DEN NORSKE STATS
OLJESELSKAP A.S

96

ANNUAL REPORT AND ACCOUNTS

NINETEEN HUNDRED AND NINETY-SIX

STATOIL

Den norske stats oljeselskap a.s - *Statoil - was founded in 1972. All its shares are owned by the Norwegian state. The company's object is, either by itself or through participation in or together with other companies, to carry out exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products, as well as other business. Net operating revenue for the group in 1996 totalled NOK 107 billion. At 31 December, it had some 15 000 employees. Statoil is the leading player on the Norwegian continental shelf and the biggest petrol retailer in Scandinavia. It also ranks as one of the world's largest net sellers of crude oil and is a substantial supplier of natural gas to continental Europe. The group has pursued a gradual expansion outside Scandinavia in recent years. Statoil is responsible for managing the state's direct financial interest in partnerships engaged in exploration for as well as development, production and transport of petroleum on the Norwegian continental shelf.*

Statoil operates in the following countries:
Norway • Sweden • Denmark • Germany • Poland • Estonia
Latvia • Lithuania • UK • Ireland • Belgium • Russia • Thailand
Vietnam • Malaysia • Singapore • Azerbaijan • Kazakstan
Angola • Namibia • Nigeria • USA • Australia • Venezuela • China

Contents

OPERATOR ON TROLL: Gas operations in 1996 were coloured by the start of production from the Troll field. Responsibility for Troll Gas was transferred on 19 June from development operator Norske Shell to Statoil. On the same day, HM King Harald V officially inaugurated gas production from the field at Kollsnes near Bergen. Deliveries from Troll under the Troll gas sales agreements began on 1 October.

ÅSGARD APPROVED: The Storting (parliament) approved the plan for development and operation of Åsgard on 14 June. Comprising Midgard, Smørbukk and Smørbukk South, this project involves producing 10 different reservoirs of great complexity. Development will proceed in two stages. Oil production from Åsgard A is set to begin in 1998, with Åsgard B starting to produce gas in 2000. The project also embraces construction of a rich gas pipeline to Kårstø and an expansion of reception and fractionation facilities at the latter site.

TOPPED NOK 100 BILLION: Overall annual revenues for the Statoil group topped NOK 100 billion for the first time in 1996. The group also recorded its highest-ever operating profit.

PRODUCTION UP: Statoil's daily supplies of equity oil totalled 464 000 barrels in 1996, up from 424 000 the year before. Equity gas production for the year totalled seven billion standard cubic metres compared with 5.5 billion in 1995. International output by the group rose from 12 000 barrels of oil equivalents per day to 32 000.

EXPLORING IN NEW AREAS: Statoil secured rights during the year in three new areas. In the US Gulf of Mexico, the group participates in two deepwater blocks awarded in the autumn and also agreed around the New Year to acquire an interest in the deepwater Fuji field. Statoil is involved in an exploration prospect in the Timor Sea, and it has become operator for the Fylla area off west Greenland where oil and gas will be sought in deep water.

DEVELOPMENT OFF CHINA: Together with Chinese state oil company CNOOC, Statoil decided in 1996 to develop the Lufeng 22-1 oil field in the South China Sea. The group is development and production operator, with a 75 per cent interest. This field will be produced from the Statoil-designed multipurpose shuttle tanker MST *Munin*, with oil due to start flowing in late 1997. Lufeng 22-1 is the first field to be developed by Statoil outside Norway, and an operations organisation was established during the year at Shekou in China.

GAS FOR ITALY: Statoil signed a contract on behalf of Norway's Gas Negotiating Committee with Italian gas distributor Snam on 20 January 1997. Commencing in 1999, this deal covers the delivery of six billion standard cubic metres of gas annually over 25 years.

GERMANY:

30 billion cubic metres per year.

The Troll gas sales agreements were signed with European buyers on 31 May 1986. These contracts were a turning point for Norway as a gas supplier. Customers bought supplies from a field which would first begin delivery 10 years later. On 1 October 1996, they started getting what they had ordered from the North Sea's largest gas field.

AUSTRIA:

1.9 billion cubic metres per year.

NORWEGIAN GAS FOR

FRANCE:

14 billion cubic metres per year.

NETHERLANDS:

9 billion cubic metres per year.

BELGIUM:

5.9 billion cubic metres per year.

CZECH REPUBLIC

Negotiations completed on a contract for three billion cubic metres annually over 20 years.

Since the Troll gas sales agreements were concluded in 1986, Statoil has had the primary responsibility for negotiating a number of delivery contracts with European customers. At 1 January 1997, these committed Norway to delivering 68.7 billion standard cubic metres annually. The next few years will see a rapid build-up towards this volume.

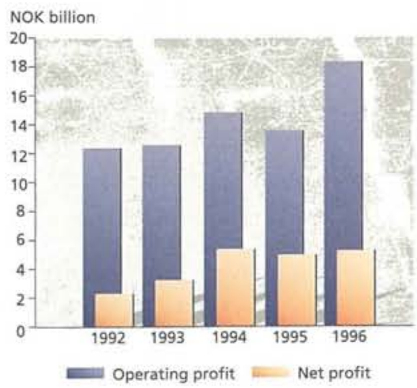
CONTINENTAL EUROPA

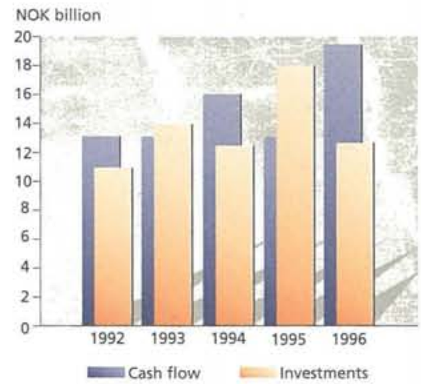
SPAIN:

2 billion cubic metres per year.

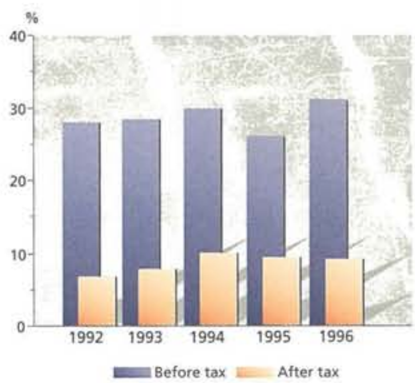
ITALY

6 billion cubic metres per year.

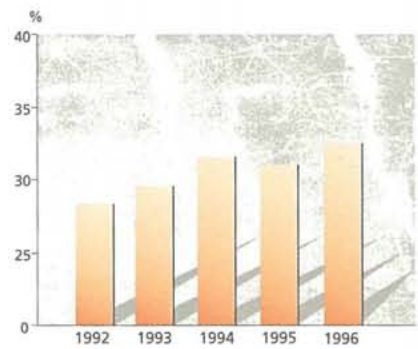




NOK million	*1996*	*1995*	*1994*	*1993*	*1992*
Operating revenue	106 981	86 517	84 070	81 340	74 533
Operating profit	18 234	13 590	14 741	12 712	12 582
Profit before taxation	17 924	14 689	16 900	11 980	9 884
Net profit	5 281	5 265	5 379	3 394	2 300

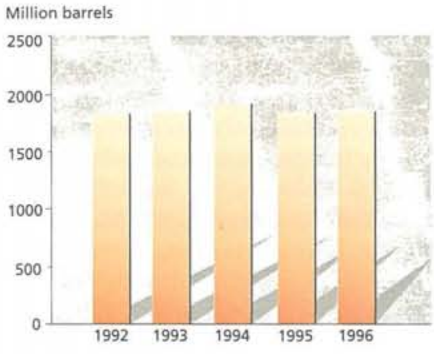


Return on capital employed

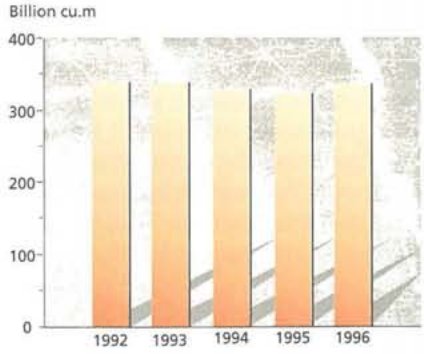


Equity ratio

NOK million	*1996*	*1995*	*1994*	*1993*	*1992*
Investments and acquisitions	12 833	17 450	11 929	13 427	10 609
Cash flow from operations	19 638	12 934	15 736	12 590	12 911
Interest-bearing debt	26 420	25 161	20 157	25 742	24 606
Shareholder's equity	37 142	33 832	30 215	26 507	24 205

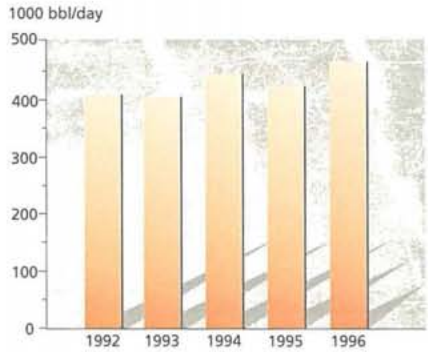


Oil reserves

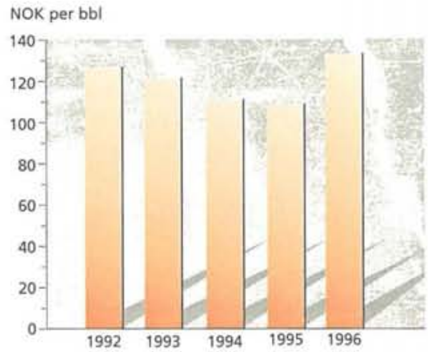


Gas reserves

	1996	*1995*	*1994*	*1993*	*1992*
Before-tax return on capital employed	31.0%	26.0%	30.0%	28.3%	28.0%
After-tax return on capital employed	9.3%	9.5%	10.1%	7.8%	6.7%
Return on equity	14.9%	16.4%	19.0%	13.4%	9.7%
Equity ratio	32.5%	31.1%	31.6%	29.6%	28.3%



Oil production



Quoted oil price - Brent Blend

	1996	*1995*	*1994*	*1993*	*1992*
Exploration expenditures (NOK million)	1 644	1 297	1 475	1 702	1 840
Oil production, in thousands of barrels per day	464	424	449	414	418
Refined products, in thousands of barrels per day	250	216	224	225	212
Oil reserves, in millions of barrels	1 899	1 853	1 909	1 870	1 830
Gas reserves, in billions of cubic metres	337	324	330	340	340

DEFINITIONS:

Capital employed	=	Total assets less non-interest bearing debt
Before-tax return on capital employed	=	Profit before taxation plus borrowing costs as a percentage of average capital employed
After-tax return on capital employed	=	Net profit plus borrowing costs after taxation as a percentage of average capital employed
Return on equity	=	Net profit as a percentage of average shareholder's equity
Equity ratio	=	Shareholder's equity as a percentage of total balance less accounts payable related to the state's direct financial interest (SDFI) in the petroleum industry, see page 67
Cash flow from operations	=	Cash receipts from and cash disbursements to operations less net financial disbursements less taxes paid
Reserves	=	Proved reserves (oil reserves including NGL and royalty)
Oil production	=	Equity oil production, excluding NGL and royalty

Statoil can celebrate its 25th anniversary this year. There was full agreement over the decision to establish an integrated oil company in 1972. People saw that the oil industry would expand in scope and significance, and wanted Norwegian players to supplement the multinational companies. The expectations and ambitions held in 1972 were undoubtedly too modest. This industry has become even more important for Norway than was forecast.

The Norwegian oil sector has a level of technological attainment, a market position and a competitiveness that put it among the world leaders in this business. Substantial value has been created. Independent assessments value Statoil at over NOK 80 billion. Adding about NOK 15 billion in dividend paid gives an annual return on investment in the parent company of more than 20 per cent after tax. Taxes paid by Statoil also exceed NOK 80 billion.

Can the group maintain such a strong rate of growth with a satisfactory return and risk profile? We believe so, although we recognise that competition is getting ever tougher. Statoil achieved good results in 1996, and strengthened its position. Despite setting a new record for oil and gas production, we increased our *reserves* during the year.

Our *financial* position is stronger. Equity capital totals NOK 37 billion, providing an equity ratio of 32.5 per cent. Our *market position* is strong, both in the oil sector and among our gas customers. As competition hardens in such sectors as the Scandinavian motor fuel market, it is important that our customers still rate us as the best for service and quality.

Technology became even more significant for Statoil's competitiveness during 1996. We see good results from our exploration operations. Our reservoir specialists are achieving impressive results with producing fields and making it possible to upgrade reserves in fields being developed or at the planning stage.

Our floating production concepts have won broad recognition through important contracts.

Operationally, we had a very good year during 1996, with high regularity and a marked improvement in efficiency.

Safety results are not what they should be, however. Five people lost their lives while working for Statoil in 1996. We must all give top priority to the work of enhancing safety.

Environmental results were characterised by steady improvement and technological innovation.

I had the pleasure in 1996 of chairing the Miljøsok committee, which was appointed by the Norwegian government with a mandate to improve environmental results on Norway's continental shelf while simultaneously strengthening the offshore sector's profitability. The ability of the committee to reach agreement on aggressive environmental goals was important and positive. We concluded that "a clean continental shelf is a profitable continental shelf". We can get a long way with more effective collaboration between the industry and the authorities. The companies will continue to develop and adopt cost-effective and environmentally-appropriate solutions. We have seen several good examples of these in recent years. Statoil holds a leading position in such work.

Value creation and growth are goals for the group's operations. We intend to take "three steps forward" to the new millennium, and have set ourselves the following objectives:

- we will strengthen our position as Norway's foremost company for value creation
- we will begin the new millennium as a leading international energy company
- nobody in our industry will perform better than us for health, the environment and safety
- we will be the customer's first choice in our principal markets
- our employees will enhance their expertise to make Statoil a stronger group.

Harald Norvik
President and chairman of the executive board

Helge Kvamme: In memoriam

Helge Kvamme, chairman of Statoil, died suddenly on 4 August 1996. He was appointed to chair the board of directors in 1992 at a demanding and exciting time for the group. This professional insurance executive very quickly got to grips with the oil industry and with Statoil's position and challenges, and distinguished himself as a committed and supportive chairman. He made an outstanding contribution to developing Statoil as a group. We in Statoil feel a great void at losing a respected chairman and a good friend.

Executive board:
Harald Norvik, president and chairman of the executive board
Peter Mellbye, executive vice president
Roger O'Neil, executive vice president (until 1 April 1997)
Terje Vareberg, executive vice president
Johan Nic Vold, executive vice president
Erling Øverland, executive vice president (as from 1 April 1997)
Stig Bergseth, executive vice president (as from 1 June 1997)


Harald Norvik


Terje Vareberg


Roger O'Neil


Johan Nic Vold


Peter Mellbye


Erling Øverland


Stig Bergseth

Business areas:
Stig Bergseth, senior vice president, Exploration & Development Norway
Geir Pettersen, senior vice president, Oil Operations
Ottar Rekdal, senior vice president, Natural Gas Marketing & Supply
Henrik Carlsen, senior vice president, Natural Gas Production & Transport
Rolf Magne Larsen, senior vice president, International Exploration & Production
Harald Ynnesdal, senior vice president, Methanol
Kristian Hausken, senior vice president, Natural Gas Business Development
Leidulf Ramstad, senior vice president, Refining
Sten Åke Forsberg, senior vice president, Marketing
Thor Inge Willumsen, senior vice president, Oil Trading & Supply
Brit K S Rugland, senior vice president, Statoil Shipping & Maritime Technology
Kjølv E Egeland, senior vice president, Industrial Development
Allan Åkerstedt, senior vice president, Statoil Financial Services
Nina Udnes Tronstad, senior vice president, Information Technology

Corporate staff functions:
Jacob S Middelthon, senior vice president, legal affairs
Martin Bekkeheien, senior vice president, corporate strategy development
Arnulf Østensen, senior vice president, health, environment, safety and quality
Peter J Tronslin, senior vice president, corporate procurement and industry relations
Randi Grung Olsen, senior vice president, human resources
John Ove Lindøe, senior vice president, public affairs
Dick Andersson, general auditor, corporate audit
Eldar Sætre, senior vice president, corporate controllers and planning
Kåre Thomsen, senior vice president, corporate accounting and tax

Corporate entities:
Roar S Andersen, senior vice president, research and development
Svein Andersen, senior vice president, corporate services

HIGHEST OPERATING PROFIT

MORE EQUITY OIL

1. INTRODUCTION

Statoil's operating profit for 1996 was the highest in its history, at NOK 18.2 billion. Improved oil prices and increased production of oil and gas are the principal reasons why the group achieved a result in its 25th operating year which represents a rise of NOK 4.6 billion from 1995. The board is satisfied with this figure and with the organisation's systematic work, which ensured stable operation as well as the implementation of measures to enhance cost-efficiency. Statoil's refineries and its extensive international oil trading did better than the year before, but results were weaker for retailing and petrochemicals. Overall operating revenues topped NOK 100 billion for the first time, rising almost 25 per cent from 1995 to NOK 107 billion.

Operations on the Norwegian continental shelf made a substantial contribution to an improved operating profit for 1996. The higher result owed much to a rise in equity oil production of more than nine per cent, and a 23 per cent strengthening of oil prices measured in Norwegian kroner. Taxation increased to NOK 12.6 billion because of higher revenues from the Norwegian continental shelf. At NOK 5.3 billion, net profit for the year was on a par with 1995.

The group's business continues to be characterised by high levels of development and investment. Capital spending totalled NOK 12.8 billion in 1996. Many new fields on the Norwegian continental shelf are being considered for development. The availability of new commercial opportunities is good in most of Statoil's business areas, both in Norway and internationally. Attention was again focused during 1996 on strengthening the group's expertise and adaptability, and on the major challenges presented by internationalisation. With operations in 25 countries, Statoil has established a good basis for continued growth and value creation.

One of the group's goals is to achieve an equity ratio of 35 per cent. This stood at 32.5 per cent on 31 December, up from 31.1 per cent a year earlier. Return on capital employed after tax in 1996 was 9.3 per cent, as against 9.5 per cent in 1995. The aim for coming years is to achieve a higher return after tax, which bears comparison with the group's best international competitors.

2. OPERATIONS, SAFETY AND THE ENVIRONMENT

Health, the environment and safety

Ambitious goals are set by Statoil for health, the environment and safety. The group's safety results have improved sharply over the past decade through a systematic commitment to preventive efforts, monitoring and follow-up. Five fatal accidents nevertheless occurred during 1996 in relation to Statoil's operations. Four of those who died worked for the group's contractors. Certain serious injuries or near-misses were also registered in 1996 on offshore installations operated by Statoil. The number of lost-time injuries has declined. While the 1996 result shows some improvement on the year before, it remains unsatisfactory. Work on avoiding accidents will therefore be further strengthened.

Environment-related measures focused on reducing emissions to sea and air. Flaring on the platforms is being steadily reduced, with gas which was previously flared being either sold or reinjected into the reservoir for later sale. Carbon dioxide stripped from gas production on Sleipner West is pumped down into a structure 1 000 metres below the seabed. Chief executive Harald Norvik chaired Norway's Miljøsok project. Its report to the Norwegian authorities concluded that Norway's oil and gas industry maintains a high environmental standard, but that scope still exists for further improvement. Statoil is working purposefully to find technological and cost-effective solutions which can contribute to a further reduction in emissions.

Increased production

Equity oil available to Statoil increased in 1996. The start of production from Heidrun, Yme and Troll more than offset declining output from Statfjord and Gullfaks. Total daily availability came to 464 000 barrels as against 424 000 barrels in 1995. Annual sales of equity gas rose from 5.5 billion cubic metres to seven billion.

The Statfjord field is still Statoil's biggest source of equity oil. Extensive measures have been initiated by the group in well maintenance, reservoir management and development of new parts of the area to moderate the decline in production. Statoil's systematic efforts to improve recovery from Statfjord and Gullfaks have yielded substantial results, and the group has defined new and higher goals. A pilot project to boost recoverable reserves by a further 400 million barrels of oil has been initiated on Statfjord.

Norwegian oil operations have entered a phase in which output from the largest fields is declining and is being replaced by production from smaller discoveries. This development has a particular impact on Statoil because it obtains a large part of its oil from Statfjord as well as Oseberg and Gullfaks. Overall operating costs are rising as a result of expanding activity, but measures to reduce expenditures and improve operational efficiency on fields operated by the group cut costs during 1996 in relation to earlier years. The board is satisfied with the development in expenditures for Statoil-operated installations in regular operation. These showed a nominal decline of just over nine per cent from 1995, corresponding to NOK 550 million. Statoil's share of this reduction totalled NOK 220 million.

