids in 1988 was 0.49 million tonnes, compared to 0.57 million tonnes in 1987. These volumes were mainly used as feedstock in the Group's own petrochemical facilities; remaining volumes were sold to customers in continental Europe.

Refinery margins in Western Europe in 1988 were on average higher than in previous years. Capacity utilization in this industry is increasing. At the end of the year, the margins fell sharply as the price of refined products failed to keep up with the price of crude oil.

Transport of Statoil's Crude and Products
In December 1988, Statoil took the 92,000 dwt crude oil tanker *Tromaas* on a time charter. Another two tankers, one for crude and one for products, will be delivered on time charters in 1989.

Gullfaks Transport
Operator: Statoil
Statoil's financial share: 12%
Government DFI: 73%
Volumes transported in 1988:
8 million Sm^3 crude

Gullfaks Transport handles shipping of crude from the Gullfaks field. In 1988 two tankers on long-term charters transported a total of 64 cargoes.

Statfjord Transport
Operator: Statoil
Statoil's share: 42.04661%
Volumes transported in 1988:
42 million Sm^3 crude

Statfjord Transport handles shipping of crude from the Statfjord field. In 1988 five tankers on long-term charters transported a total of 308 cargoes from the field.

Statoil Mongstad
Operating income: NOK 2,529 million
Operating loss: NOK 458 million
Investments in 1988: NOK 4,203 million

Statoil's activities at Mongstad include a refinery, a crude oil terminal and laboratory functions.

The refinery is now wholly owned by the Statoil Group, as the Storting approved Statoil's purchase of Norsk Hydro's 30% share effective from October 1987.

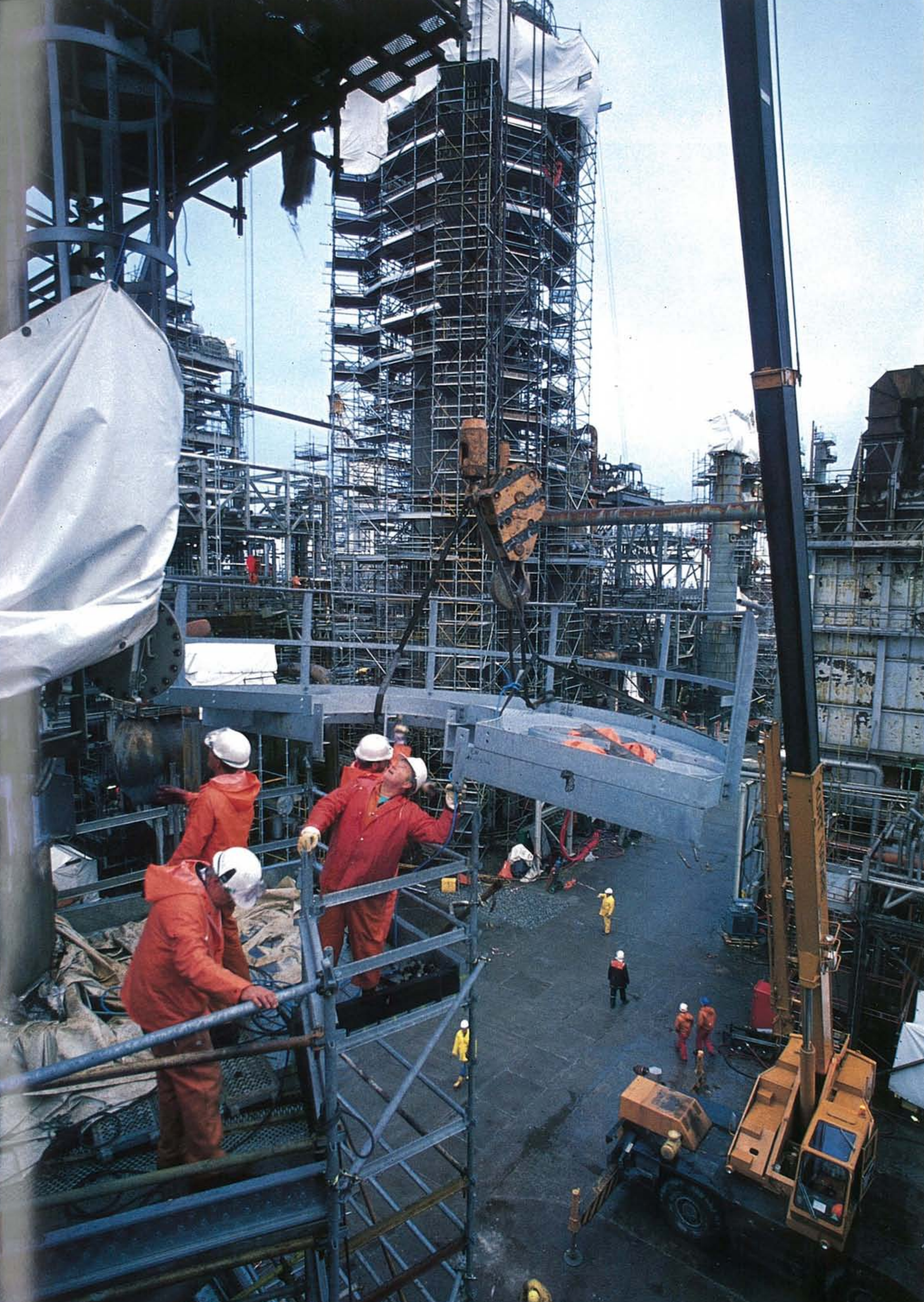
In 1988, 2.5 million tonnes of refined products were produced at Mongstad. Crude from Norwegian fields made up over 95% of the feedstock.

