ANNUAL REPORT

AND ACCOUNTS 1997

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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 1997 totalled NOK 125 billion. At 31 December, it had the equivalent of 17 000 full-time employees. Statoil is the leading player on the Norwegian continental shelf, and has undertaken a gradual expansion of its international upstream operations in recent years. The group is one of the world's largest net sellers of crude oil, and a substantial supplier of natural gas to Europe. Statoil ranks as the biggest retailer of petrol and other oil products in Scandinavia. It has a 50 per cent interest in the Borealis petrochemicals group and owns 80 per cent of the Navion shipping company. Statoil is responsible for managing the state's direct financial interest (SDFI) in partnerships engaged in exploration for as well as development, production and transport of oil and gas on the Norwegian continental shelf.

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

REVIEW OF 1997

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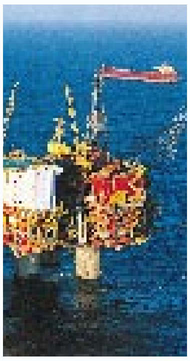
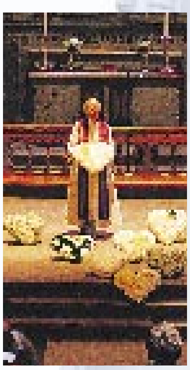


INCREASED RESERVES

STATOIL'S OVERALL OIL AND GAS RESERVES INCREASED BY EIGHT PER CENT. THE GROWTH IN RESERVES OUTSIDE NORWAY WAS PARTICULARLY POSITIVE, TAKING THEM FROM EIGHT TO 16 PER CENT OF THE GROUP'S TOTAL HOLDINGS.

NEW SHIPPING COMPANY

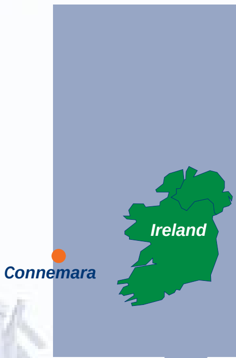
SHIPPING OPERATIONS IN STATOIL WERE DEMERGED INTO A NEW COMPANY, NAVION, WHICH RANKS AS ONE OF THE WORLD LEADERS FOR CRUDE OIL SHIPMENTS. STATOIL OWNS 80 PER CENT OF THE COMPANY, WHICH HAS ITS HEAD OFFICE IN STAVANGER.



HELICOPTER ACCIDENT

A HELICOPTER CRASHED ON ITS WAY TO THE NORNE FIELD ON 8 SEPTEMBER. ALL 12 OF THE PEOPLE ON BOARD LOST THEIR LIVES.

THE DECEASED WERE COMMEMORATED AT A MEMORIAL SERVICE IN BERGEN CATHEDRAL.



IRELAND

THE PRODUCTION PROPERTIES OF THE CONNEMARA FIELD OFF IRELAND FAILED TO LIVE UP TO EXPECTATIONS. WORK ON A DEVELOPMENT WAS ACCORDINGLY HALTED, AND NOK 1.2 BILLION CHARGED AGAINST INCOME.

PRODUCTION START OFF CHINA

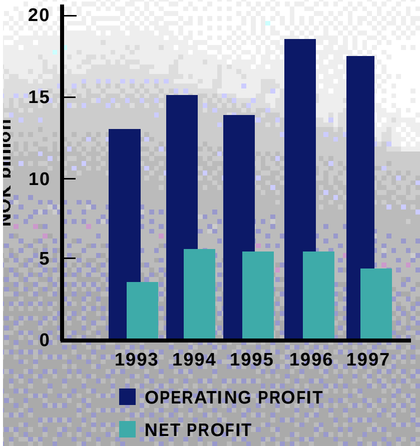
STATOIL BROUGHT THE LUFENG FIELD OFF CHINA ON STREAM JUST AFTER CHRISTMAS. THIS DEVELOPMENT IS BASED ON THE MULTIPURPOSE SHUTTLE TANKER *NAVION MUNIN* AS A PRODUCTION SHIP.

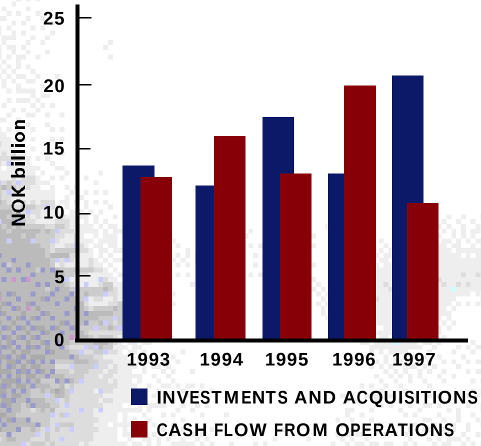
NORNE ON STREAM

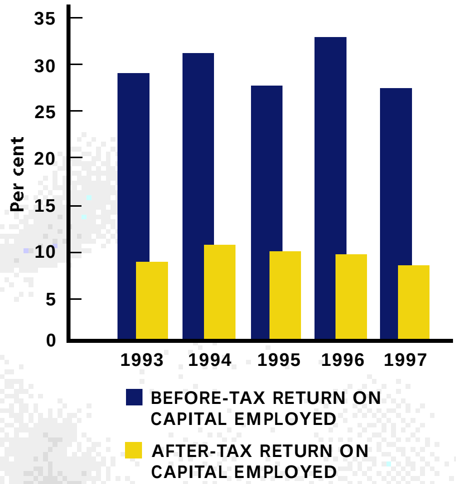
NORNE BEGAN PRODUCTION IN NOVEMBER AS THE FIRST FIELD OFF NORWAY TO BE DEVELOPED WITH A PRODUCTION SHIP.

OIL FROM AZERBAIJAN

OIL PRODUCTION BEGAN IN NOVEMBER FROM AZERI-CHIRAG OFF AZERBAIJAN. STATOIL PARTICIPATES IN AN INTERNATIONAL CONSORTIUM WHICH OPERATES THIS FIELD IN THE CASPIAN.







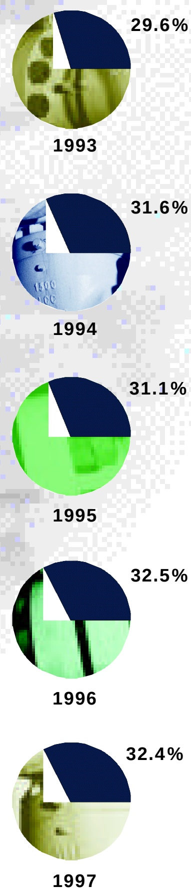
(NOK million)	1997	1996	1995	1994	1993
Operating revenue	124 726	106 981	86 517	84 070	81 340
Operating profit	17 042	18 234	13 590	14 741	12 712
Profit before taxation	13 989	17 924	14 689	16 900	11 980
Net profit	4 311	5 281	5 265	5 379	3 394

(NOK million)	1997	1996	1995	1994	1993
Net investments and acquisitions	19 667	11 910	16 938	10 683	13 306
Net before-tax cash flow from operations	23 275	27 860	21 645	23 380	19 938
Cash flow from operations	10 656	19 638	12 934	15 736	12 590
Interest-bearing debt	29 522	23 883	22 951	17 790	23 814
Shareholder's equity	38 478	37 142	33 832	30 215	26 507

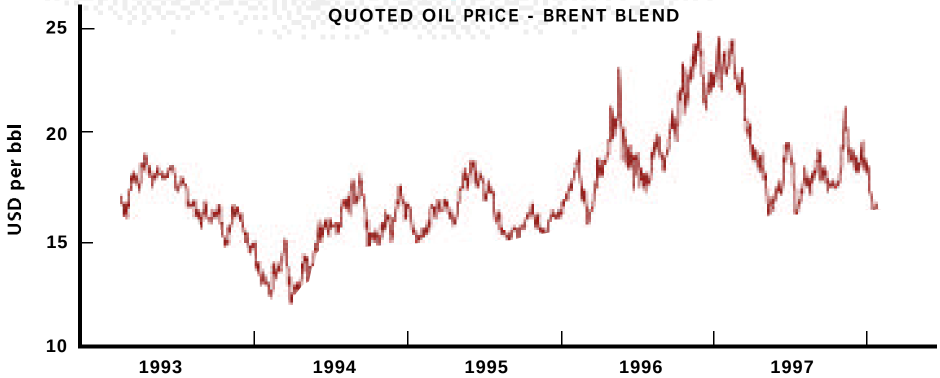
	1997	1996	1995	1994	1993
Before-tax return on capital employed	27.1%	32.2%	27.1%	30.7%	28.3%
After-tax return on capital employed	8.6%	9.6%	9.9%	10.4%	7.8%
Return on equity	11.2%	14.9%	16.4%	19.0%	13.4%
Equity ratio	32.4%	32.5%	31.1%	31.6%	29.6%