Two large gas fields with a key role in Norwegian gas supplies began regular deliveries in 1996. Statoil took over as production operator for Troll Gas from development operator Shell on 19 June, when HM King Harald of Norway performed the official inauguration. Troll is the largest gas field on the Norwegian continental shelf. First gas was piped to customers in continental Europe during June, while official deliveries to 10 large distribution companies in six European countries started on 1 October. Sleipner West began gas and condensate production on 30 August, seven months earlier than originally planned.

Extensive development

Statoil's operations are characterised by a high level of development activity. The group is operator for:

- Norne, due to come on stream in 1997
- Åsgard, with oil starting to flow in 1998 and gas in 2000
- Åsgard Transport, the gas pipeline to the Kårstø treatment plant
- the Gullfaks satellites, due on stream in 1998
- the NorFra and Zeepipe IIB gas trunklines to continental Europe.

Åsgard is the largest development currently under way off Norway, and also includes substantial investment which will safeguard the long-term future for the Kårstø gas treatment facility. This project ranks as the world's largest subsea development and will play a key role in developing the Halten Bank off mid-Norway, a central new Norwegian gas province. Estimated development spending for Åsgard has increased, primarily because of conceptual revisions. This change in the project's economics will be partly offset through earlier production and improved recovery.

The Zeepipe IIA gas trunkline from Kollsnes to Sleipner East was completed in 1996. Gas began flowing during December through the new Haltenpipe line from Heidrun to Tjeldbergodden in mid-Norway, where it will be converted into methanol. The methanol project at Tjeldbergodden is progressing as planned. After a commissioning period, the plant will begin delivering methanol for sale from spring 1997.

Fields being considered for development by Statoil include Statfjord North North-East, Heidrun North, a discovery in block 15/5 north of the Sleipner area, the Sleipner satellites, Tyrihans and Snøhvit. In addition come gas projects in the Tampen area of the northern North Sea - Huldra, Kvitebjørn and Gullfaks South Gas. The group has also submitted plans for a new gas trunkline - Europipe II - from Kårstø to Emden in Germany, which is due to be ready in 1999 to carry production from Åsgard to European customers.

Statoil ordered a third multipurpose shuttle tanker, MST *Odin*, in 1996. Orders were also placed in January 1997 for three new shuttle tankers to meet growing demand for oil transport from fields off Norway. The group currently ships crude from 12 Norwegian and British fields.

Reducing development costs receives great attention in Statoil. The Norsok project has contributed to this focus. Statoil reviewed its portfolio of contracts in 1996, focused attention on procurement plans, and coordinated its overall requirements through increased use of frame agreements. Improvement efforts in pipeline projects led to the renegotiation of contracts, with cost reductions in the order of 35 per cent for 1996-2000. The overall saving will amount to roughly NOK 8 billion. These good results reflect stiff competition in the market, development of new working methods and collaborative relations with the supplies industry, and new technological solutions. However, capacity is well-filled in several sectors of the Norwegian and international offshore industry, and this has tightened market conditions to some extent.

Statoil places great emphasis on developing close relations with its suppliers. Good collaboration has been established with several Norwegian and international companies. The group's supplier development programme has helped achieve new products which cut costs, improve safety and the environment, and opened new commercial opportunities for participating companies. Strengthening relations with small and medium-sized companies will be given priority in coming years.

First operator project outside Norway

Statoil's daily oil and gas production outside Norway rose from 12 000 barrels of oil equivalents (boe) in 1995 to 32 000 boe during 1996, largely as a result of acquiring Ireland's Aran Energy. This gave access to production on the UK continental shelf. The Bongkot field in the Gulf of Thailand achieved significantly better results thanks to increased condensate production, higher gas prices and reduced operating costs.

The group is under way with its first field development operatorship outside Norway, on the Lufeng discovery in the South China Sea.

OPERATOR FOR TROLL GAS

FIELD DEVELOPMENT OFF CHINA

MST *Munin* will be used to produce oil from this project, which comes on stream in late 1997. The development utilises Norwegian technology developed by Statoil and collaborating companies. As operator, the group is also preparing to develop Denmark's Siri field and the Connemara discovery off Ireland.

Statoil is a partner in the first major international development project in the Caspian, Azerbaijan's Azeri-Chirag field, with early production scheduled to begin in 1997. Two pipelines, one running northwards through Russia and the other westwards via Georgia, will be used to transport the oil. In Vietnam, the BP/Statoil alliance is continuing its efforts to lay the basis for developing substantial gas discoveries.

A 15 per cent interest is also held by the group in the Melaka refinery development in Malaysia, with production due to begin in autumn 1997.

NEW GAS SALES

HIGHER OIL SALES

3. OIL AND GAS SALES

New gas contracts

The Norwegian Gas Negotiating Committee (GFU), which is chaired by Statoil, has concluded new sales contracts. Ruhrgas purchased additional volumes in summer 1996, and ranks as the largest single buyer of Norwegian gas. The geographical market for gas from Norway has been expanded following the completion of negotiations with Italy in early 1997. Italian distributor Snam agreed to buy roughly six billion cubic metres of Norwegian gas per annum under a 25-year contract which begins in 1999. This represents one of the largest deals in Norwegian gas history, and the country's first gas sale to Italy. Poland, Hungary and the Czech Republic are other potential new markets for gas from Norway.

Norwegian gas production will increase rapidly up to the end of the century under existing contracts. Statoil's share of this output will depend on decisions by the Norwegian authorities about which fields should be allocated to fulfil these commitments.

Big increase in oil trading

Daily sales of crude oil by Statoil increased from 1.8 million barrels in 1995 to two million barrels. Oil trading during 1996 yielded better results than the year before. Statoil markets its own equity output as well as production under the state's direct financial interest (SDFI) and oil received by the government as royalty. Trading by the group with oil belonging to third parties also increased in 1996. The group maintains a global oil trading network. While Europe remains its principal market, substantial volumes are exported to North America. Statoil's oil sales to US customers account for roughly half the overall value of Norwegian exports to the USA. A contract with the Chinese Petroleum Corporation in Taiwan covering the sale of 20 000 barrels of Norwegian crude per day for one year helped to position the group in the Asia-Pacific region, the world's fastest-growing market for oil.

Refining and retailing

Statoil maintained its share of Scandinavian markets for oil products. Competition sharpened, putting pressure on prices and weakening results in Norway and Denmark. The group established a common marketing organisation for its three Scandinavian retailing subsidiaries to enhance their operational efficiency, improve their competitiveness and increase their profitability. Statoil is now planning to widen its product range in Scandinavia to include electricity and energy services.

The group continued to expand in the Baltic states, Poland and north-eastern Germany. Its involvement in Ireland increased with the acquisition of Conoco's service stations.

Stable operation was maintained by the two refineries at Mongstad and Kalundborg during 1996. Their results improved significantly thanks to higher refinery margins and to measures which have improved plant availability and made operations more cost-effective.

Extensive structural changes as well as new collaboration models and alliances are forecast for the European refining industry in coming years. Statoil has initiated new improvement programmes that will significantly strengthen the competitive position of its refineries. These programmes focus on increased plant availability, higher capacity utilisation, more effective use of feedstock, an improved yield of products and cost savings. New investment is also required, particularly to safeguard competitiveness and to meet stricter environmental standards.

Petrochemicals

Production by the Borealis group, owned 50 per cent by Statoil, was high and stable. But results were significantly below the record set in 1995 because of lower margins for polyethylene and polypropylene. Borealis is pursuing a major improvement programme to ensure its long-term international competitiveness. Fixed costs were reduced during the second half of 1996. The group was selected to partner Abu Dhabi National Oil Company in constructing a new plastic raw materials plant and will own 40 per cent of this facility, which is due to be completed in 2000. Swedish subsidiary Borealis Industrier was sold.

With the start to production from the methanol plant at Tjeldbergodden in spring 1997, based on gas from the Heidrun field, Statoil will become a substantial player in Europe's methanol market.

The group is joining forces with Norway's Nycomed to build a bioprotein plant at Tjeldbergodden. This facility, the first of its kind in the world, will use Heidrun gas to produce animal and fish feeds and raw materials for industrial production.

4. DEVELOPMENT OF NEW BUSINESS OPPORTUNITIES

A number of new projects and investment opportunities were pursued by Statoil during 1996.

Exploration operations for the year yielded several interesting discoveries off Norway and internationally. New appraisal wells on Denmark's Siri field reduced estimates of recoverable reserves. Upgrading proved reserves in existing Norwegian discoveries once again made a substantial contribution to the group's oil and gas holdings in 1996. The net increase in reserves over the year exceeded production.

Statoil secured agreements in 1996 to explore in areas which offer opportunities for finding substantial volumes of oil and gas. These include Shah Deniz off Azerbaijan, blocks in the Gulf of Mexico operated by Conoco and Texaco, and acreage in the Pechora Sea south-west of Novaya Zemlya in cooperation with Russian oil and gas company Gazprom. The group has also secured a share in a Timor Sea licence together with Mobil, Shell and others. Award of the first exploration licence off Greenland since the early 1970s to a group operated by Statoil was proposed. Exploration is poised to begin on several of the most interesting blocks awarded in Norway's 15th offshore licensing round.

Although Statoil is the leading operator on the Norwegian continental shelf, its interests in licences are often relatively small. Efforts to optimise the big portfolio of holdings off Norway in order to focus commitment on the group's core areas began in 1996. An offer to swap licence interests has attracted great interest from other oil companies.

The group's expertise in and experience with offshore oil loading have won it new contracts on the UK continental shelf. And Statoil's multipurpose shuttle tankers have all proved competitive for fields internationally. This technology is attracting considerable interest in Britain. Development of the Lufeng field with MST *Munin* has called attention to the solution in the Asia-Pacific region.

Further integration downstream in the gas market will be important for enhancing value creation in Statoil's gas business. The group is well placed to pursue competitive commercial opportunities in gas transport and electricity generation. A stake in the Netra gas pipeline, which came on line in 1996, secures Statoil a long-term downstream involvement in Germany's gas market.

Statoil has a majority shareholding in Eastern Group, which produces and markets gas and electricity in the USA and has substantial opportunities for expansion. Alliance Gas in the UK was restructured in 1996. BP and Statoil divided the company into two equal parts. However, developments in the liberalised British gas market over the past two years have modified the general conditions which apply there. The results have been structural change, financial losses and write-downs in the UK gas industry, which have also hit Statoil's gas business in Britain.

Naturkraft, owned by Statoil, Norsk Hydro and Statkraft, secured a licence to build two gas-fired power stations. An appeal against the award of this permit has been lodged with the Ministry of Petroleum and Energy.

The group acquired just over 10 per cent of Norwegian hydropower utility Hafslund. In 1997, Statoil agreed to acquire 14.5 per cent of Vattenfall Naturgas, a Swedish company which buys gas for the domestic market as well as owning and operating the gas pipeline network in Sweden.

5. ORGANISATION AND HUMAN RESOURCES

A continuous process is under way in Statoil's organisation to strengthen expertise and meet market challenges. The restructuring in 1995 produced well-defined business areas with clear profit responsibility, a customer orientation and a stronger focus on the most important commercial challenges. The international upstream organisation was restructured during 1996, with business units transferred from Stavanger to the relevant countries. Expanding operations outside Norway has also greatly increased the need for know-how and human resources. A programme to enhance the expertise of international managers is under way, and executives with international experience are being recruited.

Statoil's goal is to become the best production operator for offshore installations. An operations practice has been developed as the basis for pursuing and improving operation of production facilities. The overlap between new developments coming on stream and phasing out existing fields, and the impact of efficiency improvements at land-based plants, mean that finding suitable solutions for overall personnel deployment is a challenge.

The Scandinavian retailing subsidiaries reor-

NEW BIOPROTEIN PLANT

BEST PRODUCTION OPERATOR

ganised their operations in 1996 to secure synergy gains and strengthen competitiveness.

Statoil is considering a reorganisation of its shipping business, with a clarification due in 1997.

A number of measures were initiated to improve and enhance the efficiency of the group's working processes and to utilise the opportunities offered by advances in information technology. Many of today's tasks will disappear. New working methods also call for different expertise. To help enhance workforce proficiency, the group has offered to provide its employees with computer equipment at home. Virtually all employees have accepted this offer, which commits them to a two-year training programme.

Reorganisation processes must be based on good collaboration between the group and its employees. An annual organisation survey in 1996 revealed positive progress in cooperative relations within Statoil, but found continued room for improvement. The survey confirmed that employees identify strongly with the group.

Forty per cent of graduate recruits to the group over the past decade have been women. Together with the executive development process, this provides a good basis for achieving the goal of expanding the proportion of female managers at all levels in the group.

COMMITMENT TO INFORMATION TECHNOLOGY

Extensive executive development programmes were pursued by Statoil in 1996. As well as focusing on operational efficiency, these encourage managers to give priority to identifying and exploiting new business opportunities. Other key requirements for executives are a broad and international perspective on the business and the ability to handle necessary change. Great emphasis is placed on ethics, values and attitudes. Local employees in the group's operations outside Norway have been through similar training programmes. Expanding international activities help to focus greater attention on issues of ethics and human rights. Heavy emphasis is therefore placed on developing knowledge and attitudes in these areas.

The Statoil group had 15 171 employees on 31 December 1996 as against 13 851 a year earlier.

HIGHER OIL PRICES

6. FINANCIAL DEVELOPMENTS

Overall operating revenues for 1996 came to NOK 106 981 million. The operating profit was NOK 18 234 million as against NOK 13 590 million the year before, and net profit came to NOK 5 281 million compared with NOK 5 265 million.

Operating profit for exploration and production amounted to NOK 16 854 million as against NOK 12 302 million. Refining and marketing operations showed an operating profit of NOK 1 668 million, up by NOK 1 266 million from the year before. Operating profit for petrochemicals fell by NOK 893 million to NOK 213 million.

The book value of the Frigg area has been written down by NOK 400 million. In Britain, the value of the Hyde and Victor installations has been written down by NOK 270 million, while NOK 390 million has been provided to cover actual and potential losses in Alliance Gas.

During 1996, the average per barrel market price of Brent Blend, the North Sea reference crude, was NOK 133 (USD 20.70) as against NOK 108 (USD 17) in 1995. Gas prices rose over the year. Margins for petrochemical products were weak during 1996 as a whole, but showed some improvement towards the end of the year. Refinery margins were higher than in 1995.

Capital investment by Statoil in 1996 totalled NOK 12 833 million, a decline of NOK 4 728 million from the record 1995 level. Seventy per cent of this spending was made in Norway. The level of investment remains high, thanks to major projects on the Norwegian continental shelf, the methanol development and the construction of multipurpose shuttle tankers.

Investment has been financed by cash flow from operations, which totalled NOK 19 797 million in 1996 as against NOK 12 934 million the year before. The group took up new long-term loans of NOK 5 315 million, and repaid borrowings of NOK 6 774 million. Issuing a USD 400 million bond loan on favourable terms introduced Statoil to the US bond market as an attractive borrower.

Interest-bearing debt is largely denominated in US dollars, and totalled NOK 26 420 million at 31 December. The average remaining repayment period on the group's long-term loans is just over eight years, and average interest charges in 1996 came to 6.2 per cent as against 6.6 per cent the year before.

Statoil administered a portfolio of NOK 13 910 million in bonds and shares at 31 December. Eighty per cent of this amount is placed in the Norwegian securities market. Financial management by the group relates primarily to assets in Statoil Forsikring (insurance) and Statoil's pension funds, which are not consolidated in the accounts. The average return on financial assets in 1996 was 12.7 per cent.

Accounts for the group prepared in accordance with Norwegian generally-accepted accounting principles (NGAAP) show an operating profit of NOK 18 533 million, up by NOK 4 641 million from 1995.

A net profit of NOK 5 164 million was recorded by the parent company, Den norske stats oljeselskap a.s. The board recommends the following allocation (in NOK million):

From restricted equity reversing fund	(43)
Allocated to statutory reserve	850
Dividend	1 600
Allocated to distributable reserve	2 757
Net profit	5 164

Statoil's aim is to create the highest possible value for its owner through profitable operation and development of the business. Value added for the owner finds expression through the dividend and the increase in the estimated market value of shareholder's equity. The importance of pursuing the specified dividend policy in a predictable manner for both owner and group is emphasised by the board, which aims to pay a competitive dividend. Given the major challenges facing the group, however, the board is concerned to ensure an appropriate development in Statoil's equity capital which permits continued investment in profitable projects.

7. FUTURE DEVELOPMENT

The basis has been laid for an ambitious work programme in coming years to strengthen Statoil's value creation and increase its oil and gas production. These efforts will aim to develop Statoil into a leading international energy company.

Great emphasis is placed by the board on developing the group's expertise and technology into competitive advantages, both in Norway and internationally. More challenging markets and competitive terms will make heavy demands on Statoil's ability to operate new and existing facilities effectively and safely, secure new business opportunities in Norway and achieve its substantial international ambitions.

One of Statoil's goals is to expand its equity oil and gas production. The target for 2000 is 500 000 barrels of oil per day off Norway and 100 000 boe from international operations. The Norwegian continental shelf remains very interesting. Deepwater drilling in the Norwegian Sea during 1997 will provide a better basis for evaluating the potential significance of this area for Statoil's continued development. The international upstream portfolio now embraces 15 countries, including some of the world's best-endowed regions for hydrocarbon resources. A consortium of international companies, including Statoil, is due to start production off Azerbaijan in 1997 as the first step in recovering extensive resources from the Caspian. This sea could become an important international oil and gas province. The deepwater prospects off west Africa are also among the most promising exploration areas in the world. Statoil's involvement in the Gulf of Mexico will eventually strengthen the group's overall portfolio.

The rapid growth in Asia-Pacific energy demand is the strongest force driving the expansion in international oil consumption. This growth will continue in coming years. However, extensive plans exist for developing new production capacity both inside and outside Opec. Statoil will accordingly base its investment decisions on the assumptions that oil prices remain at a moderate level.

European gas consumption is set to continue rising. The bulk of this growth will occur in countries which are relatively distant from the Norwegian continental shelf. However, gas sales negotiations have shown that Norway is also competitive in these markets. An increased focus on the environment as a consequence of international negotiations over the climate could strengthen the global competitiveness of gas. The Asia-Pacific gas market is expected to grow even faster than its European counterpart until 2010, and could lay the basis for interesting commercial opportunities.

Refining margins were higher in 1996 than in earlier years. Statoil expects margins to be depressed over time, and will therefore make continuous efforts to enhance the competitiveness of its refineries. Retailing operations in Scandinavia face steadily growing competition. Statoil gives high priority to measures which ensure that it retains its leading role in these markets, with large shares and satisfactory returns.

Since 1972, Statoil has developed into a competitive, integrated oil and gas company. It ranks today as the leading operator on the Norwegian continental shelf. A substantial international business has been established in the 1990s in both cooperation and competition with the international oil industry. Tougher competition in all parts of the group's business will make heavy demands on expertise and improvement efforts. Rapid adjustments must be accepted and implemented. Partnerships and alliances will play an important role in the group's future progress. The planned reorganisation of shipping operations is an example of such development.

Substantial assets have been created in Statoil. The board's main task is to help the group achieve its goal of strengthening its position as Norway's most important company for value creation, while playing a leading role in safety and environmental protection. While oil and gas operations are set to remain the group's principal priority, other energy forms - such as electricity - will increasingly gain a natural place in its portfolio. Continued growth in production, combined with productivity improvements, will lay the basis for strengthened profitability in the years to come.

NORWAY'S FOREMOST VALUE CREATOR

Statoil's board of directors
Front row, from left: Deputy chairman Arnfinn Hofstad, Marit Reutz, Iver Pehrson and chairman Kjell O Kran
Back row, from left: Åse Simonsen, Mauritz Sahlin, Yngve Hågensen, Tormod Hermansen, Else Bugge Fougner and Bjørn Erik Egeland.

OSLO, 20 FEBRUARY 1997
THE BOARD OF DIRECTORS OF DEN NORSKE STATS OLJESELSKAP A.S

Kjell O. Kran
KJELL O KRAN
CHAIRMAN

Arnfinn Hofstad
ARNFINN HOFSTAD
DEPUTY CHAIRMAN

Else Bugge Fougner
ELSE BUGGE FOUGNER

MARIT REUTZ

IVER PEHRSON

MAURITZ SAHLIN

YNGVE HÅGENSEN

Åse Simonsen
ÅSE SIMONSEN

Tormod Hermansen
TORMOD HERMANSEN

Bjørn E. Egeland
BJØRN ERIK EGELAND

Corporate assembly
Leif T Løddesøl, Gunn Wærsted, Arve Berg, Kjell Bjørndalen, Jorunn Strand Vestbø, Jan Reinås, Dagfinn Høybråten, Wenche Meldahl, Jetfred Sellevåg, Siri Bentsen, Sigrun Tonning Søgnen, Turid Enoksen

Operations during the year

Contents


O P E R A T I O N

DURING THE YEAR

GAS CONTRACT WITH ITALY: Executive vice president Peter Mellbye (left) at Statoil could shake hands with Snam chief executive Angelo Ferrari in early 1997 after signing a contract to sell six billion cubic metres of gas to Italy annually over 25 years. Bengt Lie-Hansen (far left) represented Norsk Hydro and Anders Utne (far right) Saga Petroleum.