Work has been in progress throughout the year to upgrade and expand the refinery. In this connection, the facility was shut down from 1 September 1988. Progress has kept to the revised plans approved by the Board in April 1988. The expanded refinery will come on stream in spring/summer 1989.

Norsk Olje a.s (Norol)
Operating income: NOK 6,136 million
Operating profit: NOK 289 million
Profit before year-end adjustments:
NOK 281 million
Investments in 1988: NOK 455 million

The total market for petroleum products in Norway in 1988 was 8.2 million cubic metres, down 3% on 1987. The decline was caused by reduced sales of oil products for heating and industrial purposes as a result of the mild winter and ample supplies of inexpensive surplus electric power.

Norol achieved a total market share of



Statoil A/S supplies aviation fuel at Søndre Strømfjord, Greenland.

Specially designed tankers carry Statoil's crude oil to the USA. Here the *Tromaas* moored in New York roads.

28.9%, slightly less than in 1987. Its share of the petrol market increased to 27% from 26.4% in 1987. The market share for distillates decreased slightly.

Norol maintains its position as a clear market leader among oil companies in Norway. Financial results for 1988 are satisfactory.

Investments in 1988 were largely spent on modernizing and expansion of Norol's petrol stations network. Construction of its new administration building in Oslo was completed.

Svenska Statoil AB

Operating income: NOK 6,509 million
Operating profit: NOK 187 million
Profit before year-end adjustments: NOK 178 million
Investments in 1988: NOK 235 million

The total Swedish market for petroleum products was 17.4 million cubic metres in 1988, unchanged from the previous year. Petrol consumption increased, but sales of other products, mainly distillates, declined.

The subsidiary achieved a total market share of 14.5%, a slight increase from 1987. The growth of this share is due to the greatly increased petrol sales. Market shares for other products are on the same level as in 1987.

Financial results for 1988 were weaker than expected. This is due to weak margins for distillates and heavy fuel oils as a result of keen price competition and the mild winter.

Investments in 1988 were in modernization and expansion of filling stations and upgrading of storage facilities.

Statoil A/S (Denmark)
Operating income: NOK 7,429 million
Operating profit: NOK 35 million
Profit before year-end adjustments:
NOK 48 million
Investments in 1988: NOK 195 million

The total market for petroleum products in Denmark in 1988 was 11.3 million cubic metres. This represented a 4% drop on 1987, caused by a drift away from light and heavy fuel oils in favour of natural gas in the domestic and industrial markets.

The subsidiary's total market share was 24.0%, a slight decrease from 1987. The market share for petrol shows a slight increase, whereas distillates and heavy fuel oil declined.

The Kalundborg refinery produced a total of 2.4 million tonnes of refined products in 1988, which was sold by the subsidiary in the Danish market. The refinery was shut down in April/May for maintenance and installation of a new sulphur facility.

Financial results for 1988 were weaker than anticipated as a result of squeezed margins and volume deficiencies in major product groups.

Investments in 1988 were largely spent on upgrading and expansion of the subsidiary's filling station network and on the new sulphur facility at the Kalundborg refinery in order to meet new, more stringent environmental requirements.

Petrochemicals and Plastics

Statoil Petrochemicals and Plastics (P&P) is a Business Unit within the Statoil Group organized as a responsible profit centre.