	1997	1996	1995	1994	1993
Exploration expenditure (NOK million)	3 473	1 644	1 297	1 475	1 702
Oil production, in thousands of bbls/d	411	464	424	449	414
Sales of equity gas per day (million cu.m)	22.1	19.6	12.3	11.8	10.4
Refinery throughput, in thousands of bbls/d	273	250	216	224	225
Oil reserves, in millions of barrels (incl NGL)	2 051	1 899	1 853	1 909	1 870
Gas reserves, in billions of cubic metres	366	337	324	330	340

EQUITY RATIO

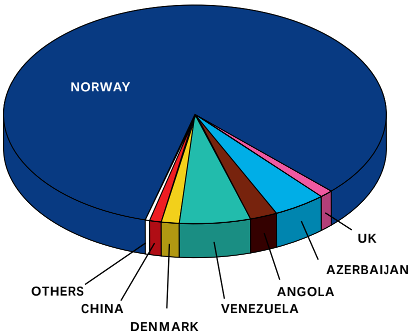


QUOTED OIL PRICE - BRENT BLEND

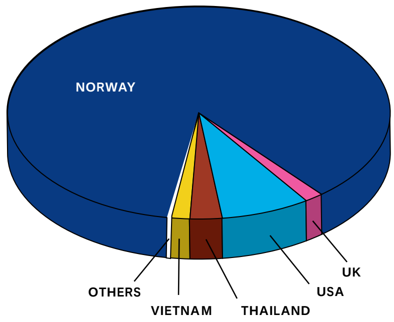


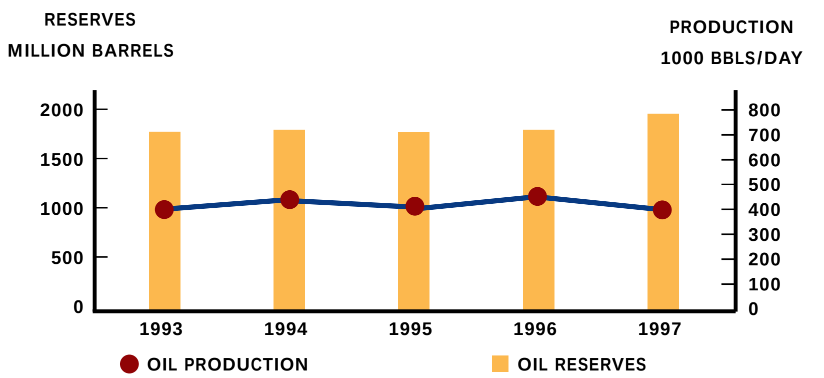
FINANCIAL HIGHLIGHTS

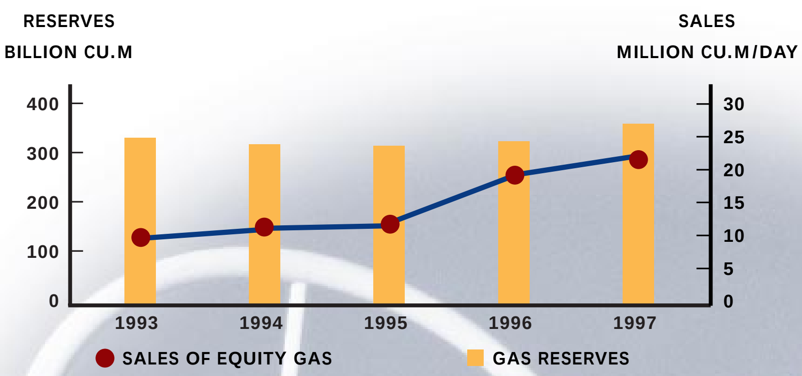
OIL RESERVES



GAS RESERVES







17042 operating profit *(NOK m)*

4311 net profit *(NOK m)*

DEFINITIONS:

Capital employed:
Total assets less non-interest bearing debt

Before-tax return on capital employed:
Profit before tax plus borrowing costs as a percentage of average capital employed

After-tax return on capital employed:
Net profit plus borrowing costs after tax as a percentage of average capital employed

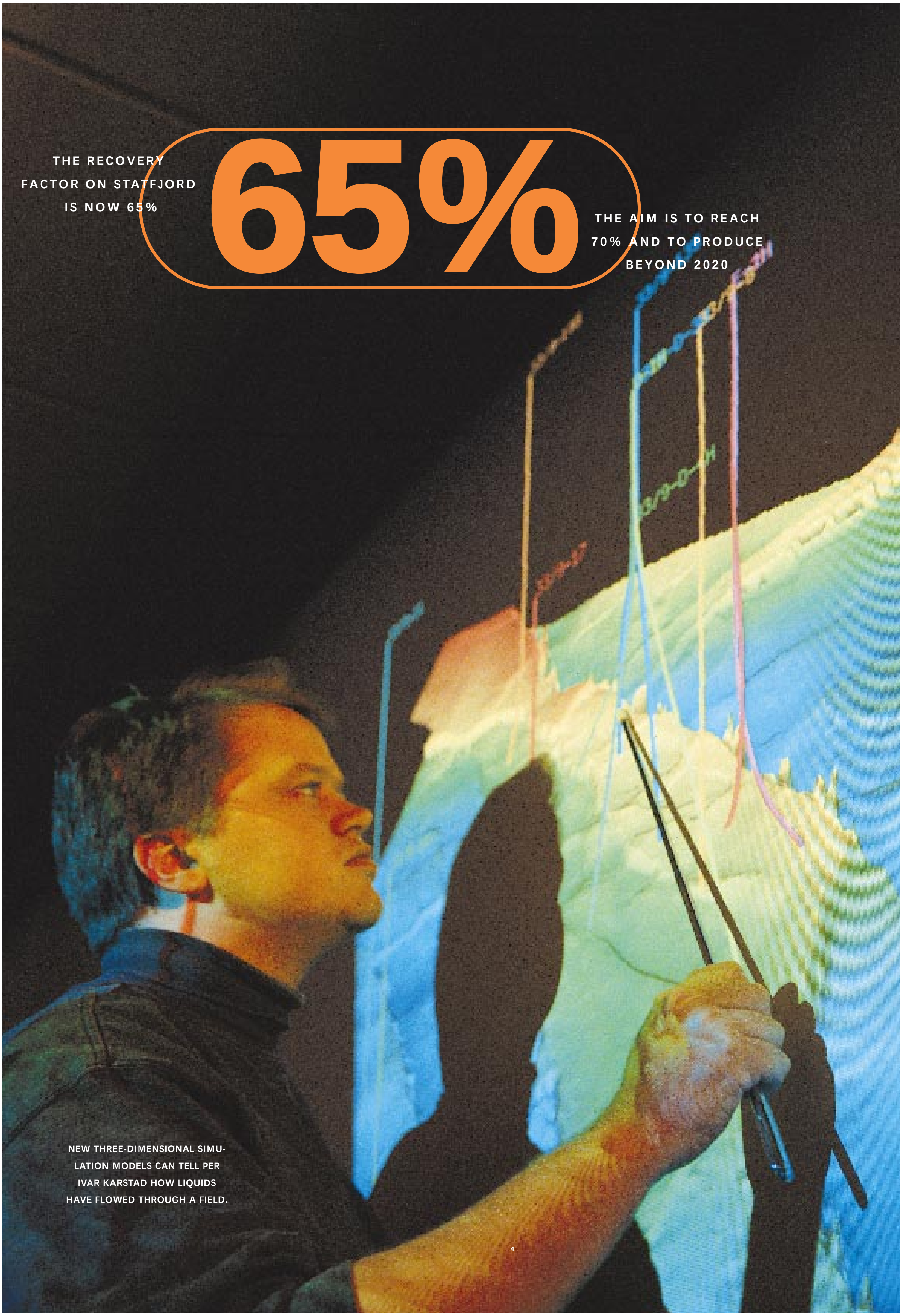
Return on equity:
Net profit including minority interests as a percentage of average shareholder's equity

Equity ratio:
Shareholder's equity including minority interests as a percentage of total balance less accounts payable related to the state's direct financial interest (SDFI) in the petroleum industry, see page 64

Net before-tax cash flow from operation:
Cash receipts from and cash disbursements to operations less net financial disbursements

Cash flow from operations:
Cash receipts from and cash disbursements to operations less net financial disbursements less taxes paid