EXPLORATION AND PRODUCTION

Key figures (NOK million)

Income statement	*1996*	*1995*	*1994*
Operating revenue	40 653	29 961	30 368
Operating costs	16 410	12 139	12 103
Depreciation	7 389	5 520	4 928
Operating profit	16 854	12 302	13 337
Balance sheet at 31 December			
Current assets	6 049	4 507	5 967
Fixed assets	53 171	51 938	47 895
Total assets	59 220	56 445	53 862

The exploration and production business segment embraces the Exploration & Development Norway, Oil Operations, Natural Gas Production & Transport, Natural Gas Marketing & Supply, International Exploration & Production and Natural Gas Business Development business areas.

OPERATIONS

Statoil is the leading operator and producer on Norway's continental shelf. The group operates 10 producing Norwegian oil and gas fields, and also participates in every Norwegian field currently on stream.

Average daily crude oil supplies available to Statoil in 1996 totalled 464 000 barrels as against 424 000 the year before. Production of equity gas totalled seven billion standard cubic metres, compared with 5.5 billion in 1995. Statoil's international production rose from 12 000 barrels of oil equivalents per day in 1995 to 32 000 barrels in 1996.

MORE FROM HEIDRUN: Daily production capacity on the Heidrun field has been upgraded from 220 000 to 250 000 barrels.

A daily average of 1.4 million barrels of oil flowed from Statoil-operated fields off Norway in 1996. Annual production of gas came to 20 billion standard cubic metres. These figures represent a new production record for the group.

Overall daily production of stabilised oil, condensate and natural gas liquids on the Norwegian continental shelf rose from 2.9 million barrels in 1995 to 3.2 million. Total gas production for the year was 37 billion standard cubic metres as against 28 billion the year before.

High production regularity was achieved with the oil/gas fields and transport systems operated by Statoil off Norway in 1996. With few exceptions, the group met its objective of delivering the product volumes ordered at the agreed time and quality. As operator, Statoil has adopted a number of measures to reduce costs and improve efficiency. Adjusted for the increase in activity, costs declined by nine per cent compared with 1995. This saving totalled NOK 550 million, with Statoil's share at NOK 220 million.

A programme to become the industry's best production operator by 2000 has been initiated by the group. Statoil's overall goal is to achieve cost-savings of about NOK 1.4 billion per year from 2000 in the licences it operates.

Gullfaks celebrated its 10th anniversary as a producing field on 22 December. It has come off plateau, and 1996 output was down from the year before. A new long-term plan drawn up for Gullfaks indicates a basis for profitable operation up to 2012.

Production from the Statfjord field continued to decline, but a big commitment to well interventions and other measures have helped to keep the decline smaller than earlier forecast. Production costs and staffing have been reduced. Plans call for increased output from satellites in the Statfjord area. New development is planned on Statfjord North North-East.

STATFJORD YIELDS MORE: Despite a gradual decline in production on Statfjord, Statoil has succeeded in recovering significantly more oil from this field than originally expected.

TROLL GAS ON STREAM: The Troll A gas platform came on stream in 1996. Official deliveries under the Troll gas sales agreements began on 1 October.

Fields on stream - some important interests

Norway:	Interest	Operator
Statfjord	42.7%	Statoil
Statfjord North	20.0%	Statoil
Statfjord East	12.2%	Statoil
Sleipner East	20.0%	Statoil
Sleipner West	17.1%	Statoil
Gullfaks	12.0%	Statoil
Oseberg	14.0%	Hydro
Snorre	10.0%	Saga
Draugen	15.1%	Shell
Veslefrikk	18.0%	Statoil
Heidrun	11.9%	Statoil
Troll Oil	11.9%	Hydro
Troll Gas	11.9%	Statoil
International:		
Bongkot, Thailand	10.0%	Total
Hyde, UK	45.0%	BP
Dunlin, UK	14.4%	Shell
Gryphon, UK	15.0%	Kerr McKee

Yme came on stream in February 1996, followed by its first satellite - Beta East - in May. Several prospects are being drilled, and future drilling is under consideration. The field produced less than planned because of labour disputes and faults in the processing facilities.

Heidrun completed its first full year on stream in 1996. Statoil upgraded the field's daily production capacity from 220 000 barrels to 250 000. Output has been good, with some shutdowns owing to faults and inaccuracies in the processing facilities and water injection wells. Continuous flaring ceased in December as part of purposeful efforts to reduce emissions from offshore production installations.

The highlight of operations in the gas sector was the start to production from Troll A. Responsibility for Troll Gas was transferred from development operator Norske Shell to Statoil on 19 June. On the same day, HM King Harald V of Norway officially inaugurated gas production from the field in a ceremony at Kollsnes near Bergen. Deliveries from Troll under the Troll gas sales agreements began on 1 October. The facilities at Kollsnes had to be tested ahead of the start to contractual deliveries. Several established customers in continental Europe were accordingly

OPERATOR FOR TROLL GAS: HM King Harald V of Norway officially inaugurated the Troll Gas project on 19 June. On the same day, Statoil took over as production operator after development operator Norske Shell had done its part of the job.

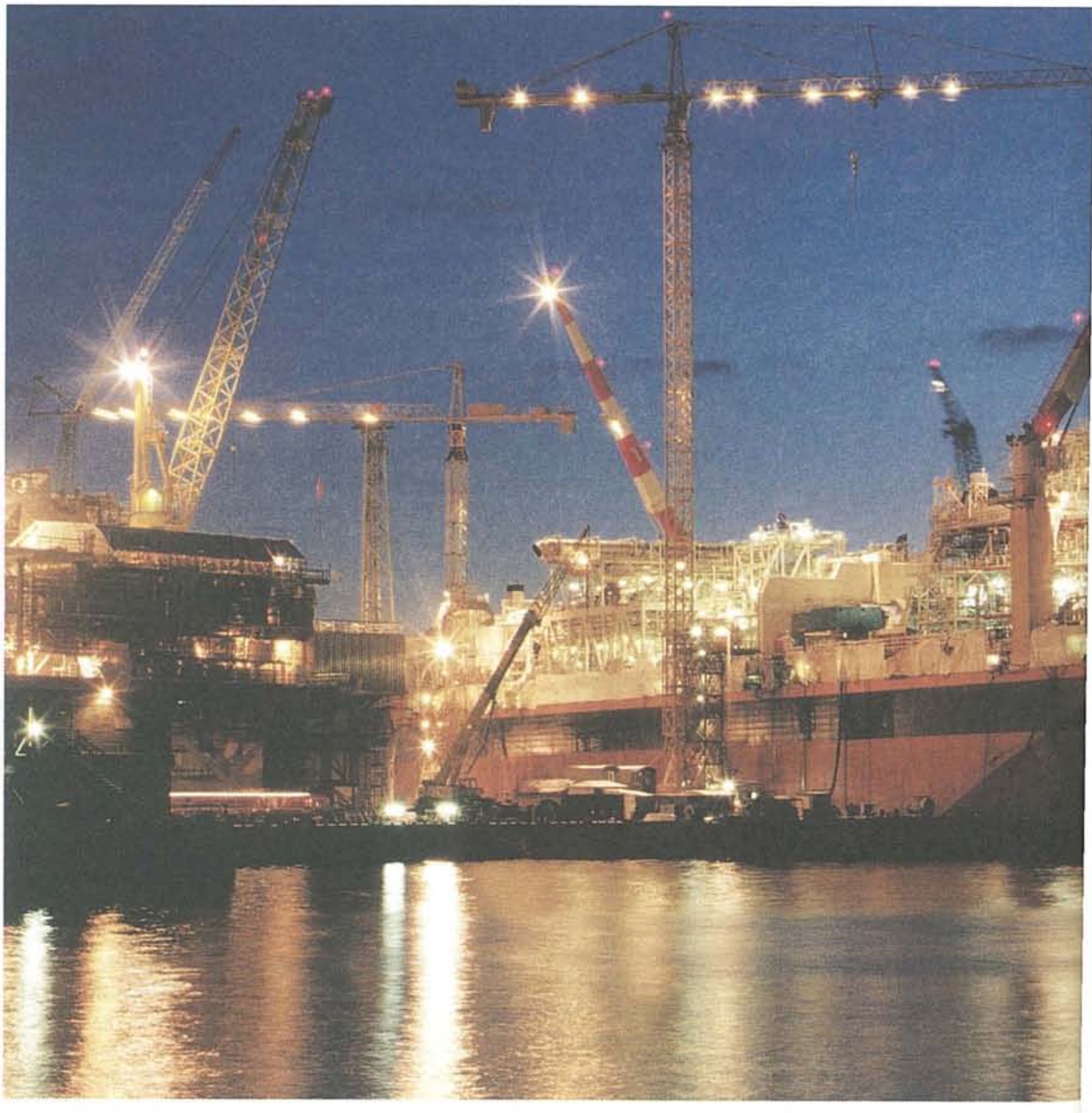
asked to take commissioning gas from Troll. These contracts continued throughout the summer, and just under two billion standard cubic metres were delivered under them.

Since contractual deliveries began on 1 October, Troll has supplied the specified volumes and quality without interruption.

The UK gas market has undergone major changes in recent years. British Gas has lost its monopoly of supplying industry and the service sector, and this segment of the market is now characterised by tough competition between many marketing companies. A restructuring of the UK gas market resulting from this liberalisation has led to considerable overcapacity and falling prices. Statoil has made a NOK 390 million provision in its 1996 accounts to cover incurred and potential losses on existing contracts. Statoil has now established a new company of its own, Alliance Gas, which buys and sells gas in the British market. The value of Statoil's interests in the Hyde and Victor fields on the UK continental shelf has been written down by NOK 270 million as a consequence of the decline in gas prices.

On the Norwegian continental shelf, the book value of installations in the Frigg area has been written down by NOK 400 million owing to a substantial downgrading of estimated recoverable reserves.

Norwegian gas began to flow through the Netra pipeline in Germany during 1996. This transport system provides Statoil with a long-term downstream involvement in the German gas market. Together with Norsk Hydro, the group has concluded a long-term agreement with German gas distributor Verbundnetz Gas (VNG) on transport of Norwegian gas from Emden via Netra to Salzwedel in eastern Germany.



Statoil's interest in The Eastern Group was increased to roughly 83 per cent. This American company produces and markets gas in the north-eastern USA, and is committed to providing total energy supplies - gas, liquid fuel and electricity.

DEVELOPMENT

Statoil's Sleipner West development was completed and the field commenced regular operation on 1 October 1996. Sleipner satellite Gungne came on stream in early 1997.

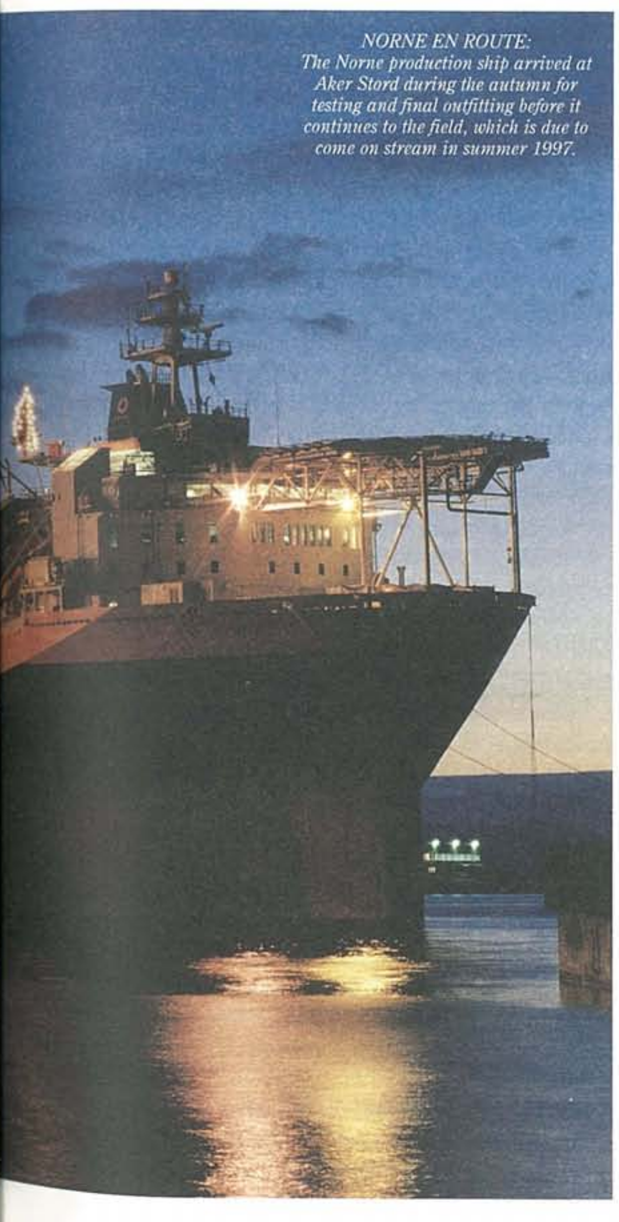
The group also completed the Zeepipe IIA and Haltenpipe gas trunklines. Running from Kollsnes to Sleipner East, Zeepipe IIA came on line in early June when the first gas from Troll was delivered. Haltenpipe transports gas from Heidrun to the methanol plant at Tjeldbergodden, and began operating on 11 December.

Development of Norne is on schedule, with production due to start in summer 1997. Its estimated cost has been further reduced to about NOK 7.5 billion in 1994 money. This compares with an estimate of NOK 9.8 billion in the plan for development and operation. The newly-built production ship arrived from the Singapore yard in October. Aker Stord is responsible for commissioning and testing the production facilities. The operations organisation will be based in Harstad, with a supply base at Sandnessjøen and helicopter flights to and from Brønnøysund.

Development of Gullfaks South, Rimfaks and Gullveig is making satisfactory progress. Preparations for processing oil from these satellites on Gullfaks A were made during the 1996 turnaround. This project is costed at NOK 6.5 billion.

The Storting (parliament) approved the plan

SLEIPNER WEST: This field came on stream in October 1996.



NORNE EN ROUTE: The Norne production ship arrived at Aker Stord during the autumn for testing and final outfitting before it continues to the field, which is due to come on stream in summer 1997.

Transport systems

Systems in operation	Interest	Operator
Statpipe	58.3%	Statoil
Norsea Gas	50.0%	Phillips
Norpipe Oil	20.0%	Phillips
Zeepipe	15.0%	Statoil
Oseberg Transport	14.0%	Hydro
Ula Transport	100.0%	Statoil
Sleipner East Condensate	20.0%	Statoil
Frigg Transport	29.0%	Total
Frostpipe	20.0%	Elf
Troll Oil Pipeline	11.9%	Statoil
Europipe	15.0%	Statoil
Haltenpipe	11.9%	Statoil
Systems under construction		
NorFra	9.7%	Statoil

ÅSGARD APPROVED: The Storting (parliament) approved the Åsgard development on 14 June. A well test on the field is pictured here.

NEW PIPELINE PROJECTS:
Hundreds of kilometres of gas pipeline are still due to be laid from the Norwegian continental shelf to continental Europe.

EUROPIPE OPENED: A symbolic flame is lit to mark the inauguration of the Europipe gas trunkline at Dornum in Germany during May. From left: chief executive Harald Norvik, Gerhard Schröder, minister-president of Lower Saxony, Norwegian industry and energy minister Jens Stoltenberg and German deputy minister Heinrich Kolb.

for development and operation of Åsgard on 14 June. This project covers the Midgard, Smørbukk and Smørbukk South sub-fields. Oil and gas will be produced from 10 separate and highly-complex reservoirs. Development is being pursued in two phases. Oil starts to flow from Åsgard A in 1998, with gas production commencing on Åsgard B two years later. The Åsgard project also embraces construction of a pipeline to carry rich gas to Kårstø north of Stavanger, and development of a reception and fractionation plant at the latter site. Estimated investment in Åsgard has been increased by NOK 4 billion to NOK 43 billion, primarily because of conceptual changes and higher weights than originally assumed. The effect on the project's profitability will be partly offset by earlier production and improved recovery.

Statoil has submitted a plan for installation and operation of a new gas trunkline from Norway to continental Europe. Running from Kårstø to Emden in Germany, Europipe II is costed at roughly NOK 7 billion. The Storting is expected to consider the plan during its 1997 spring session.

The Zeepipe IIB line from Kollsnes to Draupner E and the Ekofisk bypass - a modification to the Statpipe trunkline in connection with the Ekofisk II development - are due to come on line in 1997.

Construction of a new field centre for Ekofisk involves the shut-down of the Edda platform, which processes gas from Tommeliten Gamma. This field will therefore become the first operated by Statoil to be shut in. Commercial terms have been established which ensure production from Tommeliten Gamma to the end of 1997, but efforts are under way to secure operation until 1 August 1998.

Statoil is participating in the development of Britain's Schiehallion field west of Shetland.

GAS MARKET AND SUPPLY

Overall, Statoil was responsible for marketing 18 billion standard cubic metres of gas in 1996 as against 10 billion the year before. Total Norwegian gas exports came to 37 billion standard cubic metres, compared with 28 billion in 1995. Deliveries under the Troll agreements came to 14.5 billion standard cubic metres in 1996.

The group has important duties relating to gas sales, supply, operation of fields and infrastructure, and management of the state's direct financial interest (SDFI). Statoil's goal is to be the best representative for gas owners in negotiations on sales and price revisions. Great emphasis is placed on promoting the most profitable supply solutions.

Norway's Gas Negotiating Committee (GFU) concluded a long-term agreement with Ruhrgas in summer 1996 on behalf of field licensees on the Norwegian continental shelf. Covering the sale of one billion standard cubic metres per year from 1999, rising to three billion standard cubic metres in 2008, this contract strengthens the role of Ruhrgas as the largest single buyer of Norwegian gas.

On 20 January 1997, Statoil signed a contract on behalf of the GFU with Italy's Snam covering the annual delivery of six billion standard cubic metres of gas over 25 years from 1999. A decision on which fields are to supply this gas will be taken later. This contract means the GFU has succeeded in selling 1 450 billion cubic standard cubic metres of gas since 1986, when the first Troll agreements were signed. By comparison, Troll contains 1 300 billion standard cubic metres of gas. The Snam deal represents a breakthrough in efforts to include Italy as a market for Norwegian gas.

The GFU initiated negotiations in 1996 with possible customers for gas from Norway in the Czech Republic, Poland and Hungary.

On the basis of recommendations from the Gas Supply Committee (FU) in 1995, the Ministry of Industry and Energy presented recommendations in 1996 on which fields should supply new gas deals. Contracts concluded with VNG, Mobil Erdgas-Erdöl GmbH (Meeg) and Gaz de France will be met with deliveries by Åsgard and Oseberg from 2000. Åsgard was allocated a supply commitment of 6.3 billion standard cubic metres in the 2000 contract year, 8.9 billion in 2001-2006 and 10.8 billion from 2007. Oseberg will deliver two million standard cubic metres annually from the 2000 contract year to 2016. Responsibility for the VNG contract has been given to Oseberg, while Åsgard is responsible for the Gaz de France and Meeg contracts.

In this connection, the authorities also approved the landing of Åsgard gas at Kårstø. A new trunkline - Europipe II - for natural gas will be laid from Kårstø to Emden, coming on line in 1999.

A recommendation from the owners of the NorFra, Zeepipe and Statpipe (lean gas section) trunklines on unitising lean gas pipelines from Norway's continental shelf is under consideration by the Ministry of Petroleum and Energy. The owners place great emphasis on measures which can reduce transport costs, improve capacity utilisation and simplify contractual relations between fields and transport systems.

Norway's share of the European gas market will expand over coming years under existing sales contracts. Annual deliveries are due to rise to about 50 billion standard cubic metres in 2000, and will reach a peak of roughly 68 billion standard cubic metres under existing agreements in 2005. Statoil's share of the latter volume will be at least nine billion cubic metres, with some 39 billion being delivered by the group and the SDFI. Gas deliveries from the Norwegian continental shelf require the development of new fields and pipelines. Statoil has important operator and development duties in this connection. Discharging these responsibilities in a way which ensures the highest possible value creation while sustaining Norway's reputation as a reliable supplier will be a major challenge.

European gas consumption rose from 360 billion standard cubic metres in 1994 to 395 billion in 1995, with western Europe accounting for 330 billion and the rest of the continent for 65 billion. Preliminary figures for 1996 indicate that consumption increased by more than 10 per cent in the first six months compared with the same period of the year before.