Its activities include production and marketing of petrochemical products and plastics raw materials. The production facilities are located at Bamble in Norway, Stenungsund in Sweden, and Hamburg in West Germany. Products are sold in Western Europe by the Group's subsidiaries.
Number of employees: 1,118.

Key figures (In NOK million)

Profit and Loss Account for the year ended 31.12.1988:

Operating income	4 533
Salaries and social costs	340
Other costs and raw materials	2 677
Depreciation	217
Operating costs	3 234
Operating profit	1 299
Allocated financial items	(74)
Profit before year-end adjustments	1 225

Balance Sheet at 1.1.1989

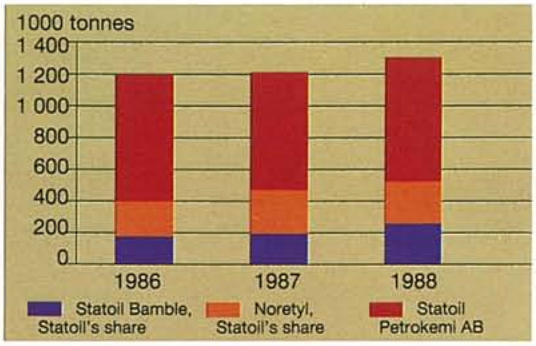
Fixed assets	1 417
Stocks	402
Current assets	1 693
Total assets	3 512
Current liabilities	940
Long-term liabilities	1 960
Conditional untaxed reserves	360
Shareholder's equity	252
Total	3 512

Products from Statoil Bamble ready for shipment.

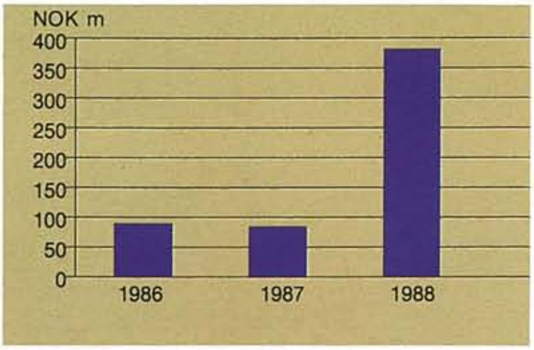
Brisk demand for petrochemical products in 1988 led to a shortage in the market. Prices rose, while feedstock costs fell. By efficient operation and record production volumes, Statoil was able to benefit from this favourable trade cycle. The financial results are the best yet achieved.

With effect from 1 June 1988, Statoil took over Norsk Hydro's stake in I/S Norpolefin and now owns that company 100%. This venture is now known as Statoil Bamble.

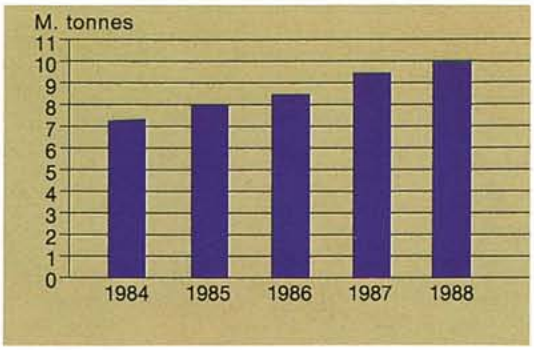
Production of petrochemical products.



Investments in petrochemical plants.



Plastics raw-materials demand, Western Europe.



Statoil's Board has approved the plans for a joint venture with the US company Himont Inc. for construction and operation of a petrochemical facility in Antwerp, Belgium. The facility will produce propylene based on propane supplied by Statoil. This will be used as a feedstock for a polypropylene plant. Statoil's 50% share in the total investment is estimated at around NOK 1,380 million (1988 value).

Statoil Bamble
(Norpolefin)
Operator: Statoil
Statoil's share: 100% as from 1.6.88
Volumes produced:
Plastics raw materials - 291,000 tonnes
Special products - 8,000 tonnes

Statoil Bamble recorded good financial results in 1988, mainly due to high, even levels of production, combined with favourable prices.

There was a considerable growth (eight per cent) in the consumption of plastics raw materials in Western Europe in 1988. Product prices rose continuously throughout the year. An increasing share of Statoil's volumes were sold in the Nordic countries.

Conversion of the polypropylene facility to new technology started. The project will lead to higher production capacity and reduced costs and is due for completion in mid-1989.