Reserves:
Proved, commercially recoverable reserves

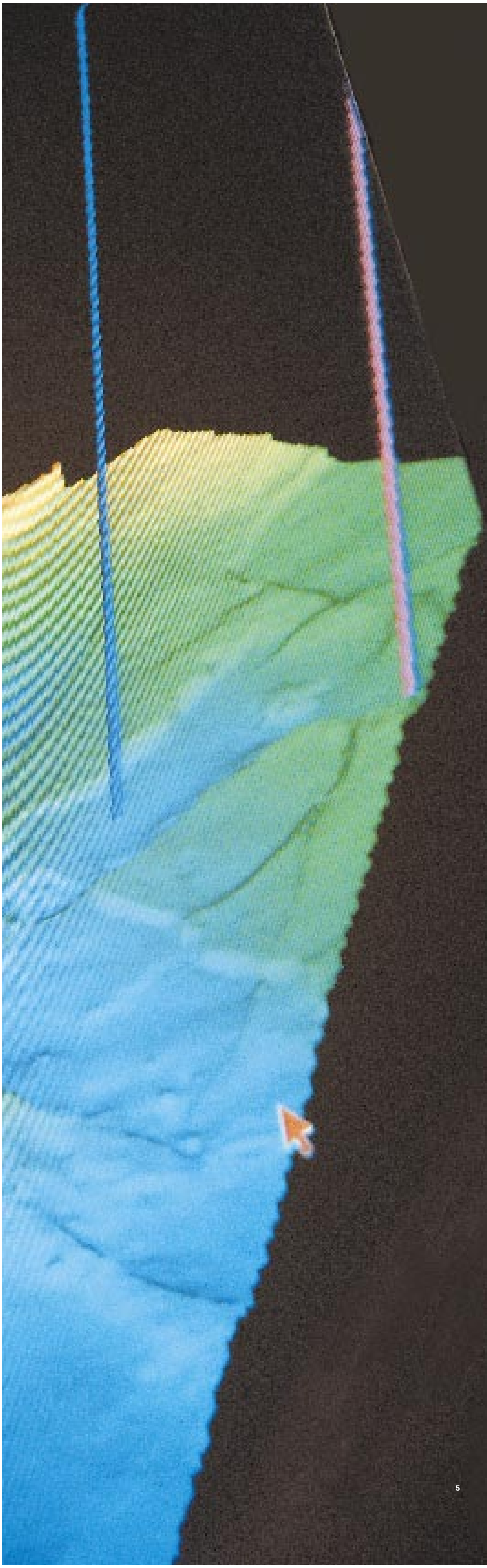


THE RECOVERY FACTOR ON STATFJORD IS NOW 65%

65%

THE AIM IS TO REACH 70% AND TO PRODUCE BEYOND 2020

NEW THREE-DIMENSIONAL SIMULATION MODELS CAN TELL PER IVAR KARSTAD HOW LIQUIDS HAVE FLOWED THROUGH A FIELD.



BIG OIL FIELD GETS BIGGER

Statfjord has been on stream for almost 20 years. Since the A platform began flowing on 24 November 1979, this field's three production installations have yielded 3.5 billion barrels of oil. Systematic efforts to monitor reservoir developments in order to improve understanding of sub-surface conditions allowed Statoil as operator to upgrade recoverable reserves in 1997 from 3.9 to 4.1 billion barrels out of 6.3 billion barrels of stock tank oil originally in place. This corresponds to a recovery factor of 65 per cent, and 70 per cent is regarded as within realistic reach.

Development of a multidimensional computer programme has been an important tool in enhancing reservoir understanding. This software has made it possible to identify 94 opportunities for new wells. A total of 190 wells have been drilled on Statfjord so far.

Statoil's goal is to continue producing oil from the field beyond 2020. Drilling of new production wells and increased use of gas injection will make the most important contributions to reaching this ambitious goal. From 2000, one alternative is to use all gas production from Statfjord for pressure support. This amounts to 33 million cubic metres per day, and sales commitments for Statfjord gas could be met by supplies from other Norwegian fields. Once oil production on Statfjord is approaching its end, the injected gas can be recovered. The multidimensional computer programme will also be adopted on other fields operated by Statoil. Similar equipment has already been ordered for Heidrun, and the use of corresponding tools is under consideration by the Gullfaks licence.

CHIEF EXECUTIVE HARALD NORVIK (RIGHT) AND CHAIRMAN KJELL KRAN INSPECT ONE OF THE OLD OIL FIELDS IN BAKU DURING A VISIT BY THE BOARD OF DIRECTORS TO AZERBAIJAN IN AUTUMN 1997.

Twelve people lost their lives on 8 September 1997 when a helicopter crashed on its way to Statoil's Norne production ship. The accident was a blow to the whole organisation. Our thoughts go to the bereaved, to the families and friends who lost their loved ones.

This tragic incident provides a serious reminder of how important it is to maintain a strong focus on safety in our industry. Although great efforts have been devoted to reducing accidents and injuries, safety results for 1997 are not good enough. They *must* and *will* get better. This is my responsibility, and a responsibility for every employee in Statoil.

Oil exploration is expensive and risky. In 1997, we were obliged to write off an investment of NOK 1.2 billion because the Connemara field off Ireland proved unproducible. That means we've experienced the extremes between exploration success and disappointment. The lesson of Connemara is that our risk assessments must improve even further.

The group's oil and gas reserves rose by eight per cent in 1997. Our international reserves expanded from eight to 16 per cent of the total, a substantial increase which lays the basis for value creation. Our goal is that Statoil's net equity production will be a million barrels of oil equivalent per day in 2005. That represents almost a doubling from today's level. A third of this output will come from our projects outside Norway. The additional reserves proved in 1997 bring us closer to this goal.

OIL AND GAS RESERVES INCREASED

We initiated production from our own production ship on the Lufeng field off China in 1997. Azeri-Chirag, in which we have an 8.56 per cent interest, began producing in the Caspian. We participate in major oil discoveries off Angola. The group is well established in Venezuela. We have secured a substantial exploration portfolio in the Gulf of Mexico, and have started work in this area from our recently-established exploration office in Houston. Our Eastern Group subsidiary has developed a visible position in the north-eastern USA's energy market. We secured operatorships for five licences and interests in another four from Britain's 17th offshore licensing round. And we can look back on the first full year of operation as sole owner of the Alliance Gas marketing company in the UK.

Off Norway, we have begun production from the Norne field. This project provides practical evidence that the ambitious goals we have set for cost reductions and rapid project execution are attainable. Our principal markets are characterised by growth, but also by change. General terms are being affected and competition is getting sharper. As a result, I expect a stronger restructuring in our industry. I see opportunities for strengthening our position in several of the group's key areas.

We sold 2.1 million barrels of oil and large volumes of gas every day in 1997. That makes us one of the world's biggest players in the oil market. We're satisfied that Statoil is the preferred supplier for many customers, and will be working to maintain and strengthen that position.

Statoil is an important supplier of natural gas to Europe. We have a principal responsibility for the production facilities and transport systems which carry gas from Norway's offshore fields to the European continent. Norwegian gas sellers are committed to delivering 75 billion cubic metres of gas per year from 2005. Statoil will account for roughly 15 per cent of these deliveries. The European Union's gas directive presents us with new challenges and interesting commercial opportunities in the European gas market. Interest in buying more gas from Norway remains high. This will call for major and bold decisions by both sellers and buyers.

Reliable delivery, cost-effective production and transport and flexibility in relation to market requirements will be our most important considerations.

In 1997, the UN conference in Kyoto gave us the first binding protocol for reducing greenhouse gas emissions in industrialised countries and in the reforming countries of eastern Europe. Statoil has worked purposefully on climate challenges for a number of years. Our own emissions per unit produced have been sharply reduced. We feel that industry itself must play an active role in efforts to limit greenhouse gas emissions, and we want to collaborate with the authorities, competent industrial companies and research environments to develop and implement cost-effective solutions.

Statoil's principal objective is to create financial results on the basis of the resources we manage and the industrial operations we pursue in a number of areas. We acknowledge that our 1997 results, viewed overall, are weaker than expected. Delivering better results in coming years will be one of the group's principal challenges. Good profitability is essential in creating a good foundation for long-term value creation.

EXPERTISE AND ADAPTATION

Statoil is primarily a knowledge-based company. We work every day to adapt the whole organisation to fresh challenges. In 1997, we once again pushed back previous limits. On Statfjord alone, we upgraded recoverable reserves so that we and the other licensees can take out an additional gain of about NOK 25 billion. We have implemented a number of successful projects in close collaboration with other oil companies and suppliers. We have adopted new technological solutions which will help to provide the market with better and cheaper products, and which will also increase our efficiency and earnings.

We will be drawing on these experiences in our on-going efforts to achieve ambitious goals for increased safety in all operations, a stronger footing on the Norwegian continental shelf, continued international growth and improved customer relations.

The results will be good competitiveness and high value creation.