Gas accounted for 19 per cent of primary energy consumption in western Europe in 1995. According to the International Energy Agency (IEA), this proportion will reach 24 per cent in 2010 - primarily because of a forecast tripling in gas-based electricity generation. Completion of new pipelines from Algeria and an expansion of existing capacity, planned new infrastructure from Russia and the UK, and several new producers will sharpen competition.

Supplies reaching the European gas market are currently expanding, including deliveries from new sources. The European Union has initiated the preparation of a gas directive to regulate downstream operations in this market. In addition come national political initiatives to liberalise the gas market in Germany, the Netherlands and Spain. Statoil must actively adapt to these market trends. The goal is to secure profitable new gas contracts in markets where demand is genuinely expanding in order to contribute to the sale of proved gas reserves that have yet to be allocated a delivery commitment. Marketing of additional gas, both in terms of volume and sales conditions, will be pursued in a manner which does not undermine the value of existing contracts.

GAS CONSUMPTION UP: European demand for gas is rising. The Troll field provides an important guarantee for future deliveries to continental Europe.

BUSINESS DEVELOPMENT

Statoil made eight discoveries as operator on the Norwegian continental shelf in 1996. Two of these are classified as technical finds. Six discoveries were made in licences with Statoil participation. The group participated in 31 wells internationally, and was operator for six of these. Discoveries and upgrading of existing fields exceeded the volume produced by Statoil in 1996. The group's overall probable oil reserves, including royalty oil and NGLs, rose from 2 012 million barrels in 1995 to 2 052 million. Gas reserves stayed unchanged at 359 billion cubic metres.

Promising results were achieved in international exploration and production during 1996. However, downgrading estimated reserves in the Siri field off Denmark and stricter practice in classifying reserves, nevertheless combined with production to reduce the volume of reserves outside Norway from 390 million barrels of oil equivalents to 356 million.

The Norwegian authorities awarded new acreage in the country's 15th offshore licensing round during 1996. Statoil became operator for three of these licences - one in the North Sea and two in the Norwegian Sea. The Vøring area off mid-Norway was opened for exploration in this round. Great interest attaches to this acreage, where the oil companies will face new challenges because the blocks awarded are in waters more than 1 000 metres deep.

Statoil secured interests in a further five 15th-round licences, and manages the SDFI in another eight.

The Norwegian authorities have invited oil companies to participate in a new exploration project in the Barents Sea. New acreage in these waters will be awarded outside the normal licensing rounds. One way of generating renewed interest in the Barents Sea has been to permit group applications for licences. Statoil regards this project as very interesting.

A pilot project for improved oil recovery on Statfjord aims to increase recoverable reserves in the field by 400 million barrels with the aid of new technology. Advanced seismic methods, advanced wells, gas-based recovery methods and cost-effective concepts for tail production are among the approaches being pursued. The project will begin providing additional oil from 1998, and will hopefully extend the producing life of the actual Statfjord field towards 2020. With a recovery factor of 66-70 per cent as its goal, the group will remain technologically in the absolute front rank.

The original estimate for recoverable oil reserves in Gullfaks was 1 300 million barrels. As operator, Statoil's present ambition is to recover 2 700 million barrels from the whole block.

Statoil has put its interests in about 30 Norwegian offshore licences on offer for sale or swapping. The group wishes to concentrate its efforts on selected core areas of Norway's continental shelf, and is therefore planning to sell and/or swap interests outside these areas. Stronger involvement in projects which are expected to meet Statoil's long-term production goal is considered particularly important.

During 1996, the group took over as operator of production licence 048 from Norsk Hydro.

Statoil acquired just over 10 per cent of the shares in Norwegian energy utility Hafslund during 1996, and agreed to acquire 14.5 per cent of Swedish gas distributor Vattenfall Naturgas.

ACTIVE IN AZERBAIJAN: Upgrading the Chirag I platform (main picture) is on schedule, and the northern route pipeline (small picture) through Russia has been completed.

Naturkraft secured licences to build two gas-fired power stations at Kollsnes and Kårstø respectively. An appeal against these permits has been lodged by several environmental organisations. Statoil owns 33 per cent of Naturkraft, with Statkraft and Norsk Hydro as the other shareholders. With a planned capacity of 700 MW, the power stations are due to be ready in 1999 and 2000. Naturkraft has secured contracts to sell part of the electricity generated to buyers in Sweden and Finland.

Statoil holds an 8.6 per cent interest in the early production project on the Azeri-Chirag field in Azerbaijan's sector of the Caspian. Upgrading the Chirag I platform is on schedule, and the first of three appraisal wells was drilled in late 1996 with positive results. Agreements were reached during the year on the two transport solutions for oil from the field - a northern pipeline through Russia and a western line via Georgia, both terminating at the Black Sea. Expected to total some 100 000 barrels per day, early production is due to start in late 1997.

A production sharing agreement for Shah Deniz in the Caspian was approved by Azerbaijan's parliament in October. Statoil has 25.5 per cent in this exploration project. Seismic surveys will be shot and two exploration wells drilled in the area over the next three years.

Seismic surveying in Kazakstan's sector of the Caspian was completed in 1996. Statoil belongs to the consortium of western companies responsible for this work. Negotiations with the authorities over a production sharing agreement are continuing.

Exploration operations continued off Nigeria within agreed limits. Viewed in isolation, none of the three wells drilled during 1996 provide a basis for development. However, mapping of the four blocks in which Statoil participates will continue.

An agreement on increased gas sales was achieved for the Bongkot field off Thailand, and work on expanding production capacity is under way. Continued efforts are being made to identify additional gas reserves in Bongkot.

In Angola, Statoil is participating in the evaluation of a deepwater discovery in block 17 with a view to possible development. Further exploration opportunities are being assessed in connection with offers of new acreage.

Work is continuing in Vietnam to lay a basis for developing the Lan Tay and Lan Do gas discoveries. Important elements in an overall agreement fell into place during 1996. Contractors were invited late in the year to tender for preliminary engineering contracts covering development of the fields and a 400-kilometre pipeline to land, where a gas-fired power station and a fertiliser plant are to be constructed.

Ireland's Aran Energy, acquired in late 1995, has been successfully integrated into the group. This has strengthened Statoil on the UK and Irish continental shelves and positioned it in exploration areas along the Atlantic Margin. Substantial amounts of seismic data were gathered by the group from the latter regions during 1996. Statoil is continuing work on a development plan for Connemara west of Ireland. Planned test production in summer 1997 will establish whether this field can be developed commercially.

Statoil resolved in 1996 together with Chinese state oil company CNOOC to develop the Lufeng 22-1 oil field in the South China Sea. The group is operator for development and operation, with a 75 per cent interest. Lufeng 22-1 will be produced from the Statoil-developed multipurpose shuttle tanker MST *Munin*, and is due to come on stream in late 1997. This field is the first to be developed by the group as operator outside Norway. An operations organisation was established at Shekou in China during 1996.

PRODUCTION OFF CHINA: Statoil will bring the Lufeng 22-1 field on stream in late 1997 from a multipurpose vessel.

The group's expertise in reservoir engineering, wells and floating production has been important for its efforts to secure positions internationally. Cooperation on exploration and production continued with recognised international oil companies.

In Venezuela, pre-engineering has begun for a facility to upgrade heavy oil to synthetic crude. A final development decision will be taken in 1998.

Licence interests were secured by Statoil in three new areas during the year. The group is involved in two US deepwater blocks awarded in the Gulf of Mexico in the autumn. At the end of the year, Statoil agreed to acquire an interest in the deepwater Fuji field, also in the US Gulf. The group is involved in an exploration prospect in the Timor Sea. And it has become operator for the Fylla licence west of Greenland, where oil and gas will be sought in deep water.

Work was pursued off Denmark to progress the 1995 Siri discovery towards development. The most relevant solution is a mobile production platform combined with offshore loading into ships. A new evaluation prompted a downgrading of reserves in this field. Denmark's Lulita field was also considered for possible production via existing infrastructure.

In Russia, Statoil reached agreement with Gazprom on participation in continued exploration and possible development on the Varandey More field in Siberia.

REFINING AND MARKETING

The refining and marketing business segment embraces the Refining, Marketing, Oil Trading & Supply and Statoil Shipping & Maritime Technology business areas.

Key figures (NOK million)

Income statement	1996	1995	1994
Operating revenue	89 037	72 127	72 626
Operating costs	85 605	70 091	69 816
Depreciation	1 764	1 634	1 761
Operating profit	1 668	402	1 049
Balance sheet at 31 December			
Current assets	20 363	17 459	15 796
Fixed assets	21 068	20 580	17 932
Total assets	41 431	38 039	33 728

OIL TRANSPORT GIANT: Statoil shipped 640 crude oil cargoes in 1996 from fields in the North and Norwegian Seas.

OIL SALES

Statoil sold just over two million barrels of oil per day during 1996, as against 1.8 million barrels the year before. Equity oil sales totalled 464 000 barrels per day.

The group also sold 18 million tonnes of refined oil products to customers outside its own retailing network, as against 13 million tonnes in 1995.

Crude oil trading operations are pursued by Statoil from Stavanger, London, Connecticut and Singapore.

Crude oil price (Brent Blend) USD/bbl (Monthly average)

Europe is still the principal market for the group's crudes, but the USA and Canada have grown into two of its most important outlets and account for roughly 25 per cent of sales. Continued efforts are being made to develop Statoil's position in the Asia-Pacific region. Five North Sea crude oil cargoes were sold to Taiwan in 1996. The group has also established itself as a substantial exporter of Dubai crude to the Asia-Pacific market.

The average per barrel price for Brent Blend in 1996 was NOK 133 (USD 20.67) as against NOK 108 (USD 17.02) in 1995.

SHIPPING

Statoil is a big player in the transport of crude oil and products. These operations include conventional shipping, gas transport, offshore loading of oil, floating storage and production solutions, maritime technology, technical management and ship inspection. At 31 December, the group operated a total fleet of 42 vessels totalling 3.3 million tonnes deadweight. This tonnage includes 18 shuttle tankers, one storage vessel, seven conventional crude oil carriers, 11 product carriers and five liquefied petroleum gas carriers. The storage vessel and two of the shuttle tankers are Statoil-owned.

During 1996, the group transported 640 crude oil cargoes from the North and Norwegian Seas. Since Statfjord came on stream in 1979, Statoil has performed more than 6 000 offshore loadings. Great emphasis is placed on safety and quality.

Offshore loading began in 1996 from the Yme field off Norway and Harding on the UK continental shelf. Statoil also won contracts for offshore loading on Norway's Draugen field and three more UK fields. These commissions show that the group's concept of offering flexible contracts of affreightment as an alternative to time charters has been well received by the market.

Statoil placed an order for a new shuttle tanker with Spanish shipbuilder Astilleros during 1996, and exercised an option in early 1997 for three additional vessels. These ships will largely transport oil from new fields off mid-Norway. Charters were also placed for five additional shuttle tankers.

Long and broad experience with offshore loading allows Statoil to play an active role in extending this technology for use in floating storage and production.

The group has ordered a third multipurpose shuttle tanker from Samsung. MST *Berge Hugin*, the first vessel of this type, was delivered by the same yard in January 1997. It is owned 50-50 by Statoil and Norway's Bergesen d.y.

One of Statoil's multipurpose shuttle tankers has been hired to produce oil from the Lufeng 22-1 field off China, which is operated by the group. BP has also commissioned Statoil to produce a development plan for Britain's Pierce field based on the use of this vessel concept. A final contract for this project is expected in May 1997, and would also include offshore loading. The group's commitment to ship-based production solutions has been pursued in close cooperation with Norway's maritime industry.

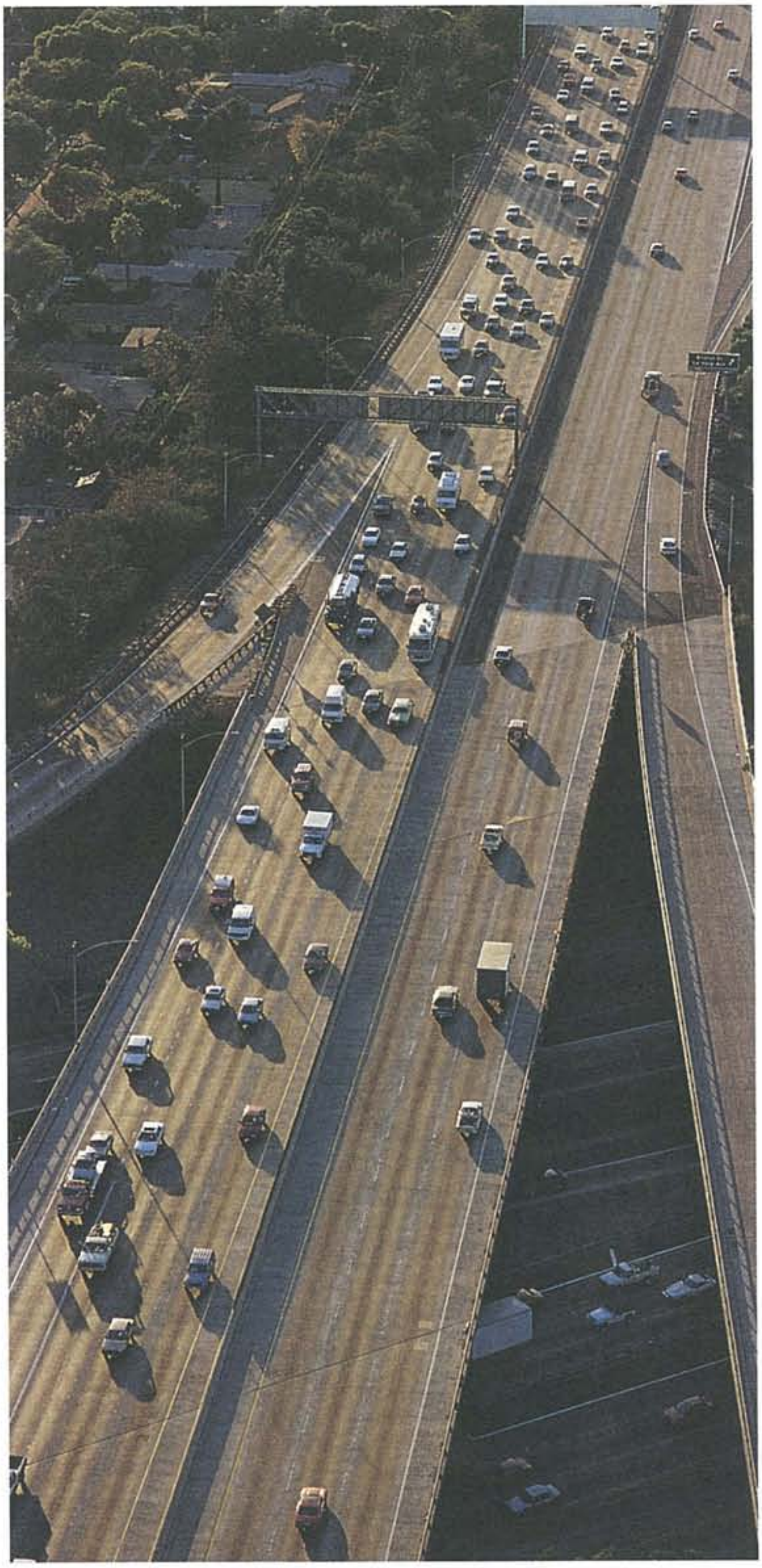
A process was initiated for a possible demerger of Statoil Shipping & Maritime Technology as a separate company with one or more external shareholders. Evaluation of potential partners will continue with a view to a final decision during 1997.

REFINING

North-western Europe remains the principal market for products from the Mongstad and Kalundborg refineries, but this region is currently affected by oversupply. Demand for imports of refined products has been expanding along the US and Canadian east coast, and Statoil built up substantial exports of petrol to this area during 1996. Sales to the Mediterranean region were also developed. The market for refined products is becoming increasingly global, at the same time as stricter environmental standards are being imposed on these commodities. Variations in product specifications from country to country remain considerable, and uncertainty prevails about when new national requirements will be introduced and what they will specify.

Margins were higher in 1996 for both simple and complex refineries. The result was a substantial improvement in operating profits, but this remained insufficient to provide a satisfactory return on capital invested. New product quality standards require investment by the industry.

Ambitious improvement programmes have been instituted at both Mongstad and Kalundborg to keep their refining operations competitive.



GROWING IN THE USA: Demand for imported oil products is rising along the US and Canadian east coast, and Statoil built up substantial exports to this region in 1996.

Gross refining margins North-west Europe USD/bbl (Quarterly average)

Results in 1996 were in line with plans. Mongstad achieved good and stable operation in 1996 following a number of production problems the year before. Substantial improvements were recorded in plant availability and capacity utilisation. For the first time, the cracker operated a whole year without shutdowns. A new desulphurisation plant for gas oil began operating on 1 March, and much of the output of this product now contains only 0.05 per cent sulphur.

The new condensate refinery at Kalundborg completed its first full operating year in 1996, and functioned as expected in technical terms. A large proportion of the petrol from this facility now contains only one or two per cent benzene. Production of gas oil with 0.05 per cent sulphur increased.

A minor fire broke out in the condensate refinery during July, but full operation was restored in less than a week. No serious injuries were sustained during the fire

Statoil has a 15 per cent interest in the Melaka refinery development in Malaysia, which is now about 70 per cent complete. The project has fallen roughly 10 per cent behind schedule. Plans call for production to start in autumn 1997.

The group concluded processing agreements for refinery capacity in Texas and Italy in 1996, as well as a new supply agreement with Ultramar in Canada.

MARKETING

Statoil restructured its whole marketing organisation in Scandinavia during 1996 through the SkanMar 2000 project. The three large retailing subsidiaries in Norway, Sweden and Denmark were reorganised across national boundaries under a common leadership. This marked an important step in efforts to strengthen the group's competitive position and profitability in a market characterised by ever-tougher competition.

As an effective means of strengthening its market position, Statoil Norge made a price promise to its petrol customers in June 1996. With this guarantee, the company aimed to be at least as cheap as its nearest competitors. List prices for petrol, charge card discounts and terms for Premium Club customers were reduced. This price promise was modified a little in February 1997 to increase Statoil's freedom of action in competition over price. The group strengthened its position for

REBRANDING: Rebranding of Conoco's service stations in Ireland to the Statoil livery could begin after all formalities surrounding the acquisition had been finalised.

Norwegian petrol sales and maintained its share of the Scandinavian market at roughly 25 per cent. However, tougher competition over price in 1996 reduced earnings by comparison with recent years.

A development programme for the Statoil chain in Scandinavia has been instituted to improve competitiveness, particularly for the forecourt shops. The introduction of franchise contracts, management of product ranges and collective buying are important elements.

Work on improving the environmental properties of the group's products again yielded specific results in 1996. The benzene content of petrol distributed in certain parts of Norway and Denmark was reduced, and Statoil introduced electric cars for hire at some of its large Norwegian service stations.

In the second half of 1996, claims were made that engine problems in a number of Norwegian line fishing vessels could be attributed to "environmental" diesel from Statoil's Mongstad refinery. Extensive investigations, both in-house and with the aid of independent consultants, were initiated to identify any possible connection. At the end of the year, no faults had been found with the fuel, which fulfils all recognised specifications and international quality requirements. Studies are still being pursued to clarify why some fishing vessels suffered operating problems.

An agreement with Swedish insurance company Trygg-Hansa means that insurance policies will be sold in Sweden via Premium Club. Svenska Statoil sold its propane flask business to Air Liquide.

The group became the first oil company in Denmark to launch its own internet site, which provides information on market activities as well as opportunities for direct ordering of charge cards and fuel oil. Statoil won a Danish award for the country's best web site.

A new marketing concept - heat subscription - has been introduced by Statoil for Norwegian households which use oil for space heating. This comprises a service agreement with a guarantee to keep the customer's furnace functioning, and the opportunity for Statoil to take responsibility for continuous refuelling. The aim is to make oil as simple to use for heating as electricity.

Outside Scandinavia, vigorous development of the service station network in the Baltic states, eastern Germany and Poland continued. At 31 December, Statoil had 129 stations operating in these countries. Construction of an oil terminal began at Riga in Latvia. Formalities relating to the acquisition of Conoco's stations in Ireland were settled, allowing this transaction to be completed. Statoil is now one of the biggest players in the Irish market, with a share of roughly 20 per cent.

SERVICE IN 10 COUNTRIES: Statoil operates more than 2 000 service stations in 10 countries.

METHANOL PLANT: The new methanol plant at Tjeldbergodden in mid-Norway is approaching completion.