Statoil Petrokemi AB, Sweden
Statoil's share: 100%
Operating income: NOK 2,179 million
Operating profit: NOK 670 million
Profit before year-end adjustments: NOK 708 million
Investments in 1988: NOK 107 million
Volumes produced:
Ethylene and propylene - 543,000 tonnes

Production of ethylene and propylene at the Stenungsund facility continued to rise. The bulk of the volumes produced were supplied to local buyers.

1988 saw favourable market conditions and increased prices for ethylene and propylene. The financial results of the subsidiary were good.

Work is in progress to expand the storage capacity for propane. The new storage facility for liquefied propane is planned to be fully operational from 2nd quarter 1990. This will increase the possibility of using alternative, reasonably-priced feedstock in ethylene production.

A project designed to increase the production capacity is currently under preparation.

Werk Hamburg
Werk Hamburg is part of Den norske stats oljeselskap Deutschland GmbH.

Operating profit: NOK 2 million
Investments in 1988: NOK 15 million
Volumes produced: 8,000 tonnes special products

The production facility in Hamburg has been modernized as planned at the time of the takeover in 1986. The facility is mainly used for production of special qualities for Statoil but also does contract production for external customers. The operation is still in an introductory phase.

I/S Noretyl
Operator: Statoil
Statoil's share: 49%
Volumes produced:
Ethylene and propylene - 455,000 tonnes

I/S Noretyl had a 17 day total production shutdown in October due to technical problems. As a result, Statoil Bamble had to buy part of its raw materials in the open market. To anticipate a rise in feedstock demand, plans to boost production capacity are under evaluation.

Statoil Petrokemi AB at Stenungsund, Sweden.

From the production line at Statoil's Hamburg plant.

Research and Development

Research and Development (R&D) is carried out by the company's divisions as well as by the Centre for Research and Development, from its head office in Trondheim. The latter is also responsible for coordination of R&D activities throughout the Group.

The company's total research activities in 1988 continued at the same level as in the previous year. Main commitment areas were deep-water, exploration and production and refining technology.

Simpler and better economic concepts for exploration, production and transport of oil and gas from deep waters remain the chief area of research and development.

In cooperation with Mobil, the R&D division has developed, tested and qualified a diverless subsea production system capable of operating competitively even at very low oil prices.

New technology has been introduced, making offshore LNG processing feasible and providing economical transport of gas from areas with no infrastructure.

In the area of multiphase pipeline transport, the company has developed leading technology which will become of great commercial importance to fields close to existing infrastructure.

A new breathing system for deepwater diving has been developed and qualified. Within material technology a new welding method has been developed which gives considerable saving potential compared with conventional pipe welding methods. Jointly with industry and research institutes Statoil has developed a seawater battery for cableless subsea control systems.

Safety and Quality Assurance

Statoil has continued to work on quality assurance as a managerial tool adapted to the new organization based on three Business Units.

Prompted by the Piper Alpha disaster in the British sector, Statoil has begun a comprehensive study and evaluation of offshore safety.

Management's special safety commitment has continued. The rate of lost time injuries was reduced by over 20% as compared to the year before. This is in keeping with the Group's target of a 50% reduction in injuries over two years.

Work is under way to design uniform guidelines for protection of the environment so that Statoil may contribute to reducing the release of harmful waste into the environment. Considerable efforts have been made to prevent oily effluents from drilling operations.

Safety work ranks high on Statoil's list of priorities.

Articles of Association

Article 1

The corporate purpose of Den norske stats oljeselskap a.s is to carry out exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products, as well as other activities reasonably related thereto, either by itself, or in participation or cooperation with other companies. In addition, the Company may own shares in Basetec A/S.

Article 2

The Company shall be situated in Stavanger.

Article 3

The share capital of the Company is NOK 2,943,500,000 divided into 29,435,000 shares of NOK 100 each.

Article 4

The Board of Directors of the Company shall be composed of a maximum of nine directors. A maximum of six of the directors including chairman and vice-chairman, shall be elected by the General Meeting. A maximum of three of the directors shall be elected by and among the employees in accordance with regulations made under provisions of the Norwegian Companies Act concerning the right of employees to be represented on the Board of Directors and in the Corporate Assembly of companies limited by shares. Five alternate directors shall be elected in respect of the directors elected by and among the employees, and these alternates shall be summond in the order in wich they are elected. Two alternate directors shall be elected in respect of the other directors, one as first alternate and one as second alternate. The normal term of office for the directors is two years.