Harald Norvik
President and chairman
of the executive board

PRODUCTION SUPERVISOR FRANK JANSEN COLLABORATES WITH HIS CHINESE COLLEAGUE LI XIANG LONG ABOARD *NAVION MUNIN* ON THE LUFENG FIELD.

1. INTRODUCTION

The Statoil group achieved an operating profit of NOK 17 billion for 1997, which is slightly down from the year before. Profit before tax came to NOK 14 billion as against NOK 17.9 billion in 1996. Net profit for the year amounted to NOK 4.3 billion compared with NOK 5.3 billion in 1996. Return on capital employed after tax came to 8.6 per cent as against 9.6 per cent the previous year. Certain factors had a particular influence on results for the year:

- lower oil production
- good operation and high regularity of production installations and transport systems
- a marked expansion in exploration operations
- good results for refining, petrochemicals and shipping
- write-downs associated with the acquisition of oil company Aran
- weak results from retailing in Scandinavia
- a weaker financial result owing to the higher USD exchange rate against the NOK.

Acquiring Aran two years ago has not yielded the results expected by Statoil because production properties for Connemara off Ireland failed to live up to expectations. Work on a development of this field was halted and NOK 1.2 billion in costs for the project were charged against income. Statoil has made a thorough review of the Connemara project in order to draw the maximum organisational lessons from it. This applies particularly to risk assessment, application of best practice and cooperation with partners.

The tragic helicopter crash near Norne in September, which cost the lives of 12 people, showed will full clarity that safety efforts in our operations must always be given the highest priority.

Investment and exploration efforts by the Statoil group expanded substantially in 1997. Finding, acquiring and maturing additional resources increased overall oil and gas reserves by eight per cent. This will strengthen long-term earnings.

Statoil continued developing its business during 1997 to strengthen future earnings. Shipping operations were demerged into the new Navion company, established together with a partner. Service stations in Germany were sold. Statoil bought, sold or swapped interests in 21 licences off Norway and the UK. These transactions were made to adapt the business to changed market conditions and to concentrate resources on the exploration side. This will strengthen the group's position in selected core areas of the north-west European continental shelf. The swap agreements led to a slight reduction in supplies of entitlement oil for 1997. But this will be offset by an improvement in the group's long-term production profile and competitiveness.

Work on improving the cost efficiency of operations yielded good results in 1997. The board nevertheless notes that the group's results and return on capital for the year were unsatisfactory. Measures initiated to balance the group's long-term growth and short-term earnings must continue to receive high priority.

Kjell O Kran, born in 1937, is chief executive of Sparebanken NOR. He received an economics degree from the University of St Gallen in 1963. Mr Kran has been chairman of the Statoil board since 1996.

2. PRODUCTION, TRANSPORT AND DEVELOPMENT

Health, the environment and safety

The helicopter crash which cost the lives of 12 people is the most serious accident to strike Statoil as operator. In cooperation with the helicopter company, partners and the authorities, the group has carefully reviewed all aspects of the accident with a view to reducing the risk of helicopter transport even further.

A good working environment and a focus on safety and the environment are crucial for the group's value creation and positions. Health, environmental and safety conditions are regularly monitored to provide a basis for Statoil's continuous improvement efforts. The board is giving attention to this work, and notes that the group occupies a leading position in these areas. Systematic efforts have yielded results in several areas. Nevertheless, the first increase for many years in the number of lost-time injuries was recorded in 1997. Measures instituted by Statoil and its suppliers to achieve the goal of zero lost-time injuries will be monitored by the board.

Ellen Mo, born in 1951, is a partner in Oslo's Hauge & Co law firm. She received a law degree from the University of Oslo in 1976, and is qualified to plead cases in the Supreme Court. Ms Mo has served as deputy chairman of the Statoil board since 1997.

The board regards the Kyoto agreement, seen in relation to the precautionary principle, as necessary and important. Statoil has initiated measures to meet the challenges posed by this protocol, and has set the ambitious target of reducing carbon dioxide emissions by 30 per cent over 10 years. The board believes that the aggressive environmental efforts now under way are necessary and will strengthen Statoil's commercial position.

Bjørn E Egeland, born in 1943, is logistics supervisor on the Gullfaks C platform. He has represented the employees on the Statoil board since 1996.

Production and pipeline transport

Statoil's average daily supplies of entitlement oil contracted from 464 000 barrels in 1996 to 411 000 barrels. This partly reflected declining production from the major Statfjord, Gullfaks and Oseberg fields. The group also swapped interests in producing fields for holdings in discoveries which will begin production at a later date. These swaps represent a short-term reduction of 30 000 barrels in Statoil's average daily output.

Production from Norway's large offshore gas fields is set to expand to fulfil the country's major gas sales agreements. This will also increase Statoil's gas sales.

The group's commitment to improving recovery from producing fields is continuing to yield good results. Recovery factors have risen significantly on a number of oil fields, extending their producing life. A recovery factor as high as 70 per cent may be achieved on Statfjord. This has been made possible by systematic efforts to develop and apply new technology for seismic surveying, reservoir modelling and drilling. The board is very satisfied with Statoil's contribution in this way to enhancing value creation for the group, its partners and its owner.

RECOVERY FACTOR UP

Good regularity has been achieved in production and the transport systems. The Zeepipe IIB gas trunkline, which runs from Kollsnes to the Draupner hub in the North Sea, began regular operation on 1 October.

Norne came on stream in autumn 1997. In a number of respects, this field represents a pioneering project. Development costs are several billion kroner lower than they would have been with traditional solutions. Standardised subsea technology and effective project execution were crucial to this good result. Norne is the first Norwegian field to make permanent use of a production ship. Production costs per barrel of oil produced are among the lowest for offshore operations in the international petroleum industry. Norne was shut in on 1 February 1998 because its oil spill clean-up equipment proved unsatisfactory at handling the highly viscous crude produced from this field. Extensive efforts were initiated by Statoil and suppliers to improve this equipment.

Tormod Hermansen, born in 1940, is chief executive of Telenor. He has an economics degree from the University of Oslo. Mr Hermansen became a director of Statoil in 1991.

The Lufeng field on the Chinese continental shelf began producing in late 1997. Cost-effective solutions make this discovery commercial even though it is expected to remain on stream for only three-four years. Multipurpose shuttle tanker *Navion Munin* is being utilised in production mode, and extensive use has been made of other Statoil-developed technology in developing Lufeng.

Production from Azeri-Chirag in the Caspian started in October as the first stage in a joint development of these two fields and the deepwater section of the Gunashli discovery off Azerbaijan. Statoil participates in the operator, Azerbaijan International Operating Company (AIOC).

Development

Exploration and development costs rose during 1997, owing to the high level of activity in the industry. Rig rates rose sharply over a short period as a result of heavy demand and limited newbuilding in recent years. Engineering and fabrication costs have also risen recently. However, Norway's Norsok programme and Statoil's own BRU project for better and faster development have helped to rein in the level of costs and shorten execution times. Maintaining the strengthened competitive position achieved by Norway's offshore sector through these efforts will be important.

In the board's view, developing the Åsgard field and its associated land facilities at Kårstø is important for the group's future value creation. Work at Kårstø has become significantly more extensive than originally planned, with several additional facilities. In addition, some cost components in the project were underesti-

IMPORTANT DEVELOPMENTS

mated at the planning stage. The investment framework has been increased from NOK 2.6 billion to just over NOK 8 billion. Value creation and profitability remain satisfactory in the revised plans.

The Åsgard development makes extensive use of subsea systems and floating production installations. New technology is being adopted in a number of areas, particularly to master demanding conditions of pressure and temperature. The Åsgard A production ship was delayed from the Japanese yard. As a result, production is expected to start in early 1999.

Work on the NorFra trunkline system, which will deliver gas to France from autumn 1998, is on schedule. Laying the 840-kilometre line was completed in August, a month early, and within the established investment framework.

3. OIL AND GAS SALES

Gas markets

Markets for Norwegian gas made positive progress in 1997. The Gas Negotiating Committee (GFU) concluded long-term agreements with Italy's Snam for six billion cubic metres per annum and with Czech company Transgas for three billion cubic metres per year. These contracts mean that overall Norwegian gas sales just after 2000 will reach an annual level of 75 billion cubic metres.

Statoil has strengthened its position in the gas market over recent years by becoming sole owner of Alliance Gas in the UK and by acquiring America's Blazer Energy through its Eastern Group subsidiary in the USA.

In Norway, Statoil is working with Norsk Hydro and Statkraft through the Naturkraft company to build two gas-fired power stations. The Norwegian Pollution Control Authority has given permission to start construction preparations, but an emission permit with associated terms will not be finalised until late 1998. Before a final decision can be taken, the profitability of the power stations must be clarified. Conditions set by the authorities will be crucial in this context. The board believes that gas-fired power stations represent an important business opportunity, both in Norway and internationally.