PETROCHEMICALS

METHANOL PLANT

A methanol plant has been constructed at Tjeldbergodden in mid-Norway with an associated receiving station for the gas pipeline from Heidrun and an air separation plant. The Storting approved this development in February 1992. After two years of preparations and another two of construction, the complex was about 90 per cent complete at 31 December.

Overall, Norwegian industry proved competitive for this NOK 4 billion development and won substantial contracts against international competition. Sixty-five per cent of orders were placed in Norway.

The plant is due to begin delivering methanol for sale in spring 1997. It will be a significant player in the European market.

Just under 100 people will operate the Tjeldbergodden complex.

BOREALIS

Borealis was established in 1994 through a merger of petrochemical operations at Statoil and Neste, which own this group 50-50. With 5 100 employees and production facilities in eight countries, Borealis is one of Europe's largest petrochemical players. Its principal products are the plastic raw materials polyethylene and polypropylene as well as the base petrochemicals ethylene and propylene.

Results achieved by Borealis in 1996 were significantly weaker than the year before, which saw record profits. However, 1996 earnings by the group again yielded a satisfactory return on capital invested. The contraction primarily reflects a downturn in the market for petrochemicals. Prices and margins were very low in the first quarter of 1996, but margins improved from the second quarter as demand recovered. They fell again in the final quarter because of higher raw material prices. At the beginning of 1997, the petrochemical market was still characterised by high raw material costs and moderate margins. The market outlook is uncertain.

Production was stable and high at virtually all Borealis plants throughout 1996. The group has begun work to improve the competitive position of each production site.

Borealis pursued extensive restructuring at its European plants during 1996 to strengthen

Key figures (NOK million)

Income statement	*1996*	*1995*	*1994*
Operating revenue	420	1 261	244
Operating costs	203	155	40
Depreciation	4	0	0
Operating profit	213	1 106	204
Balance sheet at 31 December			
Current assets	5	125	0
Fixed assets	6 770	6 337	3 431
Total assets	6 775	6 462	3 431

their competitive position. An ethylene plant previously leased in Portugal from the national authorities was acquired in order to simplify improvement efforts. The group sold its 35 per cent interest in Belgium's FinaBorealis, with three ethylene plants, to Exxon. It also took over operatorship of the North Sea Petrochemicals propylene and polypropylene facility in the same country, which is owned with Montell. Sweden's Borealis Industrier, which produces plastic components for the car industry, was sold in autumn 1996 and the company's 1 700 employees were transferred to the new owner. In North America, the group concluded a cooperation agreement with Canada's Nova on establishing a new company to produce and market speciality products in polyethylene, such as piping and cable qualities.

Major strides were made in product development. A key milestone in 1996 was the introduction of the new Borstar polyethylene technology, which has been implemented at a Finnish plant officially inaugurated in March 1996.

Borealis is also pursuing several projects in Asia. Establishing production capacity in this region is regarded as an important factor for long-term success in the industry because of strong growth in consumption of petrochemical products. The group joined forces with Abu Dhabi National Oil Company to build one ethylene and two polyethylene plants in Abu Dhabi. Borealis will own 40 per cent of the production company, and the polyethylene plants will incorporate its Borstar technology. Production is expected to begin in 2000. In China, Borealis and a national state-owned petrochemical company are planning a 50-50 joint venture to produce polyethylene. This project will give the group access to the big Chinese market.

Improvement efforts pursued by Borealis have carried the group a long stride towards maintaining its leading position in Europe, while laying a good basis for establishing production and marketing in other parts of the world.

RESEARCH AND DEVELOPMENT

Statoil's Research Centre in Trondheim is responsible for ensuring that the group focuses on the right technology at any given time. With 310 employees, the centre pursues research and development in close cooperation with universities, research institutes and the supplies industry both in Norway and internationally. Forty per cent of the NOK 548 million spent on research during 1996 was implemented by external partners. Statoil participates in several EU research programmes and carries out technology commissions for licences in which it is operator or participant.

R&D operations are closely related to the group's commitment to develop new and necessary knowledge for finding, producing, transporting and processing oil and gas. Research on safety and environmental issues associated with petroleum operations has a high priority. Statoil supports basic research in Norway through its cooperation with the Norwegian Academy of Science in areas of great significance for the country's petroleum industry.

CATALYSTS: A catalyst promotes a chemical reaction. Such substances play a crucial role in processing oil or gas. Key research targets for Statoil include boosting the production rate of a principal product and reducing unwanted by-products.

A method for evaluating the ability of faults to seal potential reservoirs - an increasingly important consideration when evaluating the likelihood of finding oil/gas - has been developed by Statoil. The group will now apply and test this solution in assessing new exploration prospects.

Statoil has adopted a new technique for mapping reservoir drainage during production based on four-dimensional seismic imaging. This method has been applied on Gullfaks to determine the siting of new production wells.

In cooperation with one Danish and one Norwegian company, the group has developed an electrically-powered well tractor. This device is being used to guide the drilling of extended-reach wells.

A production metering technique based on fibre-optic well instrumentation has been developed in close cooperation with other operators and the supplies industry.

Together with selected suppliers, Statoil has developed multiphase meters which can be used directly on subsea production facilities. These devices provide a cost-effective way of measuring multiphase flows from satellite fields without having to install costly inlet separators ahead of the metering station. Multiphase meters also permit continuous monitoring of well production.

The group participated in developing a multiphase pump which is now in continuous operation on Gullfaks A. This device could be highly appropriate for older wells with reduced wellhead pressure. Experience from using the pump on two selected wells has increased and accelerated daily production by 2 000 and 6 300 barrels of oil respectively.

In cooperation with Shell and Norway's Framo Engineering, Statoil has developed an electrically-driven subsea multiphase pump. Thoroughly tested with successful results, this unit permits cost-effective multiphase transport from satellite fields.

A method developed by Statoil to detect whether the internal plastic lining in flexible risers is about to become detached from the end connector is highly important in safety terms. Uncontrolled detachment could mean major topside gas leaks on platforms. A patent application has been filed for the technique, which is now used on most critical risers world-wide. This solution was highly significant for the choice of a floater as the Åsgard B gas platform.

The group has developed a mathematical model to indicate how subsea gas emissions develop. This provides a basis for improving emergency response plans and enhancing safety on existing installations in the event of an uncontrolled gas blow-out.

RESEARCH PRIZE

Statoil's research prize for 1996 was awarded to Professor Henning Omre at the Norwegian University of Science and Technology in Trondheim for outstanding work on developing statistical reservoir models. Awarded for the sixth time, this annual prize goes to a Norwegian scientist working in fields which are significant for Statoil's operations. Prof Omre has been the initiator of and driving force behind efforts to develop a model of reservoir structure and properties. His method forms the basis for Statoil's new model of Statfjord, and is also used on Gullfaks and Heidrun.

FLARE OFF: Continuous flaring has ceased on Heidrun, helping to make production more environment-friendly with the aid of new equipment.

HEALTH, THE ENVIRONMENT AND SAFETY

Statoil will be in the forefront for health, the environment and safety - a commitment which forms the basis for its management of this priority area.

Special strategies and standards for health, environmental and safety measures have been drawn up for the group's national and international operations.

A separate report on health, the environment and safety is published alongside the Statoil group's annual report.

Four fatal accidents were unfortunately suffered in connection with Statoil group operations during 1996, while one Statoil employee at a service station in Poland was shot while on duty. Three of the fatalities occurred on vessels working for the group in the North Sea. A road tanker hired by Statoil in Denmark collided with a passenger car. Both drivers were killed.

Statoil's goal is zero accidents, injuries or occupational illnesses.

Emissions to air and water when readying submarine pipelines for operation have been sharply reduced. Such work has also become significantly cheaper. The ready-for-operation process on Zeepipe I cost only 50 per cent of the corresponding job for Statpipe in the mid-1980s.

Statoil's offshore environmental efforts took a new step forward when continuous flaring ceased on the Heidrun platform. Flare gas is returned to the reservoir. This advance builds on the same technology which the group helped to develop for Gullfaks two years ago. A new ignition system for gas which must be flared for safety reasons means that the pilot light no longer needs to stay lit at all times.

Gas from Sleipner West contains up to 9.5 per cent carbon dioxide, which must be reduced to less than 2.5 per cent before the gas can be exported. After separation, carbon dioxide is injected into the water-filled Utsira formation 1 000 metres beneath the seabed. Such injection takes place from Sleipner East. Under full production, about a million tonnes of carbon dioxide will be injected annually to avoid emission to the air.

A new plant costing almost NOK 90 million is to be built at Mongstad to produce petrol with a low benzene content.

STATOIL'S FINANCIAL OPERATIONS

Financial operations in Statoil include management of the group's financial risks, corporate assets and liabilities, financing and insurance.

These operations are handled by the parent company's finance department, Statoil Coordination Center NV in Brussels and the Statoil Forsikring a.s insurance arm in Stavanger.

FINANCIAL RISK MANAGEMENT

Financial risk is managed through established group strategies and mandates for interest rate, foreign exchange and equity risks. The main purpose is to hedge exposures in foreign currencies against the Norwegian krone on the basis of the assumed price adjustment period following exchange rate fluctuations.

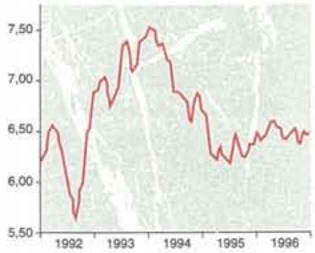
Net cash flow in foreign currencies for the Statoil group totalled NOK 93 billion in 1996. The largest currency exposures expressed in NOK million were as follows:

USD	80 800
SEK	3 400
DKK	2 500
GBP	1 400
DEM	1 200

The strategy for liability management of the loan portfolio seeks to ensure that short-term interest commitments give the lowest loan costs over time. An average interest rate of 6.2 per cent was achieved on the group's loan portfolio - which is mainly in USD - during 1996, as against 6.6 per cent the year before. Risk management distinguishes between the financial portfolios linked to commercial operations and the trading portfolio. Commercial interest risk relates mainly to loan management and the bond portfolios under asset management. This is also the case for the equity risk, while foreign exchange risk is largely tied to the group's cash flow in foreign currencies.

Financial trading with equities, foreign exchange and fixed income instruments is pursued within defined mandates. Separate portfolios have been established for such trading, allowing measurement and supervision to be conducted separately for each portfolio. This applies to both risk and results.

Risk sensitivities are updated on a daily basis, both partially and collectively for the various risks associated with financial trading operations.



USD exchange rate NOK/USD (Monthly average)

LIQUIDITY AND FINANCING

The group's liquidity reserves at 31 December totalled NOK 13.7 billion, including NOK 6.4 billion in undrawn committed lines of credit. Liquid assets held by Statoil are placed in domestic and international capital markets, primarily in government bonds and bank deposits.

At 31 December, the group's total loan portfolio totalled NOK 26.4 billion as against NOK 25.2 billion a year earlier. Long-term loans totalled NOK 17.8 billion with an average maturity of 8.1 years.

Statoil raised four bond loans from the international market during 1996. The group's first 144A bond offering in the USA was well received. This market, which comprises large American institutional investors, is one of the world's largest and most liquid. A total of USD 400 million was raised in two loans. In addition, Statoil re-entered the public bond market by raising USD 250 million in the Euro-dollar market and CHF 200 million from the Swiss market. Both these loans were secured on attractive terms. The second of them refinanced a loan of CHF 150 million at substantially lower cost. Loans raised by Statoil during 1996 had maturities ranging from three to 20 years.

Statoil has the highest ratings for short-term debt from US rating companies Moody's and Standard & Poor's. At Aa2 and AA+, the rating for long-term debt is also fully on a par with international competitors.

FUND MANAGEMENT

Some NOK 11.3 billion of the NOK 13.9 billion in funds under management at 31 December - including pension funds which are not consolidated in Statoil's accounts - was held in the form of bonds. This includes NOK 1.1 billion in foreign government bonds.

Roughly NOK 2.6 billion is placed in shares, including a quarter in foreign stocks to spread the risk. The proportion placed in equities was high through the year, and the average interest commitment in the bond portfolio was long. This contributed to a good overall return of 12.7 per cent for 1996.

PROPERTY INSURANCE

Statoil Forsikring provides the group with cover for land-based and offshore installations under construction and in operation at their estimated replacement cost. Policies also cover third-party liability and transport risks. The company covers only Statoil-related insurance risks. It retains about 16 per cent of the sum insured, which totals roughly NOK 79 billion, for its own account. The balance is placed in the Norwegian and international reinsurance market.

Total equity and insurance provisions at 31 December amounted to NOK 4.4 billion.

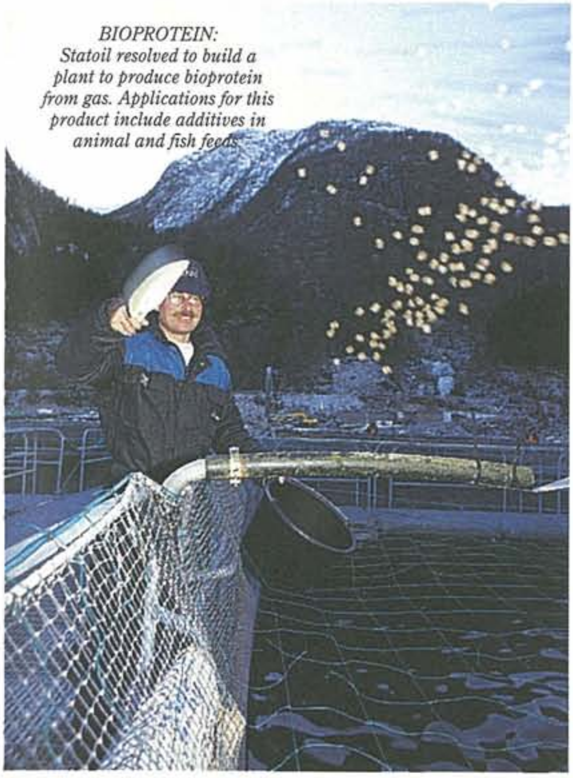
STATOIL'S PENSION FUNDS

The Statoil pension funds are organised as independent trusts with the purpose of providing retirement and disability pensions for employees as well as pensions for surviving spouses and children. These funds have about 10 500 members in employment and 900 pensioners, and manage funds totalling NOK 7.5 billion. The pension funds are not consolidated in Statoil's balance sheet.

RISK MANAGEMENT

Statoil's results are affected in part by changes in prices for and produced volumes of its principal products - oil, gas, refined products and petrochemicals. Estimates indicate that a change in oil prices of USD 1.00 per barrel would increase/decrease operating profit by about NOK 1 billion. A 10 per cent change in equity oil production has the same impact on results, while gas prices would have to alter by about 25 per cent to achieve an effect of this size. However, the impact on net profit is considerably reduced since these revenues derive primarily from the Norwegian continental shelf and are therefore subject to a 78 per cent rate of tax. A change in refining margins of USD 0.5 per barrel would increase/decrease operating profit by roughly NOK 300 million, while the increase/decrease after tax would be around NOK 200 million.

A risk management model established by Statoil in 1996 covers key market risks and important operational risks for the group. The most important elements in the former category are oil and gas prices, refining and petrochemical margins, and foreign exchange. Statoil's risk model provides an overall picture of the group's risk profile, and makes it possible to evaluate the risk portfolio on the basis of corporate goals, such as profits or return on capital employed. Analyses made confirm that there are different covariances between market risks for Statoil's principal products. As a result, the group's overall risk is substantially lower than the sum of risks for the individual products.



BIOPROTEIN: Statoil resolved to build a plant to produce bioprotein from gas. Applications for this product include additives in animal and fish feeds.

Picture: Infoconsult

NEW COMMERCIAL OPPORTUNITIES AND INDUSTRIAL COOPERATION

BIOPROTEIN

Statoil and Norway's Nycomed intend to build a bioprotein plant at Tjeldbergodden based on gas from Heidrun. Costed at roughly NOK 260 million, this facility will be the first of its kind in the world. It is due to come on stream in summer 1998 with an annual capacity of 10 000 tonnes, and will provide about 20 new jobs. This investment will be made through Norferm DA, which is owned 50-50 by Statoil and Nycomed.

The technology is based on natural micro-organisms which feed on natural gas (methane). Other inputs include oxygen, ammonia, water and minerals. This natural process is simulated in a closed reactor. The finished product is a granular substance containing 70 per cent protein, 10 per cent fat, 12 per cent carbohydrates and eight per cent minerals.

Protein from the plant will primarily be used in animal and fish feeds. Product development has established that the substance is also suitable for human consumption in certain products, such as taste additives in processed food and snacks. Norferm expects to secure EU approval for use in foodstuffs next year. Roughly 600 000 tonnes of proteins - derived mainly from soya beans and milk (casein and whey) - were used in food production by EU member states in 1996.

Bioproteins also serve as raw materials in a number of industrial processes. Casein is currently used to produce labelling adhesive, lightweight concrete, fillers and levelling compounds. Europe consumes about 10 000 tonnes of this protein every year, with paper labelling accounting for 70-80 per cent.

COOPERATION WITH SPORT AND CULTURE

Statoil has cooperated with Norwegian sporting bodies and cultural institutions or individual performers for many years. The group utilises sponsorships as an instrument in marketing and promotion.

A new three-year cooperation agreement was signed with the Alpine group of the Norwegian Ski Association in June 1996.

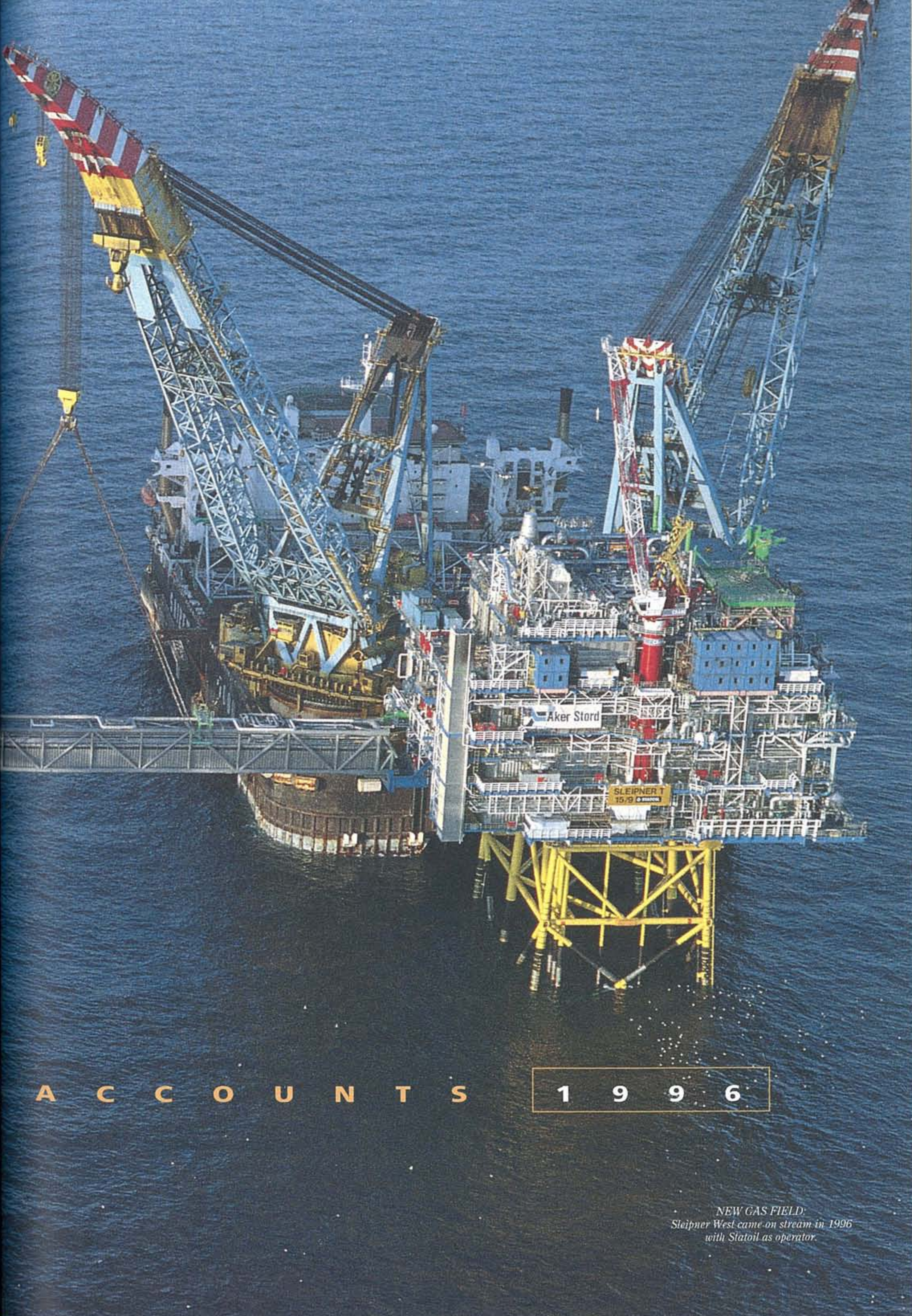
Statoil has collaborated for a number of years with talented young Norwegian classical musicians, and currently has agreements with four of these - soprano Bodil Arnesen, violinists Henning Kraggerud and Katrine Buvarp and pianist Helge Kjekshus. All four have already achieved wide acclaim in Norway, and are regarded as highly promising performers with a potential to make international careers.