Article 5

Any two directors jointly may sign for the Company. The Board may grant power of procuration.

Article 6

The Board shall appoint the Company's President and stipulate his salary.

Article 7

The Company shall have a Corporate Assembly consisting of 12 members. Members and alternates shall be elected for two years at a time. The General Meeting shall elect eight members and three alternate members for these eight. Four members and alternates for these four shall be elected by and among the employees of the Company in accordance with regulations of the Norwegian Companies Act concerning the rights of employees to be represented on the Board of Directors and in the Corporate Assembly of companies limited by shares. The Corporate Assembly shall elect a chairman and a vice-chairman from among its members. The Corporate Assembly shall hold at least two meetings annually.

Article 8

The ordinary General Meeting shall be held each year before the end of June. General Meetings shall be held in Stavanger or in Oslo. Extraordinary General Meetings shall be summond at the request of the Shareholder, the Board, or two members of the Corporate Assembly.

Article 9

The ordinary General Meeting shall deal with and decide the following matters:

a) Adoption of the profit and loss account and the balance sheet.

b) Application of the annual profit or coverage of loss as shown in the adopted balance sheet, and the declaration of dividends.

c) Adoption of the consolidated profit and loss account and the consolidated balance sheet.

d) Any other matters wich are referred to the General Meeting by statute or the Articles of Association.

Article 10

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

Such matters shall be deemed to include, but not be limited to:

a) Plans for the immediate 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 joint ventures in which the Company participates or plans to participate.

d) Matters which seem to necessitate additional appropriation of Governmental funds.

e) Plans for establishing new types of activity and locating important elements of the Company's operations.

f) Plans to participate in the exploitation of petroleum reserves in or outside Norway, including the exercise of state participation options.

g) Half year reports on the Company's activities, including activities of subsidiaries and important joint ventures with other companies.

Matters which the Board submits to the General Meeting pursuant to this Article and if possible such matters as the Ministry may have announced its wish to consider at such a General Meeting, shall, if possible, be presented in writing and delivered to the Ministry in ample time prior to the General Meeting.

Should there be no opportunity to submit the above-mentioned matters in advance to the General Meeting, the General Meeting shall be notified promptly of the Board's resolution.

Whenever possible, matters as mentioned in items under a) and g) above should be submitted to the Corporate Assembly for comments.

The General Meeting shall decide whether to take note of the Board's proposals under this Article, to approve them or to alter them.

Article 11

The Company is responsible for taking care of the interests of the Government related to the direct financial involvement the Government retains for itself in joint ventures for exploration, development, production and transportation of petroleum on or in association with the Norwegian continental shelf.

This task is executed through the Company's general technical and managerial organization and in accordance with the guidelines applicable to the Company's own involvement on the Norwegian continental shelf.

The Company prepares accounts for the Government's direct financial involvement. These accounts are carried out in accordance with the regulations governing economic administration in the ministries stipulated by Royal Decree and the economic instructions prepared by the Ministry of Petroleum and Energy.

Article 12

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

Survey of the Statoil Group's activities in 1988

At 31 December 1988

Project	*Operator*	*Location*	*Statoil's share %* *Participating*	*Financial*	*Comments*
Exploration					
30 exploration licences	Statoil	Norwegian shelf	49.6-85	9-25	Exploration/appraisal
79 exploration licences	Non-Statoil	Norwegian shelf	1-59.4	0-28.82	Exploration/appraisal
1 exploration licence *	Shell/Statoil	Swedish shelf	33.33 and10	33.33 and 10	Exploration/appraisal
2 exploration licences	Statoil	Danish shelf	26.5 and 38.5	26.5 and 38.5	Exploration/appraisal
1 exploration licence	Non-Statoil	Danish mainland	26.5	26.5	Exploration/appraisal
2 exploration licences	Non-Statoil	UK shelf	20	20	Exploration/appraisal
2 exploration licences	Statoil	W. German shelf	75	75	Exploration/appraisal
4 exploration licences	Statoil	Dutch shelf	40 and 60	40 and 60	Exploration/appraisal
2 exploration licences	Non-Statoil	Dutch shelf	7.5	7.5	Exploration/appraisal
1 exploration licence	Statoil	Chinese shelf	100	100	Exploration/appraisal

*) The licence area consists of 2 sub-licences operated by Statoil and Shell respectively. Statoil's respective shares in the sub-licences are 33.33% and 10%.