Oil trading, refining and marketing

Statoil currently trades 2.1 million barrels of oil per day, including just over 1.5 million barrels from the state's direct financial interest (SDFI) and 0.4 million barrels as the group's entitlement oil. In addition to its position in Europe, Statoil has developed market positions and contacts in the USA and south-east Asia to sell oil with good profitability.

Shipping operations play an important role in the group's marketing apparatus for crude oil and refined products. They have now been demerged into a separate subsidiary, Navion, owned 80 per cent by Statoil and 20 per cent by Rasmussen. Fleet utilisation and operations were very good in 1997, contributing to a good financial result.

Yngve Hågensen, born in 1938, is general secretary of the Norwegian Federation of Trade Unions. He became a director of Statoil in 1990.

Navion has also developed new floating production systems which provide competitive advantages. One of the company's multipurpose shuttle tankers is being used as the production ship on the Lufeng field off China, with another due to produce Britain's Pierce discovery.

Refinery operations achieved a significant improvement in results during 1997 thanks to higher margins, good plant availability and improvements in cost efficiency. Completion of the Melaka refinery in Malaysia, owned 15 per cent by Statoil, is six months behind schedule. It is now due to come on line in the fourth quarter of 1998.

Competition in the Scandinavian petrol market has sharpened considerably over recent years. Reduced margins weakened results in this area. Action to improve profitability and earnings has been initiated. These measures are intended to reduce annual costs by more than NOK 400 million and downsize staffing by the equivalent of about 350 full-time jobs.

The development of Statoil's service station network in the Baltic states and Poland is on course. Retail operations in Germany were sold during 1997 in order to concentrate on markets where the group can achieve adequate strength.

Petrochemicals

Operations at the Borealis petrochemicals group, owned 50 per cent by Statoil, yielded good results in 1997. This performance primarily reflected stable operation and increased demand for polyolefins in world markets. Finland's Neste, the other owner of Borealis, has signed a letter of intent on selling its holding to Austrian oil company OMV and IPIC, the national investment company of Abu Dhabi. At the same time, Borealis has signed a letter of intent with OMV to acquire the PCD polyolefin company, which operates primarily in Austria and Germany.

Production and sale of methanol from the Tjeldbergodden plant represents a further extension of the group's operations. This facility came on stream in June 1997, two months behind schedule. Regularity has been good after the running-in period.

4. PROJECTS AND NEW BUSINESS OPPORTUNITIES

INTERNATIONAL SHARE OF RESERVES UP

Exploration operations for the year on the Norwegian continental shelf added 66 million barrels of oil and 11 billion cubic metres of gas to Statoil's reserves. This is the best discovery rate for several years, but the overall increase in reserves from exploration alone nevertheless failed to offset the volume produced in 1997. Improved recovery factors for producing fields once again made major contributions to the group's reserves in 1997. Off Norway, Statoil increased its reserves from 349 million barrels of oil equivalent to 750 million barrels. The international share of group reserves thereby increased from eight to 16 per cent during the year.

The Vestprosess company was established with Statoil as operator. It will construct and operate pipelines to carry natural gas liquids and condensate from the crude oil terminal at Sture and the Kollsnes gas treatment plant to the Mongstad refinery. Coordination with the existing facilities at Kollsnes and Sture will enhance value creation. At the same time, it lays the basis for further value added at the Mongstad refinery through an upgrading of its crude oil facilities.

As operator, Statoil submitted plans for development and operation of the Huldra field in the North Sea and phase two of the Gullfaks satellites project.

Work on commercialising reserves in the Snøhvit field is making progress. Estimated development costs for a land-based gas liquefaction plant have been substantially reduced through purposeful technology development. Efforts to clarify development solutions, transport options and markets even further will continue in 1998.

Statoil is a partner in the Girassol field off Angola, currently under evaluation for development. Angola represents one of the group's most promising assets for future international oil production.

The group is also involved in further development of a large Venezuelan field. This country will be an important priority area for Statoil.

A strong position is enjoyed by the group in Azerbaijan, opening opportunities for substantial long-term supplies of entitlement oil.

In addition, Statoil has secured new exploration acreage in the US Gulf of Mexico, on the UK continental shelf and in Kazakstan's sector of the Caspian.

Helge Midttun, born in 1955, is president of Stento ASA. He received an economics degree from the Norwegian School of Economics and Business Administration in Bergen in 1979. Mr Midttun became a director of Statoil in 1997.

5. ORGANISATIONAL DEVELOPMENT

A strongly-founded ethical base and shared attitudes are important elements in Statoil's corporate culture. They are particularly important in the development of its international operations, where employees work in countries with demanding social conditions. The group gives weight to ensuring that respect for human rights forms part of the value system in all countries in which it operates.

Organisational development, expertise enhancement and training are important tools for meeting tougher competition and quality requirements in Statoil's markets. Great attention is paid to further strengthening its core technologies.

EXPERTISE AND EDUCATION

Applying information technology in effective ways is becoming an increasingly important competitive factor. During 1997, employees in Statoil were given the opportunity to have a PC at home in exchange for signing a training contract. Intended to enhance expertise on using IT, this has boosted learning and enthusiasm in the organisation.

High productivity and low costs are fundamental to competitiveness in all the group's markets. Through an in-house programme, Statoil has developed new administrative systems and work processes for the group. Implementation of this programme is now under way, and will yield more rational work processes and reduced costs.

The Statoil group had 17 177 employees at 31 December 1997, as against 15 171 a year earlier. This figure includes 6 118 people employed in the group's operations outside Norway. The increase reflects several factors, including retailing growth in the Baltic states and Poland. Forecourt personnel in these countries are employed by the group. Acquiring Blazer Energy increased the US workforce. Statoil has continued the gradual expansion of its international upstream operations by recruiting local key personnel in a number of categories. Higher activity on the Norwegian continental shelf has also increased staffing requirements. The labour market in the oil industry is tight, both in Norway and internationally, but Statoil has been successful in recruiting and retaining highly-qualified personnel.

Iver Pehrson, born in 1940, is a staff engineer in Statoil. He graduated as an engineer from the Norwegian Institute of Technology in Trondheim. Mr Pehrson has represented the employees on the Statoil board since 1994.

6. FINANCIAL DEVELOPMENTS

Overall operating revenues for 1997 came to NOK 124 726 million. Operating profit was NOK 17 042 million as against NOK 18 234 million in 1996. Profit before tax was 13 989 million. Net profit came to NOK 4 311 million compared with NOK 5 281 million the year before.

Operating profit for exploration and production amounted to NOK 15 427 million as against NOK 16 854 million in 1996. Refining and marketing operations showed an operating profit of NOK 1 301 million, down by NOK 367 million from the year before. Operating profit for petrochemicals rose by NOK 183 million to NOK 396 million.

Costs of NOK 1 200 million associated with the Connemara project in Ireland have been charged against income.

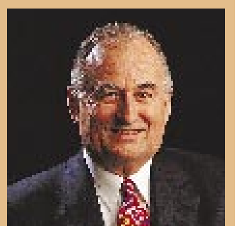
The annual result includes gains of roughly NOK 900 million on the sale of part of the property portfolio to Statoil's pension funds and on sales of licence interests.

About NOK 400 million has been charged against operating profit in respect of current restructuring measures in Scandinavian retailing and in Borealis.

NOK 2 800 million in currency loss on the group's debt arising from the increased USD/NOK exchange rate is charged against the financial result. These losses are mostly unrealised.

The average market price for Brent Blend, the North Sea reference crude, was NOK 135 (USD 19.1) per barrel in 1997. This compares with NOK 133 (USD 20.7) the year before. Margins for refining and petrochemical products rose from 1996 to 1997.

Net capital investment by Statoil totalled NOK 19 667 million as against NOK 11 910 million in 1996, with 57 per cent of this spending made in Norway. The level of investment was high in 1997, reflecting several major projects on the Norwegian continental shelf, new multipurpose shuttle tankers, the acquisition of Blazer Energy in the USA and large expenditures on exploration and production off Norway. Fixed assets worth NOK 3 326 million were sold during the year.



Mauritz Sahlin, born in 1935, was chief executive of AB SKF until 1995 and currently holds a number of important directorships. He has an engineering degree from the Royal University of Technology in Stockholm. Mr Sahlin became a director of Statoil in 1996.

Investment has been partly financed by cash flow from operations, which came to NOK 10 656 million in 1997 as against NOK 19 638 million the year before. This substantial decline primarily reflects higher tax payments than in 1996 and NOK 4 000 million in extraordinary repayment of debt to the state's direct financial interest. New long-term loans of NOK 8 762 million have been taken up by the group, which made NOK 2 242 million in loan repayments.