STATOIL MUSICIANS: Statoil supports talented young musicians. From left: Katrine Buvarp, violin, Henning Kraggerud, violin, Bodil Arnesen, soprano and Helge Kjekshus, piano.

The group has long been an important supporter of several major music festivals in Norway, including the Bergen International Festival, the Festival of Northern Norway and Stavanger's Chamber Music Festival. It has also contributed to the establishment of an annual international summer academy for talented young musicians in connection with the Stavanger Chamber Music Festival.

Statoil has collaborated for many years with the Stavanger Symphony Orchestra, which has won wide acclaim lately for its musical progress both in Norway and internationally. The sponsorship agreement was renewed in autumn 1996 for another two years. Trondheim Symphony Orchestra has also received support from the group since 1995.


SLEIPNER A
BLOKK 15/9
A N N U A



ACCOUNTS 1996

NEW GAS FIELD:
Sleipner West came on stream in 1996 with Statoil as operator.

Norwegian Accounting Standards 1994	1995	1996	*NOK million*	*International Accounting Standards* 1996	1995	1994
			Sales and other operating revenue			
98 535	101 080	**124 017**	Operating revenue	**124 017**	101 080	98 450
(14 820)	(15 705)	**(17 451)**	Sales tax, excise duties	**(17 451)**	(15 705)	(14 820)
448	1 149	**422**	Share of net profit in associated companies (12)	**415**	1 142	440
84 163	86 524	**106 988**	Net operating revenue (2, 3)	**106 981**	86 517	84 070
			Operating costs			
41 570	45 013	**54 883**	Cost of goods sold (3)	**54 883**	45 013	41 567
19 158	19 420	**23 100**	Operating and administration costs (4)	**23 100**	19 420	19 158
1 475	1 297	**1 644**	Exploration costs (6)	**1 277**	1 020	1 528
6 540	6 902	**8 828**	Depreciation (7)	**9 487**	7 474	7 076
68 743	72 632	**88 455**	Total operating costs	**88 747**	72 927	69 329
15 420	13 892	**18 533**	**Operating profit**	**18 234**	13 590	14 741
1 319	(812)	**(674)**	Financial items (8, 9)	**(310)**	1 099	2 159
16 739	13 080	**17 859**	**Profit before taxation (19)**	**17 924**	14 689	16 900
11 247	8 474	**12 752**	Taxation (10)	**12 627**	9 414	11 520
1	10	**16**	Minority shareholders' interest	**16**	10	1
5 491	4 596	**5 091**	**Net profit**	**5 281**	5 265	5 379

BALANCE SHEET - STATOIL GROUP

At 31 December

Norwegian Accounting Standards 1994	1995	1996	*NOK million*	*International Accounting Standards* 1996	1995	1994
			Assets			
			Current assets			
			Liquid assets (11)			
2 677	1 037	**4 595**	Bank deposits	**4 595**	1 037	2 677
3 099	5 116	**5 754**	Other liquid assets	**6 055**	5 261	3 142
			Short-term receivables (11)			
13 063	16 328	**18 007**	Accounts receivable	**18 007**	16 328	13 063
2 352	2 705	**1 865**	Other receivables	**1 868**	2 705	2 354
			Stocks (11)			
1 358	802	**1 628**	Raw materials	**1 628**	802	1 358
1 757	1 718	**2 573**	Finished products	**2 573**	1 718	1 757
24 306	27 706	**34 422**	Total current assets	**34 726**	27 851	24 351
			Fixed assets			
			Shares and long-term investments			
3 728	4 519	**4 619**	Associated companies (12)	**4 673**	4 581	3 795
1 095	1 085	**1 771**	Shares in other companies (12)	**1 771**	1 085	1 095
2 885	4 086	**3 762**	Investments (5)	**3 762**	4 086	2 885
60 217	68 189	**69 691**	**Property, plant and equipment** (2, 6, 7)	**77 448**	75 663	67 064
67 925	77 879	**79 843**	**Total fixed assets**	**87 654**	85 415	74 839
92 231	105 585	**114 265**	**Total assets**	**122 380**	113 266	99 190

BALANCE SHEET - STATOIL GROUP

At 31 December

Norwegian Accounting Standards 1994	1995	1996	*NOK million*	*International Accounting Standards* 1996	1995	1994
			Liabilities and shareholder's equity			
			Current liabilities			
3 779	6 405	**8 584**	Interest-bearing debt (13)	**8 584**	6 405	3 779
10 088	12 499	**12 702**	Accounts payable	**12 702**	12 499	10 088
5 059	3 842	**7 578**	Taxes payable (10)	**7 578**	3 842	5 059
1 615	1 851	**1 600**	Dividend payable	**1 600**	1 851	1 615
5 468	6 595	**5 757**	Other current liabilities	**5 749**	6 595	5 468
26 009	31 192	**36 221**	Total current liabilities	**36 213**	31 192	26 009
			Long-term liabilities			
16 787	20 048	**18 755**	Loans (14)	**17 836**	18 756	16 378
4 279	5 126	**6 121**	Other long-term liabilities (15)	**6 121**	5 126	4 279
16 942	17 992	**18 792**	Deferred taxation (10)	**24 925**	24 256	22 265
38 008	43 166	**43 668**	Total long-term liabilities	**48 882**	48 138	42 922
44	104	**143**	**Minority shareholders' interest**	**143**	104	44
			Shareholder's equity (16, 19)			
4 940	4 940	**4 940**	Share capital	**4 940**	4 940	4 940
23 230	26 183	**29 293**	Retained earnings	**32 202**	28 892	25 275
28 170	31 123	**34 233**	Total shareholder's equity	**37 142**	33 832	30 215
92 231	105 585	**114 265**	**Total liabilities and shareholder's equity**	**122 380**	113 266	99 190

Guarantees and secured liabilities (17)
Other liabilities and commitments (18)

Oslo, 20 February 1997

Kjell O Kran	Arnfinn Hofstad	Else Bugge Fougner
Tormod Hermansen	Yngve Hågensen	Marit Reutz
Iver Pehrson	Bjørn Erik Egeland	Åse Simonsen
Mauritz Sahlin		Harald Norvik President and chairman of the executive board

Norwegian Accounting Standards 1994	1995	1996	NOK million	International Accounting Standards 1996	1995	1994
			Cash flow from/(to) operations			
80 727	81 743	**105 510**	Cash receipts from operations	**105 510**	81 743	80 727
(57 672)	(60 605)	**(78 015)**	Disbursements to operations	**(77 541)**	(60 328)	(57 391)
(584)	(696)	**(692)**	Net financial items	**(109)**	230	44
(7 644)	(8 711)	**(8 222)**	Taxes paid	**(8 222)**	(8 711)	(7 644)
14 827	11 731	**18 581**	Net cash flow from operations	**19 638**	12 934	15 736
			Cash flow from/(to) investing activities			
(11 028)	(16 247)	**(11 776)**	Acquisition of fixed assets	**(12 833)**	(17 450)	(11 929)
1 254	512	**923**	Sale/divestment of fixed assets	**923**	512	1 246
(9 774)	(15 735)	**(10 853)**	Net cash flow to investing activities	**(11 910)**	(16 938)	(10 683)
			Cash flow from/(to) financing activities			
155	(2 119)	**(635)**	Change in other liquid assets	**(635)**	(2 119)	155
(1 299)	1 995	**(225)**	Change in short-term debt	**(225)**	1 995	(1 299)
2 060	5 385	**5 315**	New long-term debt	**5 315**	5 385	2 060
(4 612)	(1 282)	**(6 774)**	Reduction in long-term debt	**(6 774)**	(1 282)	(4 612)
(1 076)	(1 615)	**(1 851)**	Dividend paid	**(1 851)**	(1 615)	(1 076)
(4 772)	2 364	**(4 170)**	Net cash flow from/(to) financing activities	**(4 170)**	2 364	(4 772)
281	(1 640)	**3 558**	Net changes in bank deposits	**3 558**	(1 640)	281
2 396	2 677	**1 037**	Bank deposits at 1 January	**1 037**	2 677	2 396
2 677	1 037	**4 595**	**Bank deposits at 31 December**	**4 595**	1 037	2 677

1. **Accounting policies**

The group accounts have been prepared in accordance with both the International Accounting Standards (IAS), issued by the International Accounting Standards Committee, and the Norwegian generally accepted accounting principles (NGAAP) - referred to as Norwegian Accounting Standards. They include the accounts of the parent company, Den norske stats oljeselskap a .s (Statoil), and its subsidiaries as described in note 9 to the parent company's accounts.

Significant differences between the NGAAP and IAS accounts are explained in a separate section below.

Group consolidation

- Subsidiaries are defined as companies in which Statoil, directly or indirectly, has a majority voting interest. Equity in subsidiaries is eliminated against the cost of the shares. Any assignable excess of purchase price over book value is included in the relevant assets and depreciated accordingly. Other excess value is classified as goodwill.
- Associated companies are defined as companies over which the group has a significant influence and where the ownership position is of a lasting and strategic nature. Shares in such companies are accounted for in accordance with the equity method.
- Jointly-controlled operations are included in the respective income statement and balance sheet items.
- Inter-group transactions and balances are eliminated.

Foreign currency translation

On consolidation, income statements in foreign currencies are translated at average rates of exchange for the year, while assets and liabilities are translated at closing rates of exchange. Currency translation differences are posted directly against shareholder's equity.

Bank deposits

Bank deposits include cash in hand, time deposits and other liquid assets maturing less than three months from the date of purchase.

Other liquid assets

Other liquid assets are assessed at market value and include monetary instruments maturing between three and twelve months from the date of purchase, plus listed securities.

Stocks

Stocks are valued at the lower of acquisition cost as defined by the first-in-first-out principle and anticipated net sales price. Stocks kept in reserve under government decree, and which cannot be used in current operations, are assessed at the lower of the original cost price and anticipated net sales price (the last-in-first-out principle).

Hedged stocks are valued at the lower of acquisition cost and hedged price.

The acquisition cost of produced goods consists of direct materials, direct wages and allocated indirect production costs. For purchased goods, cost price and transport costs are included.

Gas swapping

Gas swapping/loan agreements are accounted for in accordance with the sales method, whereby the borrower records the sale as income on delivery to the customer. A corresponding provision is made for the anticipated future cost of production and possible transport of the gas to be redelivered. When lending gas, the lower of the production cost and the present value of estimated future sales price is included in current assets.

Over/under-lifting of petroleum

When the volume of petroleum lifted from a field differs from the participating equity interest, the production cost is adjusted for the over/under-lift.

Property, plant and equipment

Such assets are valued at acquisition cost less accumulated depreciation. Any upgrading costs which significantly increase the capacity or life of the asset are capitalised.

- *Maintenance and site removal costs*
  Ordinary maintenance and repairs are charged against income when performed. Provisions are made for costs related to periodic maintenance programmes.
  Provisions are made for future site removal costs based on the current price level and an anticipated removal concept.
- *Capitalised interest*
  Interest costs related to major equipment under construction are capitalised as part of the cost price and depreciated along with the capital asset concerned.
- *Oil and gas exploration costs*
  Drilling of exploratory wells in which hydrocarbons have been found are capitalised, as are acquisitions of exploration acreage. If, on further evaluation, the reserves are not considered commercial, such exploration costs are charged against income.
- *Leasing*
  Major lease agreements which are *de facto* finance leases are capitalised and depreciated

over the term of the lease. The instalment element of the lease obligation is shown as a long-term loan in the balance sheet, and the leased equipment as a fixed asset.

- *Depreciation*
  Depreciation of production installations and transport systems for oil and gas is calculated for each individual field or field-dedicated transport system, using the unit of production method based on estimated proved reserves. Ordinary depreciation of transport systems used by several fields and of other assets is calculated on the basis of their economic life expectancy, using the straight-line method.

Goodwill
Goodwill is capitalised and depreciated over its economic life expectancy, up to a maximum of 20 years, using the straight-line method.

Norm price and royalty
The authorities stipulate monthly norm prices for the crude oil produced on the Norwegian continental shelf. This norm price provides the fiscal basis and is also the price paid by Statoil for the government's equity and royalty oil.

The government's royalty oil consists of royalty taken in kind. The quantities delivered by Statoil as royalty for its participation in the various production licences are booked at the norm price and shown as income and operating costs respectively in the income statement.

Trading
Trading of crude oil and products is included in operating revenue and operating costs to the extent that such transactions involve physical deliveries. The net proceeds of transactions not involving physical deliveries are included in operating revenue.

As manager of the state's direct financial interest in the petroleum industry, Statoil markets and sells the state's share of production.

The title to such oil when directly sold from a field to an external customer is not transferred to Statoil. The net result of this trading business is included in operating revenue. The value of state equity crude bought by Statoil for future sale to external customers or for refining is included in group operating revenue and operating costs respectively.

Statoil buys all oil received by the state as royalty in kind from fields on the Norwegian continental shelf. Statoil includes the costs of purchase and proceeds from the sale of this royalty oil in its operating costs and operating revenue respectively.

Unrealised gains and losses on forward sales of crude oil and products are recorded as income/expenses as incurred.

Research and development
Costs of research and development are charged against income as incurred.

Pensions
Pension rights earned by group employees are mainly secured through pension schemes in insurance companies or the group's own pension funds.

Annual costs and the liability incurred are calculated on the basis of a straight-line earning of pension rights. The liability is compared with the market value of the pension funds. Changes in the pension obligation due to altered economic and actuarial assumptions are allocated over the average remaining pension-earning period.

Transactions in foreign currencies
Items in foreign currency are translated to NOK as follows:

- Income, expenses and fixed assets are recorded at a monthly rate of exchange set for accounting purposes.
- Liabilities and current assets are translated at closing rates of exchange.

Financial instruments
The following accounting policies are applied for the principal financial instruments:

- *Currency swap agreements*
  For long-term debt exchanged from the original foreign currency to another (open) currency at an agreed rate of exchange, the open currency position is applied when translating the debt to NOK.
- *Forward currency contracts*
  Unrealised gains or losses on hedging contracts are offset against losses or gains on the items hedged. The interest element is allocated over the contract period.
  Unrealised gains or losses on trading contracts are recorded in the income statement as incurred.
- *Interest swap agreements*
  The net effect of income and costs related to interest swap agreements is allocated over the contract period.

Taxation
The tax expense in the income statement represents the total amount of payable and deferred taxes related to the current year's profit, as well as changes in deferred taxation due to amended tax rates. The deferred taxation liability comprises both future taxes payable on reversal of temporary differences, and deferred tax calculated on assignable value added or reduced on consolidation of subsidiaries in accordance with the acquisition method. Earned future uplift has no fiscal

effect on future reversals, and is not considered when calculating the deferred taxation liability. Full provision is made using closing-date tax rates and undiscounted amounts.

Summary of significant differences between group accounts prepared in accordance with Norwegian Accounting Standards and International Accounting Standards:

Exploration costs
Under Norwegian accounting practice, all exploration drilling costs are charged against income as incurred.

Interest
Under Norwegian accounting practice, interest is charged against income as incurred.

Listed securities classified as current assets
Under Norwegian accounting practice, unrealised gains are not recognised as income.

Unrealised foreign exchange gains
Under Norwegian accounting practice, unrealised foreign exchange gains related to long-term monetary items are not recognised as income.

Forward trading
Under Norwegian accounting practice, unrealised gains related to forward trading in foreign currency, crude oil and refined products are recognised as income only to the extent that such transactions are made for hedging purposes and where gains are offset by unrealised losses on the hedged object.

2. Disclosures by business segments and geographic distribution

Business segments

Inter-group sales are recorded at estimated market value

NOK million	*Operating revenue**	*External sales*	*Operating profit/(loss)*	*Fixed assets*
For 1996 and at 31 December 1996:				
Exploration and production	40 653	17 683	16 854	53 171
Refining and marketing	89 037	88 568	1 668	21 068
Petrochemicals	420	416	213	6 770
Other operations and eliminations	(23 129)	314	(501)	6 645
Total	106 981	106 981	18 234	87 654
For 1995 and at 31 December 1995:				
Exploration and production	29 961	12 957	12 302	51 938
Refining and marketing	72 127	72 083	402	20 580
Petrochemicals	1 261	1 261	1 106	6 337
Other operations and eliminations	(16 832)	216	(220)	6 560
Total	86 517	86 517	13 590	85 415
For 1994 and at 31 December 1994:				
Exploration and production	30 368	12 249	13 337	47 895
Refining and marketing	72 626	71 270	1 049	17 932
Petrochemicals	244	244	204	3 431
Other operations and eliminations	(19 168)	307	151	5 581
Total	84 070	84 070	14 741	74 839

*Operating revenue includes profit after taxation in associated companies.

As from the first half of 1996, the group's activities relating to retail marketing and industrial gas applications are reported under the exploration and production segment. Figures for earlier periods, when these activities were reported under refining and marketing, have been restated accordingly.

Geographic distribution
Based on business location

NOK million	*Operating revenue*	*External sales*	*Operating profit/(loss)*	*Fixed assets*
For 1996 and at 31 December 1996:				
Norway	82 355	73 566	18 336	69 465
Europe (excluding Norway)	20 461	18 500	243	22 021
Other	15 006	14 915	(345)	2 654
Eliminations	(10 841)	-	-	(6 486)
Total	106 981	106 981	18 234	87 654
For 1995 and at 31 December 1995:				
Norway	70 677	66 630	13 037	66 942
Europe (excluding Norway)	16 159	15 168	1 002	20 531
Other	4 776	4 719	(449)	1 631
Eliminations	(5 095)	-	-	(3 689)
Total	86 517	86 517	13 590	85 415
For 1994 and at 31 December 1994:				
Norway	69 713	66 600	14 142	61 406
Europe (excluding Norway)	14 615	13 947	953	14 879
Other	3 641	3 523	(354)	748
Eliminations	(3 899)	-	-	(2 194)
Total	84 070	84 070	14 741	74 839

3. Operating revenue analysed by product groups

NOK million	*1996*	*1995*	*1994*
Crude oil and NGL	51 700	43 828	42 360
Pipeline transport	4 802	4 921	5 577
Natural gas	8 737	4 911	3 204
Refined products	33 234	24 641	26 493
Other revenue	8 508	8 216	6 436
Total	106 981	86 517	84 070
Foreign sales, included above:			
Crude oil and NGL	48 747	40 870	39 422
Natural gas	8 737	4 498	3 064
Refined products	27 615	19 581	21 942
Other revenue	4 642	6 120	4 320
Total	89 741	71 069	68 748

Total crude oil availability includes purchased royalty and state equity crude at NOK 12 658 million. Cost of sales, NOK 54 883 million, consists of purchased royalty and state equity crude plus other goods purchased for resale.
Operating revenue includes royalties of NOK 1 997 million. An equivalent amount is included in other operating costs.

4. Operating and administration costs

Payroll and statutory social benefits
Payroll and statutory social benefits amounted to NOK 6 935 million in 1996 as against NOK 6 311 million in 1995 and NOK 5 899 million in 1994.

Pension costs
Most of the group's employees are covered by pension plans entitling them to defined future pension benefits. These benefits are mainly dependent on the number of years of their pensionable service, their final pensionable salary level and the size of National Insurance benefits.
Employees in the parent company and Statoil Norge a.s are insured through Statoil's pension funds, which are organised as independent trusts. Their assets are mainly invested in government, county or municipal bonds.
Employees in subsidiaries are insured through various insurance company plans.
Pension costs for the financial year and the accrued obligation are calculated on the basis of a straight-line earning of pension rights.

Accrued pensions are analysed as follows:

NOK million	*1996*	*1995*	*1994*
Vested pension benefits earned	(4 589)	(4 280)	(3 438)
Non-vested early retirement benefits earned	(142)	(95)	(54)
Pension funds	7 357	6 220	4 805
Unrealised effect of changed estimates	(111)	210	75
Total	2 515	2 055	1 388

Accrued pensions are classified as:			
Long-term investment	3 171	2 612	1 887
Other long-term liabilities	656	557	499

Assumed rate of return	7.5%	7.5%	7.5%
Discount factor	7.0%	7.0%	7.5%
Assumed increase in salaries	4.0%	4.0%	4.0%
Assumed adjustment of the National Insurance base rate	3.0%	3.0%	3.0%

The latest actuarial analysis was made in 1997.