Development					
Draugen	Shell	Block 6407/9	65	19.6	Oil/gas
Snorre *	Saga	Block 34/4, 34/7	51	19.6	Oil/gas/NGL
Troll **	Shell/Statoil	Block 31/2, 31/3, 31/5, 31/6	74.576	11.88	Gas/condensate
Troll, TOGI	Norsk Hydro	Block 31/2, 31/3, 31/5, 31/6	74.576	11.88	Gas
Veslefrikk	Statoil	Block 30/3	55	18	Oil/gas/NGL
Oseberg Gamma North	Norsk Hydro	Block 30/6	59.4	14	Gas
Sleipner East	Statoil	Block 15/9	49.6	20	Gas/condensate
Gyda	BP	Block 2/1	50	20	Oil/gas/NGL
Zeepipe	Statoil	Norwegian, Danish, German Dutch and Belgian sectors	70	15	Gas transport
Etzel Gas Storage	Statoil	Etzel, W. Germany	67	67	Gas storage
Zeepipe Terminal	Statoil	Zeebrugge, Belgia	26.95	7.35	Gas terminal

*) Only Phase 1 approved for development
**) Applies to approved Phase 1

Production					
Murchison	Conoco	Block 33/9 *	11.1	11.1	Oil/gas/NGL
Statfjord	Statoil	Block 33/9, 33/12 *	42.04661	42.04661	Oil/gas/NGL
Gullfaks	Statoil	Block 34/10	85	12	Oil/gas/NGL
Oseberg	Norsk Hydro	Block 30/6, 30/9	65.04	14	Oil/gas
Frigg	Elf	Block 25/1 *	3.041	3.041	Gas
North-East Frigg	Elf	Block 25/1, 30/10	2.1	2.1	Gas
East-Frigg	Elf	Block 25/1, 25/2	7.192	5.7307	Gas
Heimdal	Elf	Block 25/4	40	20	Gas/condensate
Ula	BP	Block 7/12	12.5	12.5	Oil/gas/NGL

At 31 December 1988 *Project*	*Operator*	*Location*	*Statoil's share %* *Participating*	*Financial*	*Comments*
Ekofisk area	Phillips	Block 7/11, 2/4, 2/5, 2/7, 1/6	1	1	Oil/gas/NGL
Tommeliten	Statoil	Block 1/9	70.64	28.26	Oil/gas/NGL
Kotter	Conoco	Dutch shelf	6.375	6.375	Oil
Logger	Conoco	Dutch shelf	7.5	7.5	Oil
Weizhou 10-3	CNOOC	Chinese shelf	9.8	9.8	Oil

*) The field straddles the British/Norwegian median line.

Transportation

Statpipe	Statoil	Norwegian shelf - Kårstø	60	60	Gas transport, NGL-fractionation
Oseberg Transport	Norsk Hydro	Norwegian shelf - Sture	65.04	14	Oil transport, oil terminal
Frigg Transport	Total	UK shelf - St. Fergus, UK	24	24	Gas transport, oil terminal
Ula Transport *	Statoil	Norwegian shelf	100	100	Oil transport
Norpipe a.s	Phillips	Norw., Danish, UK and German sectors	50	50	Oil and gas transport
Norpipe Petroleum UK Ltd.	Phillips	Teesside, UK	50	50	Oil terminal
Norsea Pipeline Ltd.	Phillips	Teesside, UK	2	2	NGL-fractionation
Norsea Gas A/S	Phillips	Emden, W. Germany	2	2	Gas terminal
Norsea Gas Gmbh	Phillips	Emden, W. Germany	2	2	Property
Norland Gmbh	Phillips	Emden, W. Germany	2	2	Property

*) Pipeline from Gyda to Ula subsea Y-connection is under construction.

Refining and Marketing

Statoil Mongstad	Statoil	Mongstad	100	100	Refining
Crude oil and products sales	Statoil	Stavanger	100	100	Marketing and chartering
Norsk Olje a.s (Norway)	Own management	Oslo	100	100	Marketing
Svenska Statoil AB (Sweden)	Own management	Stockholm	100	100	Marketing
Statoil A/S (Denmark)	Own management	Copenhagen	100	100	Marketing and refining

Petrochemicals and Plastics

Statoil Bamble (I/S Norpolefin)	Own management	Bamble, Norway	100	100	Petrochemicals
Statoil Petrokemi AB	Own management	Stenungsund, Sweden	100	100	Petrochemicals
I/S Noretyl	Norsk Hydro	Bamble, Norway	49	49	Petrochemicals

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