Interest-bearing debt is largely denominated in US dollars, and totalled NOK 29 522 million at 31 December. The group's long-term loans have an average maturity of seven years, and interest charges in 1997 averaged 5.4 per cent as against 6.2 per cent the year before.

Statoil managed a portfolio of NOK 14 800 million in bonds and shares at 31 December. Seventy-four 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 in Statoil's pension funds, which are not consolidated in the accounts. The average return on financial assets in 1997 was 14.4 per cent.

In addition to its own equity interests, Statoil manages the state's direct financial interest (SDFI) in Norwegian oil and gas operations. Separate financial statements are kept by the group for the SDFI. Only the group's own equity interests appear in the Statoil accounts.

Information on remuneration paid to the chief executive and the governing bodies is provided in note 3 to the accounts for Den norske stats oljeselskap a.s.

Accounts for the group prepared in accordance with Norwegian generally accepted accounting principles (NGAAP) show an operating profit of NOK 16 439 million, down by NOK 2 094 million from 1996.

A net profit of NOK 8 398 million was recorded by the parent company, Den norske stats oljeselskap a.s. This figure includes NOK 3 656 million in sales gain from the demerger of shipping operations to the Navion subsidiary. NOK 1 595 million written down on the shares in Statoil Investments Ireland has been charged to the accounts. These two items are eliminated in the group accounts.

Åse Simonsen, born in 1943, is a senior accounting coordinator in Statoil. She has an economics degree from the Norwegian School of Economics and Business Administration in Bergen. Ms Simonsen has represented the employees on the Statoil board since 1990.

Dividend paid by Statoil in recent years has corresponded to about 30 per cent of the group's net profit, helping to enhance its financial strength. The central government budget for 1997 put Statoil's estimated dividend payment at NOK 2 940 million, equivalent to 68 per cent of its net profit. Statoil has indicated to its owner that a dividend approaching 50 per cent represents a good and competitive level for the future. The board would emphasise the importance of predictability in determining the level of dividend. In this context, the board considers a payment of NOK 2 940 million for 1997 to be high. The board anticipates that future dividend payments from Statoil will build on a long-term policy and be seen in relation to the group's equity capital requirements.

The board recommends the following allocation of profit for 1997 in the parent company, Den norske stats oljeselskap a.s (in NOK million):

Group contribution paid	516
Allocated to statutory reserve	2 450
Dividend	2 940
Allocated to distributable reserve	2 492
Net profit	8 398

7. FUTURE DEVELOPMENTS

Results for the group in coming years will depend on developments in the oil market. The build-up in global production capacity is expected to continue. Forecast growth in demand is unlikely to alter fundamental market conditions. To safeguard Statoil's competitiveness and earnings, it will accordingly be important to maintain a sharp focus on cost-effective operation, development and commercial progress.

LONG-TERM GOALS REMAIN UNCHANGED

Margins in refining and petrochemicals are expected to continue fluctuating. There is no reason to expect margins to reach a higher level in the foreseeable future. Markets are characterised by maturity and stiff competition. The same applies to retailing.

The Norwegian continental shelf remains a highly interesting exploration area. Exploration operations in the blocks awarded in the 15th offshore licensing round have yielded encouraging results. The group's knowledge and technological expertise provide a solid foundation for proving, developing and producing additional reserves in these areas.

Gunn Wærsted, born in 1955, is president of Vital Forsikring. She gained a degree from the Norwegian School of Management in 1979. Ms Wærsted became a director of Statoil in 1997.

Statoil's strategy for future value creation involves concentrating its international upstream operations in selected core assets. The Caspian, Angola, Venezuela, the US Gulf of Mexico and the UK continental shelf currently stand out as the most relevant of these areas.

The European gas market will continue to expand. Reaching agreement with the British authorities on a new treaty for the Frigg transport systems opens opportunities in the UK market. Market growth in continental Europe provide opportunities for increased gas sales. As chair of the Gas Negotiating Committee, Statoil is talking with several potential customers about additional gas volumes. In the event, these would have to be provided by developing new production capacity. At the same time, business opportunities are being opened for also following gas through to end users. The European Union's gas directive and changes in Europe's energy markets represent new challenges.

New players are becoming involved in gas markets, and could contribute to structural changes. Transport capacity is also being developed from new production areas, such as Britain to continental Europe. These trends will alter and sharpen competition.

Statoil's goal is to increase its daily oil and gas production to a million barrels of oil equivalent by 2005, including at least 300 000 barrels from areas outside Norway. Attaining these objectives will be demanding.

The board is maintaining its goal of NOK 25 billion in operating profit for 2000. A number of improvement efforts are under way within the group to meet this target. Capital investment and the build-up of reserves in recent years have laid the basis for substantial future earnings. The board notes that operations and development work by the group provide a good foundation for achieving the growth sought in results.

STAVANGER, 18 FEBRUARY 1998
THE BOARD OF DIRECTORS OF DEN NORSKE STATS OLJESELSKAP A.S

KJELL O KRAN
CHAIRMAN

ELLEN MO
DEPUTY CHAIRMAN

HELGE MIDTTUN

GUNN WÆRSTED

IVER PEHRSON

MAURITZ SAHLIN

YNGVE HÅGENSEN

ÅSE SIMONSEN

TORMOD HERMANSEN

BJØRN E EGELAND

IT STEP

INTO THE FUTURE

Nineteen-ninety-seven can best be remembered as the year when information technology came home to the individual Statoil employee world-wide. The IT step aims to fulfil one of the goals in *Three steps forward to a new millennium*, Statoil's internal programme to prepare for 2000 and beyond. An important part of this commitment involves enhancing employee expertise in utilising IT.

In practice, this means that everyone in the group was given the opportunity to receive a home PC with an internet connection. The IT step had about 13 500 participants at 31 December, including 10 300 in Norway alone. All have contracted with the group to take part in an extensive training programme.

Staff engineer Helge Joa in Stavanger was quick to sign up for the IT step, to the benefit of his three sons - Morten, Kjetil and Eirik - and his wife Gunn Jane. The family spends two-three hours a day on the home computer, using it for word processing, net browsing and games.

Mr Joa says the following about his family's experience with the IT step:

"Our boys put the equipment together, which only goes to show that the instructions included in the package worked well. The lads mainly use the computer for school work, to find information and for word processing. Personally, I feel it's positive to have the chance to learn at home. It can be difficult to find the time during the working day to get to grips with all the opportunities offered. Now Gunn Jane is also thinking of moving into the digital world."

Senior vice president Nina Udnes Tronstad at Information Technology in Stavanger says that the IT step was regarded with great expectation by employees. Experience so far shows that these expectations are being fulfilled. She is convinced that this was an appropriate and forward-looking commitment. Mastery of IT and the ability to see the opportunities it offers will be a very important competitive factor in years to come, both for the group and for the individual employee. This technology opens tremendous opportunities for sharing information and knowledge internally and externally, and across formal organisational boundaries. The result will be to enhance Statoil's know-how, flexibility and competitiveness - and thereby its value creation.

THE FOLLOWING FIVE PRINCIPAL OBJECTIVES ARE BEING PURSUED BY STATOIL THROUGH ITS CORPORATE *THREE STEPS FORWARD TO A NEW MILLENNIUM* PROGRAMME:

We will strengthen our position as Norway's most important company for value creation.

We will enter the new millennium as a leading international energy company.

Nobody in our industry will do a better job with health, the environment and safety.

We will be the customer's first choice in our main markets.

Our employees will enhance their expertise and make us an even stronger group.

EXPLORATION AND PRODUCTION

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

Net reserves available to Statoil increased by 336 million barrels of oil equivalent in 1997. They rose internationally by 401 million barrels of oil equivalent, while declining by 65 million on the Norwegian continental shelf. The international share of the group's overall reserves rose from eight to 16 per cent during the year. Statoil's total oil and gas reserves increased by eight per cent.

Operations off Norway

During commissioning of the Norne production ship, a helicopter crashed on its way to the field. All 12 people on board lost their lives. This serious accident underlines the risks associated with oil operations. A major emergency response operation was launched after the crash. Rescue work was headed and executed by the main rescue coordination centre in Bodø, which quickly determined that a fatal accident had occurred with no prospect of finding survivors. All efforts were successfully concentrated on finding the bodies of the deceased. Subsequently, every effort was made to identify the cause of the crash. The make of helicopter concerned was grounded until the technical inquiry team had reported its findings. Statoil initiated an extensive emergency response programme to look after the bereaved, and emphasis will be given to following up these contacts. Helping to create a sense of security among personnel who depend on helicopter transport to and from their work on offshore installations is another major task.