Net pension costs are analysed as follows:

NOK million	*1996*	*1995*	*1994*
Present value of earnings for the period	353	310	313
Interest cost of pension obligations	264	222	202
Assumed return on pension funds	(493)	(405)	(324)
Allocated effect of changes in estimates and difference between actual and assumed return	41	5	4
Pension costs included in payroll and statutory social benefits	165	132	195

5. Investments

Investments include prepaid pension costs of NOK 3 171 million as shown in note 4.

6. Exploration expenditures

NOK million	*1996*	*1995*	*1994*
Capitalised at 1 Jan	2 795	2 602	2 724
Incurred during the year	1 644	1 297	1 475
Capitalised expl expenditures from Aran Energy acquisition	675	0	0
Expensed share of current year's exploration activities	(1 170)	(930)	(1 194)
Expensed, previously capitalised	(107)	(90)	(333)
Depreciation	(105)	(77)	(60)
Exchange adjustments	4	(7)	(10)
Capitalised at 31 Dec - IAS	3 736	2 795	2 602

The capitalised amount at 31 December 1996 includes NOK 1 813 million in exploration expenditures in areas still not approved for development.

Under NGAAP, exploration expenditures are charged against income as incurred.

Last year's accounts included unallocated excess value related to the acquisition of Aran Energy Plc as construction in progress. NOK 675 million of this item was stated as capitalised exploration expenditures in 1996.

7. Property, plant and equipment

NOK million	*Machinery, office furniture, vehicles, etc.*	*Prod plant offshore*	*Prod plant onshore*	*Buildings and sites*	*Vessels*	*Intangibles*	*Construction in progress*	*Property, plant, equipm IAS*	*Adjustments (Note 1)*	*Property, plant, equipm NGAAP*
Historical cost at 1 Jan 96	4 297	85 012	24 977	14 022	3 608	152	11 481	143 549	(13 233)	130 316
Additions	734	10 216	1 167	1 380	809	333	(2 903)	11 736	110	11 846
Deletions at historical cost	170	76	35	269	0	4	247	801	(76)	725
Accumulated depreciation at 31 Dec 96	3 696	52 055	14 380	5 845	1 023	37	0	77 036	(5 290)	71 746
Book value at 31 Dec 96	1 165	43 097	11 729	9 288	3 394	444	8 331	77 448	(7 757)	69 691
Depreciation 1996	418	7 041	983	799	220	26	0	9 487	(659)	8 828

The book value of vessels, NOK 3 394 million, includes chartered vessels at NOK 838 million.

Depreciation for 1996 includes NOK 670 million in write-down of installations in the Frigg area and the UK sector.

Additions to and proceeds from sale of property, plant and equipment (sales price) during the last five years (NGAAP).

NOK million	*1996*		*1995*		*1994*		*1993*		*1992*	
	Addns	Sales	Addns	Sales	Addns	Sales	Addns	Sales	Addns	Sales
	11 846	307	15 013	512	10 925	1 246	12 204	71	9 514	276

8. **Financial items**

The net amount is analysed as follows:

NOK million	*1996*	*1995*	*1994*
Dividend received	73	41	37
Gain/(loss) on sale of securities	74	89	(76)
Interest and other financial income	640	625	641
Currency exchange adjustments, short-term items	(162)	(319)	178
Currency exchange adjustments, long-term items	424	334	1 885
Interest and other financial expenses	(1 723)	(1 582)	(1 346)
Net financial items - NGAAP	(674)	(812)	1 319
Change unrealised gains on securities	159	103	(196)
Change unrealised exchange gains, long-term items	(379)	882	409
Capitalised building loan interest	584	926	627
Net financial items - IAS	(310)	1 099	2 159

9. **Off balance financial derivatives**

Gap analysis for financial derivatives.

Time gap report

NOK million	*0-3 mths*	*3-6 mths*	*6-12 mths*	*1-3 yrs*	*3-5 yrs*	*5-10 yrs*	*Over 10 yrs*	*Total*
Forward contracts	(56)	(35)	(46)	0	0	0	0	(137)
Interest rate swaps	0	0	0	6 386	1 899	2 026	3 866	14 177
Currency and interest rate swaps	(2 638)	116	0	471	948	1 474	0	371

49

Nominal values by product and currency

Millions	*USD*	*DEM*	*GBP*	*ECU*	*JPY*	*CHF*	*BEF*	*DKK*	*SEK*	*MYR*	*NOK*
Forward contracts	(2 552)	143	90	110	4 102	0	8 885	(2 375)	(941)	(15)	18 363
Interest rate swaps	1 679	325	0	60	0	0	7 000	117	0	0	0
Currency and interest rate swaps	(782)	427	0	50	37 200	200	2 559	(483)	0	0	0

Millions	*FRF*	*MYR*	*IEP*	*ATS*	*ESP*	*FIM*
Forward contracts	(207)	67	80	44	1 262	11
Interest rate swaps	0	0	0	0	0	0
Currency and interest rate swaps	0	0	0	0	0	0

Interest rate derivatives

Interest rate derivatives in Statoil are mainly used for asset and liability management, off and on balance.

Average interest sensitivity for the group's loans, bonds and interest derivatives throughout the year was NOK 323 million, based on modified duration and a parallel one per cent decline in interest rates.

Currency derivatives

Statoil makes only sporadic use of OTC currency options.

10. Taxation

The taxable base is analysed as follows:

NOK million		*IAS*			*NGAAP*	
	1996	*1995*	*1994*	*1996*	*1995*	*1994*
Profit before taxation	17 924	14 689	16 900	17 859	13 080	16 739
Temporary differences	(1 240)	(3 014)	(2 494)	(1 176)	(1 414)	(2 172)
Permanent differences	266	(757)	(656)	200	(748)	(817)
Current taxation base	16 950	10 918	13 750	16 883	10 918	13 750
Tax expenses are analysed as follows:						
Total taxes payable	11 959	7 494	9 569	11 959	7 494	9 569
Deferred tax provision	668	1 920	1 951	793	980	1 678
Taxation for the year	12 627	9 414	11 520	12 752	8 474	11 247
Uplift benefit for the year	2 480	2 220	1 982	2 480	2 220	1 982

Deferred taxes are calculated on the basis of temporary differences between financial and tax accounting values at 31 December. Profit retained/loss carried forward in subsidiaries is not included in these calculations. Uplift earned, but not amortised, amounts to NOK 6.8 billion.

NOK million	*1996*		*1995*		*1994*	
	Base	*Deferred tax*	*Base*	*Deferred tax*	*Base*	*Deferred tax*
Excess tax depreciation	33 737	22 465	34 318	22 756	31 308	21 259
Other temporary differences	3 282	2 460	1 461	1 500	1 204	1 006
In accordance with IAS	37 019	24 925	35 779	24 256	32 512	22 265
Adjustments for NGAAP:						
Capitalised expl costs and interest	(7 757)	(5 301)	(7 474)	(5 266)	(6 847)	(5 014)
Unrealised gains, etc	(1 285)	(832)	(1 499)	(998)	(521)	(309)
In accordance with NGAAP	27 977	18 792	26 806	17 992	25 144	16 942

11. Current assets

Other liquid assets

NOK million	*1996*	*1995*	*1994*
Time deposits	33	21	38
Listed shares	1 308	664	369
Bonds, certificates and other securities	4 714	4 576	2 735
Total IAS	6 055	5 261	3 142

NOK 301 million in unrealised gains at 31 December 1996 are not included in the NGAAP accounts.

Other liquid assets in Statoil Forsikring a.s are included at NOK 4 512 million. These funds can only to a limited extent be lent to other companies in the group.

Short-term receivables
Accounts receivable and other short-term receivables are assessed at face value, less a provision for anticipated losses. The provision for bad debts at 31 December 1996 amounted to NOK 197 million.

Stocks
Stocks essentially consist of crude oil and refined products. Equity crude is regarded as stock on passing the norm price point, normally when loaded on the field. Product stocks include stocks kept in reserve under government decree, assessed at NOK 218 million.

12. Shares and long-term investments

Shares in associated companies

NOK million	*Book value*	*Share in profit/(loss)*	*Equity holding*	*Par value*	*Share capital*
Borealis a.s	3 944	412	50%	DKK 2 000	DKK 4 000
Malaysian Refining Company Sdn Bhd	405	0	15%	MYR 134	MYR 895
Other companies	324	3			
Total	4 673	415			

Voting stock and equity holdings are identical.

Shares in other companies
Shares in other companies totalled NOK 1 771 million, including NOK 807 million in ordinary Saga Petroleum ASA shares. The equity holding in this company is 8.8 per cent, while 11.7 per cent of the voting stock is held.

Shares in Hafslund ASA are included at NOK 720 million.
The equity holding is 10.9%, and the voting stock held is 12.3%.

A five per cent shareholding in Verbundnetz Gas AG is also included at NOK 218 million.

13. Interest-bearing debt

NOK million	*1996*	*1995*	*1994*
First year's instalment on long-term loans	1 718	2 078	1 283
Short-term bank loans and overdrafts	243	468	129
Net payable to co-venturers	2 537	2 210	2 367
Other interest-bearing debt	4 086	1 649	-
Current interest-bearing debt	8 584	6 405	3 779

14. Loans

Currency positions

Amounts in millions	*Long-term loans*	*Currency swap agreements*	*Currency position*	*Exchange rate*	*Book value NOK*
NOK	68		68		68
BEF	2 929		2 929	20.11	589
DEM	751	(428)	323	414.31	1 340
GBP	30		30	10.91	327
DKK	483		483	108.30	523
ECU	110		110	8.00	880
JPY	41 600	(37 200)	4 400	5.54	244
USD	1 637	782	2 419	6.44	15 583
Total					19 554
Instalments first year					(1 718)
Long-term loans - IAS					17 836
Unrealised currency exchange gains					919
Long-term loans - NGAAP					18 755

Long-term loans include USD 152 million in commitments related to financial leasing.

The average rate of interest in 1996, excluding currency exchange effects, was 6.2 per cent.

Available borrowing facilities at 31 December 1996 amount to NOK 6.4 billion.

Instalment plan, long-term loans

Year	*NOK million*
1997	1 718
1998	3 836
1999	1 877
2000	1 214
2001	1 756
Thereafter	9 153
Total	19 554

First-year instalments are included in current interest-bearing debt.

15. Other long-term liabilities

This item includes provisions of NOK 4 045 million for various insurance funds in Statoil Forsikring a.s and pension obligations of NOK 656 million as shown in note 4.

Accrued future site removal costs of NOK 1 275 million are also included. The current year's provision amounts to NOK 122 million. Provision for these costs - which are calculated for each field - is made in accordance with the unit of production method, based on the current year's output and the field's proved reserves. It is assumed that a portion equivalent to the parent company's average tax rate over the life of the installation will be carried by the state.

16. Equity changes IAS

The share capital consists of 49 397 140 shares at NOK 100 each.

NOK million	*1996*	*1995*	*1994*
Equity at 1 January	33 832	30 215	26 507
Net profit for the year	5 281	5 265	5 379
Dividend for the year	(1 600)	(1 850)	(1 615)
Change in foreign currency exchange adjustment	(371)	202	(56)
Equity at 31 December	37 142	33 832	30 215

For reconciliation with the NGAAP, see note 19.

17. Guarantee commitments and secured liabilities

Of NOK 398 million in total guarantees provided by the group, the parent company has issued NOK 224 million.

18. Other liabilities and commitments

Contingent liabilities and insurance
Like any other licensee, Statoil has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. The company has taken out insurance to cover this liability up to about NOK 4 500 million for each incident, including liability for claims arising from pollution damage.
Most of the group's production installations are covered through Statoil Forsikring a.s, which reinsures the larger part of the risk in the international insurance market. About 16 per cent is retained.

Lease agreements
At 31 December 1996, Statoil had signed one- to eight-year lease agreements for eight drilling rigs, helicopter services equivalent to eight helicopters, and 22 supply/stand-by vessels. In addition to the capitalised lease cost of vessels, Statoil has 32 vessels on charter with remaining lease periods ranging from one to 12 years.

Current commitments under non-terminable charterparties and lease agreements are:

Year	*NOK million*
For 1997	1 980
For 1998	1 643
For 1999	1 224
For 2000	1 019
For 2001	907
Thereafter	3 022
Total	9 795

Transport agreements
The group has no essential commitments to carry oil and gas via transport systems in excess of its equity holdings in the same systems.

Contractual commitments

NOK million	*1997*	*Thereafter*	*Total*
Contractual commitments made	6 443	2 781	9 224

These contractual commitments comprise acquisition and construction of properties, plant and equipment.

Other commitments
As a condition for being awarded oil and gas exploration and production licences, participants are committed to drill a certain number of wells. At the end of 1996, the group was committed to participating in 23 wells offshore Norway and 12 wells abroad, with an average interest of about 15-20 per cent.

19. Reconciliation of accounts between Norwegian Accounting Standards and International Accounting Standards

As stated in note 1, the NGAAP differ in some areas from the IAS. A reconciliation of profit before taxation and shareholder's equity from the IAS to the NGAAP is given below.

NOK million	*1996*	*1995*	*1994*
Profit before taxation - IAS	17 924	14 689	16 900
Net capitalised/expensed exploration costs	(368)	(277)	51
Net capitalised interest on building loans	(584)	(926)	(466)
Change in unrealised gains	228	(979)	(282)
Depreciation of capitalised exploration costs and building loan interest	659	573	536
Profit before taxation - NGAAP	17 859	13 080	16 739
Shareholder's equity - IAS	37 142	33 832	30 215
Capitalised exploration costs	(3 061)	(2 795)	(2 602)
Capitalised interest on building loans	(4 696)	(4 679)	(4 245)
Change in unrealised gains	(1 285)	(1 499)	(521)
Deferred taxation	6 133	6 264	5 323
Shareholder's equity -NGAAP	34 233	31 123	28 170

NOK million		*1996*	*1995*
Operating revenue	(2)	79 601	68 417
Operating costs			
Cost of sales		36 519	34 847
Operating and administration costs	(3, 4)	16 221	14 003
Exploration costs		1 133	1 003
Depreciation	(5)	7 082	5 787
Total operating costs		60 955	55 640
Operating profit		18 646	12 777
Financial items	(6)	(846)	(990)
Profit before taxation		17 800	11 787
Taxation	(7)	12 636	8 304
Net profit		5 164	3 483
Allocation of net profit:			
Group contribution		-	(229)
Restricted equity reversing fund		(43)	(41)
Statutory reserve		850	1 011
Dividend		1 600	1 850
Distributable reserve		2 757	892
		5 164	3 483

At 31 December

Assets

NOK million		*1996*	*1995*
Current assets			
Liquid assets			
Bank deposits		3 075	192
Other liquid assets		1 486	1 261
Short-term receivables	(8)		
Accounts receivable		11 669	11 614
Inter-group receivables		3 179	1 571
Other receivables		1 004	1 576
Stocks	(8)		
Raw materials		609	509
Finished products		796	487
Total current assets		21 818	17 210
Fixed assets			
Long-term receivables and investments			
Shares in subsidiaries	(9)	16 175	13 695
Shares in other companies	(9)	1 758	1 055
Shares in associated companies	(9)	451	186
Investments	(4)	3 284	3 489
Inter-group receivables		2 772	1 937
Property, plant and equipment	(5)	52 247	51 538
Total fixed assets		76 687	71 900
Total assets		98 505	89 110

At 31 December

Liabilities and shareholder's equity

NOK million		*1996*	*1995*
Current liabilities			
Accounts payable		10 525	10 975
Taxes payable		7 521	3 600
Dividend payable		1 600	1 850
Inter-group payables		811	2 064
Other current liabilities	(10)	9 366	7 586
Total current liabilities		29 823	26 075
Long-term liabilities			
Loans	(11)	15 784	16 307
Inter-group loans		2 729	1 084
Other long-term liabilities	(12)	1 378	1 214
Deferred taxation	(7)	17 880	17 083
Total long-term liabilities		37 771	35 688
Shareholder's equity			
Share capital (49 397 140 shares at NOK 100 each)		4 940	4 940
Statutory reserve and restricted equity reversing fund		8 757	7 950
Distributable reserve		17 214	14 457
Total shareholder's equity		30 911	27 347

Total liabilities and shareholder's equity		98 505	89 110
Guarantees and mortgages	(13)		
Other liabilities and commitments	(14)		

Oslo, 20 February 1997

Kjell O Kran
Arnfinn Hofstad
Else Bugge Fougner
Tormod Hermansen
Yngve Hågensen
Marit Reutz
Iver Pehrson
Bjørn Erik Egeland
Åse Simonsen
Mauritz Sahlin
Harald Norvik
President and
chairman of the executive board

NOK million	*1996*	*1995*
Cash flow from/(to) operations		
Cash receipts from operations	77 938	65 368
Disbursements to operations	(53 188)	(46 220)
Net financial items	(1 105)	(920)
Taxes paid	(7 919)	(8 508)
Net cash flow from operations	15 726	9 720
Cash flow from/(to) investing activities		
Acquisition of fixed assets	(11 643)	(10 555)
Sale/divestment of fixed assets	641	441
Net cash flow to investing activities	(11 002)	(10 114)
Cash flow from/(to) financing activities		
Change in other liquid assets	(225)	(1 164)
Change in short-term debt	(84)	1 339
New long-term debt	6 124	1 652
Reduction in long-term debt	(5 806)	(1 199)
Dividend paid	(1 850)	(1 614)
Net cash flow to financing activities	(1 841)	(986)
Net changes in bank deposits	2 883	(1 380)
Bank deposits at 1 January	192	1 572
Bank deposits at 31 December	3 075	192

1. Accounting policies

Accounts for the parent company have been prepared in accordance with Norwegian generally accepted accounting principles (NGAAP), as described in note 1 to the group accounts.

2. Operating revenue

Operating revenue is analysed as follows:

NOK million	*1996*	*1995*
Crude oil and NGL	48 862	44 875
Pipeline transport	4 714	4 868
Natural gas	4 182	2 677
Refined products	17 112	12 757
Other revenue	4 731	3 240
Total	79 601	68 417
Foreign sales, included above:		
Crude oil and NGL	45 908	41 917
Natural gas	4 182	2 676
Refined products	13 055	9 900
Other revenue	1 951	1 270
Total	65 096	55 763

3. Operating and administration costs

Payroll and statutory social benefits amounted to NOK 5 117 million in 1996, as against NOK 4 699 million in 1995.

NOK 265 000 was paid in remuneration to the combined members of the corporate assembly, NOK 1 085 000 to the directors and NOK 25 000 to the supervisory committee. The chief executive received a salary and other remunerations of NOK 1 921 000. If resigning at the request of the board, the chief executive is entitled to severance compensation equivalent to two annual salaries. Audit fees in 1996 amounted to NOK 3 050 000 for regular audit services and NOK 1 460 000 for consultancy services.

4. Pension costs

Statoil has pension plans covering a total of 9 001 people. These plans entitle employees to defined future pension benefits that are mainly dependent on the number of years of their pensionable service, their final pensionable salary and the size of the National Insurance benefits. Employees in the company are insured through Statoil's pension funds, which are organised as independent trusts. Their assets are mainly invested in government, county or municipal bonds.

Accrued pensions are analysed as follows:

NOK million	1996	1995
Vested pension benefits earned	(3 549)	(3 326)
Non-vested early retirement benefits earned	(114)	(72)
Pension funds Statoils pensjonskasser	6 502	5 438
Unrealised effect of changed estimates	(111)	184
Total	2 728	2 224

A total of NOK 2 999 million is classified as long-term investment and NOK 271 million as other long-term liabilities.

Assumed rate of return	7.5%	7.5%
Discount rate	7.0%	7.0%
Assumed increase in salaries	4.0%	4.0%
Assumed adjustment of the National Insurance base rate	3.0%	3.0%

The latest actuarial analysis was made in 1997.

Net pension costs are analysed as follows:

NOK million	1996	1995
Present value of earnings for the period	304	275
Interest cost of pension obligations	220	181
Expected return on pension funds	(432)	(350)
Allocated effect of changes in estimates and difference between actual and expected return	44	5
Pension costs included in payroll and statutory social benefits	136	111

5. Property, plant and equipment

NOK million	Machinery, office furniture, vehicles, etc	Prod plant offshore	Prod plant onshore	Buildings and sites	Vessels	Intang-ibles	Construction in progress	Total
Historical cost at 1.1.96	3 093	70 273	19 099	2 882	3 052	49	9 588	108 036
Additions	313	8 465	779	32	1 217	8	(2 988)	7 826
Deletions at historical cost	61	0	3	7	0	0	0	71
Accumulated depr at 31.12.96	2 928	45 982	12 950	654	1 023	7	0	63 544
Book value at 31.12.96	417	32 756	6 925	2 253	3 246	50	6 600	52 247
Depreciation 1996	286	5 827	704	70	192	3	0	7 082

The book value of vessels, NOK 3 246 million, includes chartered vessels at NOK 838 million. Depreciation for 1996 includes NOK 400 million in write-down of installations in the Frigg area.

Additions to and proceeds from sale of property, plant and equipment (at sales price) during the last five years:

NOK million	1996		1995		1994		1993		1992	
	Addns	Sales	Addns	Sales	Addns	Sales	Addns	Sales	Addns	Sales
	7 826	25	9 928	430	8 121	1 127	7 664	42	6 901	16

6. Financial items

The net amount is analysed as follows:

NOK million	*1996*	*1995*
Dividend received	103	177
Sales of securities	(45)	0
Interest received from subsidiaries	128	57
Interest and other financial income	270	234
Gain/(loss) on currency exchange, short-term items	(184)	(286)
Gain/(loss) on currency exchange, long-term items	424	345
Interest to subsidiaries	(118)	(161)
Interest and other financial expenses	(1 424)	(1 356)
Net financial items	(846)	(990)

7. Taxation

Tax expenses are analysed as follows:

NOK million	*1996*	*1995*
Profit before taxation	17 800	11 787
Temporary differences	(1 270)	(1 778)
Permanent differences	166	(25)
Current taxation base	16 696	9 984

The year's taxes are analysed as follows:

Taxes payable	11 840	7 208
Deferred tax provision	796	1 096
Taxation for the year	12 636	8 304
Uplift benefit for the year	2 480	2 220

Deferred taxes are calculated on the basis of temporary differences between financial and tax accounting values at 31 December. Uplift earned, but not amortised, amounts to NOK 6.8 billion.

NOK million	*1996*		*1995*	
	Base	*Def'd tax*	*Base*	*Def'd tax*
Excess tax depreciation, offshore	19 772	15 422	19 646	15 324
Excess tax depreciation, onshore	2 978	834	2 613	732
Other temporary differences	2 242	1 624	1 463	1 027
Total	24 992	17 880	23 722	17 083

8. Current assets

Short-term receivables
Short-term receivables are assessed at face value, but with a deduction for anticipated loss. The provision for bad debts at closing date was NOK 168 million.

Stocks
Stocks essentially consist of crude oil and refined products. Equity crude is regarded as stock on passing the norm price point, normally when loaded offshore.

9. Investments

Shares in subsidiaries:

Amounts in millions	*Equity interest*	*Par value*		*Total company share capital*		*Book value NOK million*
Statoil Norge AS	100%	NOK	500	NOK	500	902
Statoil Forsikring a.s	100%	NOK	125	NOK	125	150
Norsk Undervannsteknologisk Center a.s	60%	NOK	18	NOK	30	18
Statoil Danmark A/S	100%	DKK	2 850	DKK	2 850	5 619
Statoil AB	100%	SEK	800	SEK	800	1 803
Statoil (UK) Ltd	100%	GBP	240	GBP	240	2 566
Statoil Investments Ireland Ltd	100%	IEP	40	IEP	40	543
Statoil Deutschland GmbH	100%	DEM	22	DEM	22	1 148
Statoil North America Inc	100%	USD	6	USD	6	366
Eastern Group Inc	83%	USD	48	USD	58	426
Statoil (Thailand) Ltd	100%	THB	1 230	THB	1 230	317
Statoil SIAM (Thailand)	100%	THB	81	THB	81	24
Statoil Asia Pacific Pte Ltd	100%	SGD	10	SGD	10	45
Statoil Nigeria a.s	100%	NOK	433	NOK	433	433
Latvija Statoil SIA	100%	LVL	0,3	LVL	0,3	26
Statoil Vietnam a.s	100%	NOK	30	NOK	30	30
Statoil Russia	100%	NOK	33	NOK	33	33
Statoil Coordination Centre NV	64%	BEF	7 895	BEF	12 391	1 597
Offtech Invest A/S	100%	NOK	66	NOK	66	66
Other subsidiaries						63
Total						16 175

The remaining shares in Statoil Coordination Center NV are owned by Statoil AB.

Shares in other companies
Shares in other companies totalled NOK 1 758 million, including NOK 807 million in ordinary Saga Petroleum ASA shares. The equity holding in this company is 8.8 per cent, while 11.7 per cent of the voting stock is held.

Shares in Hafslund ASA account for NOK 720 million. The equity holding is 10.9 per cent and the voting stock is 12.3 per cent.

A five per cent shareholding in Verbundnetz Gas AG is also included at NOK 218 million.

Investments in associated companies

Amounts in millions	*Equity holding*	*Par value*	*Company's share capital*	*Book value NOK million*
Malaysian Refining Company Sdn Bhd	15%	MYR 134	MYR 895	405
Other companies				46
Total				451

Recorded at historical cost.

10. Other current liabilities

NOK million	*1996*	*1995*
First year's instalment on long-term loans	1 641	1 994
Net payable to co-venturers	2 535	2 204
Other current liabilities	5 190	3 388
Total	9 366	7 586

11. Loans

Currency positions

Amounts in millions	*Long-term loans*	*Currency swap agreements*	*Currency position*	*Exchange rate*	*Book value NOK*
NOK	216	-	216		216
BEF	13 375	-	13 375	20.11	2 690
DEM	526	(202)	324	414.31	1 340
DKK		(1 317)	(1 317)	108.30	(1 427)
ECU	50	60	110	8.00	880
JPY	41 600	(37 200)	4 400	5.54	244
USD	1 592	782	2 374	6.44	15 293
Currency translation reserve					918
Total					20 154
Loans from subsidiaries					(2 729)
Instalments first year					(1 641)
Long-term loans shown in balance sheet					15 784

Long-term loans include commitments of USD 152 million related to financial leasing.
The average rate of interest in 1996, excluding currency translation effects, was 6.2 per cent.
Available borrowing facilities at 31 December 1996 amount to NOK 6.4 billion.

Instalment plan, long-term loans:

Year	*NOK million*
1997	1 641
1998	3 489
1999	2 137
2000	517
2001	1 591
Thereafter	10 779
Total	20 154

12. Other long-term liabilities

At 31 December 1996, provision of NOK 271 million for pension obligations had been made.

Accrued future site removal costs of NOK 1 107 million are also included. The current year's provision amounts to NOK 108 million. Provision for these costs - which are calculated for each field - is made in accordance with the unit of production method, based on the curent year's output and the field's proven reserves. It is assumed that a portion equivalent to the parent company's average tax rate over the life of the installation will be carried by the state.

13. Guarantee commitments

The company has provided parent company guarantees for subsidiaries in the UK, Belgium and Nigeria.

Other guarantees provided amount to NOK 224 million.

14. Other liabilities and commitments

Contingent liabilities and insurance

Like any other licensee, the company has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. The company has taken out insurance to cover this liability up to about NOK 4 500 million for each incident, including liability for claims arising from pollution damage.
Most of the group's production installations are covered through Statoil Forsikring a.s which reinsures the larger part of the risk in the international insurance market. About 16% is retained.

Lease agreements

At 31 December 1996, Statoil had signed one- to eight-year lease agreements for eight rigs, helicopter services to the equivalent of eight helicopters, and 22 supply/stand-by vessels. In addition to the capitalised lease cost of vessels, the company has chartered 32 vessels with remaining lease periods of up to 12 years.

Current commitments under non-terminable charterparties and lease agreements are:

Year	*NOK million*
For 1997	1 794
For 1998	1 390
For 1999	989
For 2000	795
For 2001	691
Thereafter	1 891
Total	7 550

Contractual commitments

NOK million	*1997*	*Thereafter*	*Total*
Contractual commitments made	5 666	2 781	8 447

The contractual commitments comprise acquisition and construction of properties, plant and equipment.

Other commitments

As a condition for being awarded oil and gas exploration and production licences, participants are committed to drill a certain number of wells.
At the end of 1996, the company was committed to participate in 23 wells offshore Norway and eight wells abroad, with an average equity interest of about 15-20 per cent.

AUDITORS' REPORT FOR 1996

To the annual general meeting of Den norske stats oljeselskap a.s:

We have audited the annual report and accounts of Den norske stats oljeselskap a.s for 1996, which show a net profit for the year of NOK 5 164 million for the parent company, a consolidated profit for the year of NOK 5 091 million based on Norwegian accounting principles and NOK 5 281 million based on international accounting standards. The annual report and accounts, which comprise the annual report, income statement, balance sheet, cash flow statement, notes to the accounts and consolidated accounts, are presented by the company's board of directors and its president. The consolidated accounts are prepared both in accordance with Norwegian accounting principles and international accounting standards as issued by the International Accounting Standards Committee.

Our responsibility is to examine the company's annual report and accounts, its accounting records and other related matters.

We have conducted our audit in accordance with relevant laws, regulations and Norwegian generally accepted auditing standards. We have performed those audit procedures which we considered necessary to confirm that the annual report and accounts are free from material misstatements. We have examined selected parts of the evidence supporting the accounts and assessed the accounting principles applied, the estimates made by management and the content and presentation of the annual report and accounts. To the extent required by Norwegian generally accepted auditing standards, we have reviewed the company's internal control and the management of its financial affairs.

The board of directors' proposal for the appropriation of the net profit and transfers between the owner's equity accounts in the parent company is in accordance with the requirements of the Norwegian Joint-Stock Companies Act.

In our opinion, the annual report and accounts have been prepared in accordance with the requirements of the Joint-Stock Companies Act and present fairly the financial position of the company and the group as of 31 December 1996 and the result of the operations for the financial year, in accordance with Norwegian generally accepted accounting principles and international accounting standards.

STAVANGER, 20 FEBRUARY 1997

ERNST & YOUNG & CO AS

Ernst Alsaker

ERNST ALSAKER

RECOMMENDATION FROM THE CORPORATE ASSEMBLY

Resolution:

At its meeting on 27 February 1997, 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 for 1996.

The corporate assembly recommends that the general meeting approve the annual report as submitted, and adopt the annual accounts in accordance with the proposal presented by the board of directors.

The matter is to be submitted to the general meeting.

KOLLSNES, 27 FEBRUARY 1997

L. T. Løddesøl

LEIF T LØDDESØL

CHAIRMAN, CORPORATE ASSEMBLY

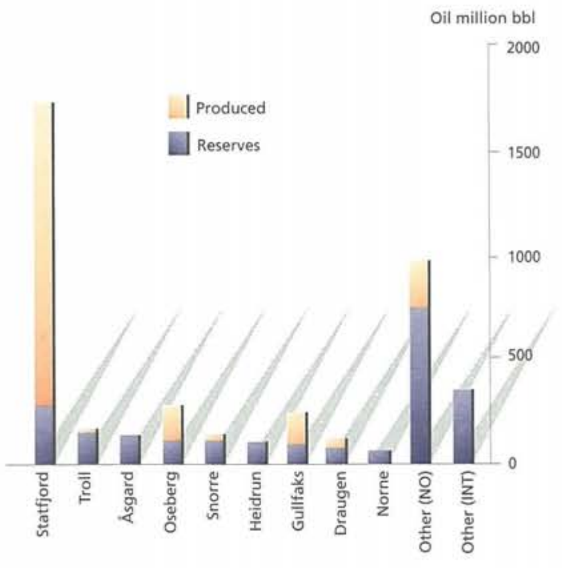
Statoil's equity share

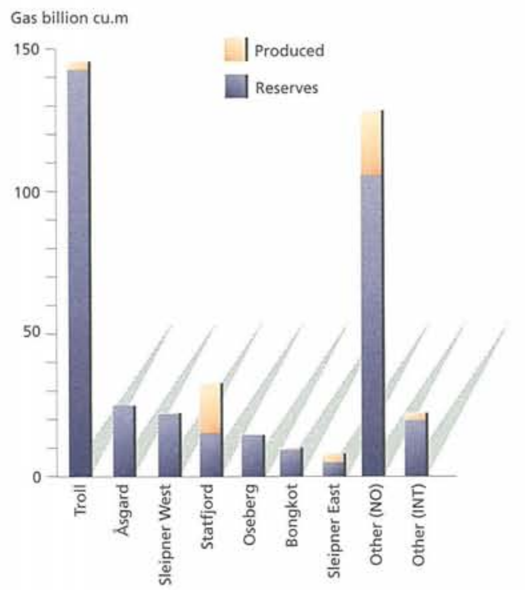
Oil in millions of barrels* *Gas in billions of cu.m*	*1996* Oil	*1996* Gas	*1995* Oil	*1995* Gas	*1994* Oil	*1994* Gas
Proved and probable reserves						
At 1 January	2 012	361	2 041	369	2 023	364
Revisions of previous estimates	50	(19)	67	5	144	(7)
Added through new discoveries	171	24	108	3	57	17
Change in interest	15	0	(22)	(11)	9	-
Production	(196)	(7)	(182)	(5)	(192)	(5)
At 31 December	2 052	359	2 012	361	2 041	369
Analysed by:						
Fields on stream	1 088	170	1 141	45	1 049	40
Fields under development	423	34	219	123	301	123
Fields awaiting development	541	155	652	193	691	206
Proved reserves						
At 31 December	1 899	337	1 853	324	1 909	330

*) Includes natural gas liquids

Revisions of previous estimates derive from a revaluation of petroleum volumes in place and an expected increase in recovery factor, mainly as a result of improved technology.

Oil and gas reserves are stated before deduction for royalty crude. In countries where the group has entered into production sharing agreements, reserves are calculated in accordance with Statoil's equity interest/share of costs.





Statoil manages the state's direct financial interest (SDFI) on the Norwegian continental shelf in addition to the group's own equity interests. The SDFI is included directly in the central government budget and accounts. Statoil's management function is authorised in its articles of association and means that the group represents the overall group and state interests in each licence and partnership. In addition, Statoil is responsible for selling all oil and gas produced for the SDFI. Separate financial statements are kept by the group for the SDFI. Statoil's own financial statements solely reflect its equity share. This section presents extracts from the SDFI accounts based on the same accounting principles applied by Statoil.

OIL AND GAS PRODUCTION

Oil and NGLs available to the SDFI in 1996 totalled 435 million and 15 million barrels respectively, an increase of 28 per cent from 351 million barrels the year before. This rise reflects in part the first full year of production from Troll Oil and Heidrun.

The SDFI's share of gas production in 1996 totalled 11 billion standard cubic metres, up by 57 per cent from 1995. A start to production from Troll Gas during the second half and a substantial expansion in output on the Sleipner fields are the main reasons for the increase.

RESERVES

Exploration operations and the maturation of existing fields boosted the SDFI's share of offshore reserves by 652 million barrels of oil and 65 billion standard cubic metres of gas in 1996. When combined with upgrading of proved and probable reserves, the result is a 14 per cent increase to 5 715 million barrels of oil. Gas reserves remained virtually unchanged at 1 240 billion standard cubic metres. The largest single discoveries and upgradings affecting the SDFI were the Statoil find in block 34/11, Norsk Hydro's discovery in PLs 090 and 190, inclusion of oil reserves in the Troll West gas province and an increase in the recovery factor on Gullfaks, Heidrun, Åsgard, Troll and other fields.

Key figures (NOK million)	1996	1995	1994
Operating revenue	70 300	43 600	39 100
Operating costs	13 100	10 500	10 400
Exploration costs	1 300	1 200	1 500
Depreciation	17 800	12 100	9 700
Operating profit	38 100	19 800	17 500
Property, plant and equipment at 1 Jan	134 600	121 900	103 600
Investment (net)	18 200	24 800	28 000
Depreciation	17 800	12 100	9 700
Property, plant and equipment at 31 Dec	135 000	134 600	121 900

RESULTS

Operating profit for the SDFI in 1996 came to NOK 38.1 billion as against NOK 19.8 billion the year before. The improvement in results reflects substantially larger oil and gas sales as well as higher prices - particularly for oil.

PROPERTY, PLANT AND EQUIPMENT

Net investment in fields and transport networks on the Norwegian continental shelf totalled NOK 18.2 billion in 1996, as against NOK 24.8 billion the year before. The largest capital outlays related to the NorFra trunkline and the Norne, Åsgard and Troll

SFDI's oil and gas reserves

Oil in millions of barrels* *Gas in billions of cu m*	*1996* *Oil*	 *Gas*	*1995* *Oil*	 *Gas*	*1994* *Oil*	 *Gas*
Proved and probable reserves						
At 1 January	5 029	1 243	4 748	1 171	4 625	1 155
Revisions of previous estimates	484	(57)	220	53	309	11
Added through new discoveries	652	65	87	1	129	12
Change in interest	-	-	325	25	-	-
Production	(450)	(11)	(351)	(7)	(315)	(7)
At 31 December	5 715	1 240	5 029	1 243	4 748	1 171
Of which:						
Fields in production	2 933	644	2 865	58	2 029	35
Fields under development	1 205	97	669	559	1 274	561
Fields awaiting development	1 577	499	1 495	626	1 445	575
Proved reserves						
At 31 December	5 373	1 138	4 628	1 051	4 440	990

*) Oil includes natural gas liquids

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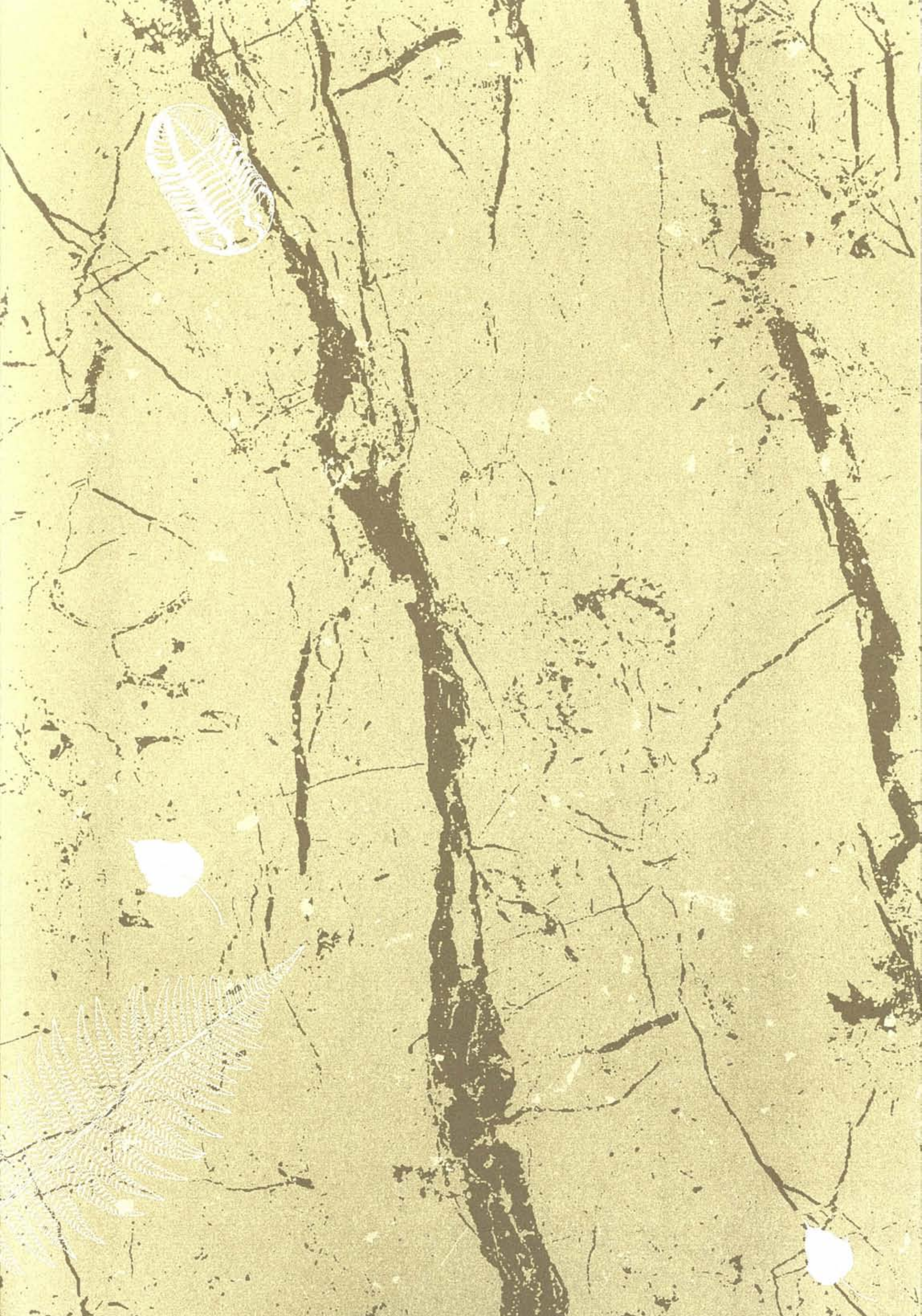

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