Statoil celebrated its 25th anniversary in 1997. During this quarter-century, the group has built itself up into the leading player in exploration, production and gas transport off Norway. It currently operates nine producing fields and is otherwise a licensee in most of the fields in production on the Norwegian continental shelf.

Key figures (NOK million)

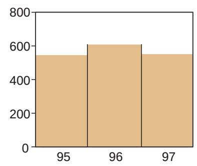
Income statement	1997	1996	1995
Operating revenue	45 786	40 653	29 961
Operating costs	22 997	16 410	12 139
Depreciation	7 362	7 389	5 520
Operating profit	15 427	16 854	12 302
Balance sheet at 31 December			
Current assets	10 155	6 049	4 507
Fixed assets	59 658	53 171	51 938
Total assets	69 813	59 220	56 445

One of Statoil's objectives is to become the industry's best production operator by 2000, and to maintain this status thereafter.

Fields operated by the group yielded 472 million barrels of oil and 28.5 billion cubic metres of gas. Statoil's net daily share of production in 1997 averaged 386 000 barrels of oil and 17 million cubic metres of gas. Average daily output of entitlement oil declined by 53 000 barrels, to a great extent because swap agreements were concluded for interests in Norwegian and British offshore fields during 1997. These transactions reduced production and reserves in the short term but extended the group's holdings in exploration acreage.

Operational regularity on Norwegian oil and gas fields was good in 1997. Capacity and flexibility in the production and transport systems confirm the reliability of Norway's offshore oil and gas deliveries.

Gullfaks produced 414 000 barrels per day in 1997. The main Gullfaks field had yielded 1.4 billion barrels of oil at 31 December, which is 94 million

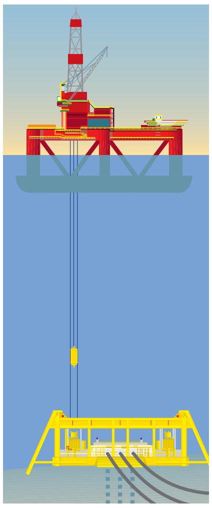


NET SHARE OF OIL AND GAS PRODUCTION OFF NORWAY 1 000 B.O.E/DAY.

above the expected level of recovery when the field came on stream in 1986. Production from satellite fields in the Gullfaks area is due to start in autumn 1998. Statoil's ambition is to double overall oil recovery from the licence to about 2.8 billion barrels.

Installations on Gullfaks are playing an increasingly important role as production hubs in the Tampen area of the Norwegian North Sea. In addition to output from Tordis, the A platform began receiving stabilised oil from Vigdis in January 1997. This means that Gullfaks, Vigdis, Snorre and Statfjord can be tied more closely together in an operational production collaboration. Improved regularity increases overall value creation from the area.

Gullfaks A was prepared during 1997 to start accepting oil from Visund in the summer of 1998. An increase in volumes received from Tordis in block 34/7 is under consideration. An important event in 1997 was the allocation of gas in Gullfaks South to sales contracts from 2000. As a result, Gullfaks C - and later the A platform - will be converted for combined oil and gas processing. Together with the use of the Statpipe system, this means Statoil will achieve very good utilisation of existing infrastructure in the Tampen area. For Gullfaks, new assignments mean its producing life could extend beyond the expiry of the licence in 2016.



INSTALLING SUBSEA SOLUTIONS ON SATELLITE FIELDS ALLOWS SUBSTANTIAL VOLUMES OF OIL TO BE RECOVERED VIA EXISTING PRODUCTION PLATFORMS.

Daily output from Statfjord came to 404 000 barrels in 1997. Since this field also processes oil from Statfjord North, Statfjord East and Snorre, overall daily production and processing from the three Statfjord platforms averaged 842 000 barrels during the year.

Drilling in early 1997 confirmed the presence of oil on the northern flank of Statfjord, and the partners resolved in October to develop this area with subsea solutions. A project has been initiated with a view to starting production via Statfjord C in August 1999.

Heidrun's daily output rose from 210 000 barrels of oil in 1996 to 233 000 barrels. Gas has been delivered without unscheduled interruptions to the new methanol plant at Tjeldbergodden since production began in the summer of 1997. Work is under way to increase recoverable reserves and to achieve a future development of Heidrun North.

Production from Veslefrikk has come off plateau, and the field flowed less in 1997 than the year before. The level of activity for well operations is still high, and new prospects in the area are being explored.

Operational regularity on Yme improved substantially during 1997, when the field achieved an output of 35 000 barrels per day. Production was nevertheless somewhat lower than expected, mainly because of a labour dispute and technical problems in the early part of the year. Work to handle a rising water cut has been initiated. Oil was proved in the Beta West structure during the summer of 1997. This will increase recoverable reserves in the licence by almost 30 per cent. Development planning for the structure is underway, with a possible start to production in late 1998.

THE NORNE PRODUCTION SHIP.

Norne began producing on 6 November as the first field off Norway to be developed with a production ship. This project was brought in at a cost of NOK 8.4 billion, well below the NOK 9.6 billion budgeted in the plan for development and operation. Production has gone very well, and will reach 220 000 barrels of oil per day during 1998. The crew of 35 required to operate the ship is small by comparison with conventional platforms.

Production from Norne had to be suspended temporarily at the beginning of February 1998 because existing oil spill clean-up equipment had an unsatisfactory level of performance. Oil from Norne is highly viscous. Work is under way to find equipment which can work effectively, and the problem should be solved quickly so that production can resume.

Troll produced 14.3 billion cubic metres of gas in 1997. The treatment plant at Kollsnes has suffered a number of technical teething problems, but these are in the process of being overcome. They had no effect on operational regularity, which was 99.7 per cent over the year.

In the Sleipner area, Statoil produces gas and condensate from Sleipner East, Sleipner West and Gungne. Production was stable in 1997 with high operational regularity. The plant for separating carbon dioxide from the Sleipner West gas has yet to reach sufficiently high availability. Separated carbon dioxide is injected into the Utsira formation.

Serious incidents and near-misses in the

Sleipner area were reduced from 15 to one. The number of gas leaks was also cut.

Oil deposits have been discovered in the Sleipner area. Opportunities for profitable production are now being assessed.

Statoil's net share of daily production from fields operated off Norway by other companies came to 113 000 barrels. Oseberg accounted for 70 per cent of this volume and Snorre for another 20 per cent. The group participates in 19 partner-operated licences, which embrace 30 fields in all. Since an important part of the group's value creation occurs in such licences, Statoil is concerned to contribute its experience and technology to these partnerships. Good attention is paid in partner-operated licences to health, the environment and safety and measures for cost-effective operation.

Although production will eventually decline in some of the partner-operated fields, the significance of such licences to the group is set to increase because new developments will make up for the lost output. Oil production is expected to increase in 1998 as Varg, Visund, Oseberg East, Tordis East and Ekofisk II come on stream.

Fields on stream - some important interests

NCS	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
Yme	35.0%	Statoil
Veslefrikk	18.0%	Statoil
Heidrun	11.9%	Statoil
Troll Oil	11.9%	Hydro
Troll Gas	11.9%	Statoil
Norne	15.0%	Statoil
Njord	20.0%	Hydro

RUBICON

A major series of licence transactions was carried out by Statoil through its Rubicon project. The aim has been to strengthen the group's position in selected core areas off Norway and internationally in order to enhance value creation. Rubicon represented a contribution to reaching the long-term daily production target of one million barrels of oil equivalent in 2005.

The most important objectives were:

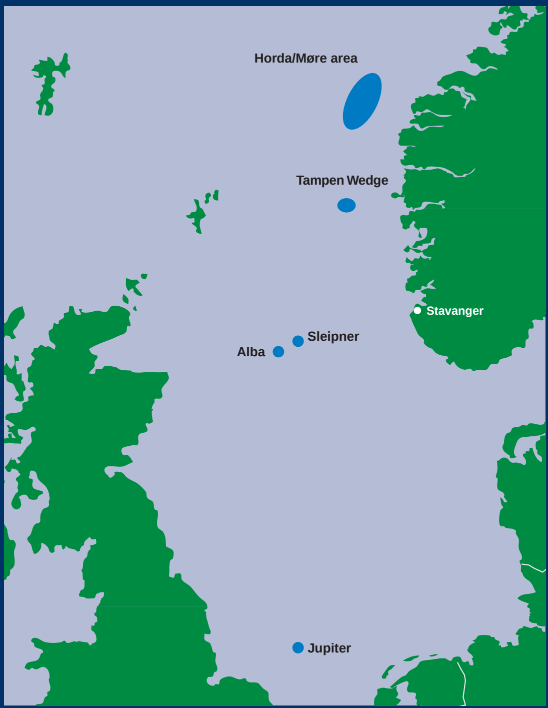
To increase equity interests in order to boost competitiveness
Greater influence on the development of an area
Influence over and utilisation of infrastructure
Resource understanding
Optimisation of human resources.

Statoil has received interests in every licence awarded in all Norwegian offshore licensing rounds with the exception of the first, second and 15th. A need therefore arose to optimise the group's portfolio of licence holdings. Interests in 32 licences off Norway were proposed by Statoil to 18 companies as candidates for swapping.

A total of five swap agreements were concluded. The transactions with Elf, Hydro and Total related only to Norwegian licences, while those with BP and Chevron also included UK interests. The total value of the 24 licence holdings affected by the transactions is put at NOK 5-6 billion. These swaps involved a total of 340 million barrels of oil and 36.5 billion cubic metes of gas. Statoil withdrew from 10 licences as a result of the transactions, but the group will continue to manage the state's direct financial interest in these. Thanks to the Rubicon agreements, Statoil's total calculated resource base rose by 12.5 million barrels of oil equivalent. The oil component has declined slightly, while the increase for gas is 20 billion cubic metres. While the transactions reduce daily production by 20 000 barrels of oil equivalent, this will be offset in value terms through the acquisition of licence interests which embrace discoveries where the aim is rapid development and an early start to production.

The Rubicon transactions have had the following effects:

- acquisition of an operatorship and increased interests in three licences in the Sleipner core area
- consolidation as the leading company in the Tampen core area through an increased interest in the Kvitebjørn licence
- Statoil's aim of having 30-40 per cent holdings in its core areas has thereby been attained in two licences
- a stronger strategic position in the Horda/Møre core area through the acquisition of one operatorship and increased interests
- expanded holdings in selected producing fields - Alba and Jupiter - on the UK continental shelf.



GAS DIRECTIVE ADOPTED

Many years of work on an EU gas directive culminated when political agreement on a draft was reached at the energy ministers' meeting in December 1997. Together with the electricity directive adopted in 1996, these rules will provide a foundation for further development of the EU's internal energy market. The aim is reduced gas prices for consumers.

The directive requires member countries to open their gas markets to greater competition, with 20 per cent specified as the minimum when the rules come into force - in practice by 2000 at the earliest. This level must rise to 28 per cent after five years and 33 per cent after a decade.

Third-party access to transmission and distribution means that gas companies and large consumers will have the right to negotiate agreements for using gas transport systems. Such access can be denied by the transport system owners on the grounds of inadequate capacity, supply commitments imposed by the authorities, or serious financial problems in fulfilling existing gas purchase contracts. A national body must be appointed to deal with possible conflicts over denial of access to pipelines and transport terms.

Pipelines related to production and landing of gas are designated "upstream networks" and have separate rules on third-party access. Member countries will frame their own regulations for these systems on the basis of the directive. The general principle is that third-party access also applies to upstream networks, but member countries can take specified considerations into account when shaping the rules. These include problems posed by differences in gas quality, the need to avoid difficulties in current and future production, problems for owners or operators, and the application of national licensing systems.

Gas companies which are caused major financial problems by the directive because of their long-term purchasing commitments can seek exemption from the provisions on third-party access. Such applications will go to a national body, with possible exemptions approved by the European Commission. The criteria to be applied when considering an application are widely drawn. Since the directive is general in its form, no clear conclusions can be drawn about the way the market will develop. Each country is free to advance at a faster pace than that dictated by the directive. Substantial variation is therefore likely to appear between gas markets in the different member countries over coming years.

A process remains to be completed before the directive is finally adopted. The agreed text will be submitted to the European Parliament for comment during the first half of 1998, with the final decision to be taken by the Council of Ministers. Once this has occurred, the directive is expected to be extended to the European Economic Area - including Norway.

The directive represents a political compromise, and there is no reason to expect major changes in the market on a strict interpretation of its provisions. But the crucial issue is whether implementation will be faster and more far-reaching than the directive requires. Initially, the way the major gas companies adapt to the rules will be more important than the actual text of the directive.

Together with general trends in the market, the gas directive will encourage a gradual shift towards greater competition between players in the gas market. Statoil is prepared for such a development.

Gas market and supply

Statoil's gas exports from Norwegian offshore fields in 1997 came to 6.3 billion cubic metres. In addition, the group was responsible for marketing 15.2 billion cubic metres of gas on behalf of the state's direct financial interest (SDFI). Overall, Statoil's marketing responsibility embraced 21 billion cubic metres as against 18 billion in 1996. Norway's total gas exports reached 42 billion cubic metres, up from 37 billion the year before. Deliveries under the Troll gas sales agreements came to 14.5 billion cubic metres in 1997.

On behalf of the Gas Negotiating Committee (GFU), Statoil signed a contract in January 1997 with Italy's Snam gas company covering annual deliveries of six billion cubic metres of gas over 25 years. Deliveries begin in 1999. A contract was signed in April 1997 with state-owned Transgas in the Czech Republic for annual deliveries of three billion cubic metres over 20 years. Starting in May 1997, these sales will reach plateau in 2003. The GFU is negotiating with other customers in Denmark, Poland and Hungary over Norwegian gas sales.

The long-running disagreement between the Norwegian and British authorities over a Frigg treaty was resolved in 1997. This lays the basis for expanding Norwegian gas exports to the UK by linking the existing Frigg trunkline to the rest of Norway's offshore gas supply system. The authorities in the two countries have agreed to draw up a frame agreement which will make it easier to secure permission to lay new pipelines between their sectors, or to tie together their respective offshore infrastructures.

European gas consumption rose by 11 per cent in 1996. This sharp increase reflected not only a cold winter but also a rise in the number of household customers and rapid expansion in gas sales for electricity generation. Overall consumption increased from 397 billion cubic metres in 1995 to 442 billion, including 366 billion in western Europe and 76 billion in central Europe. Average growth in 1973-95 was 3.8 per cent. Preliminary figures for 1997 show a decline in gas consumption from the year before because of milder weather.

Gas accounted for 21 per cent of primary energy consumption in western Europe during 1996. This proportion should reach 24 per cent in 2010, according to the International Energy Agency (IEA).

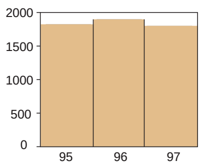
Liberalisation of the gas market following the adoption of the European Union's gas directive, and the entry of new suppliers, will increase competition. This has prompted the formation of several strategic alliances which could be significant for Norwegian exports in future.

The decision was taken in June 1997 to build a separation plant at Kårstø for ethane. This product will be sold as feedstock to Noretyl in Bamble, Norsk Hydro's ammonia plant at Rafnes and Borealis in Stenungsund. The investment is to be channelled through a separate company, Etanor DA, owned at present by Statoil, Hydro, Shell, Mobil and Conoco. Ethane supplies come from the Troll group.

A GAS SALES CONTRACT WAS SIGNED WITH TRANSGAS IN 1997. FROM LEFT: BENGT LIE HANSEN, NORSK HYDRO, ANDERS UTNE, SAGA PETROLEUM, AND PETER MELLBYE, STATOIL, WITH MIROSLAV GREC FROM THE CZECH COMPANY.

Long-term contracts have been secured to supply a total of 75 billion cubic metres of Norwegian gas per year. Plateau deliveries will be attained around 2005. Part of this volume has yet to be allocated to a source of supply. In the summer of 1997, the Ministry of Petroleum and Energy resolved to allocate volumes to the Gullfaks satellites and Huldra, both operated by Statoil. The ministry also decided that a delivery solution for Norne and Heidrun gas would be provided within existing gas sales contracts.

The Netra gas pipeline system in Germany had its first full operating year. On the basis of its interest in this company, Statoil has earlier concluded a long-term agreement with Germany's VNG on transporting Norwegian gas from Emden to Salzwedel. A contract has also been concluded with Transgas on transporting gas over the same route. In this connection, Statoil will expand its use of capacity in Netra. The latter system is due to be extended to Dornum north of Emden during 1998-99.

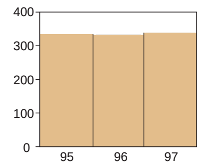


STATOIL'S OIL RESERVES OFF NORWAY IN MILL BBL.

Expansion in Norwegian reserves

Fifteen new discoveries were made off Norway in 1997, five of them in licences operated by Statoil. A total of 575 million barrels of oil and 180 billion cubic metres of gas were found on the Norwegian continental shelf during the year. Statoil's share of these volumes is 66 million barrels and 11 billion cubic metres.

New discoveries and upgrading of reserves by Statoil in 1997 were a little higher than its production for the year. The group's overall reserves nevertheless declined because it swapped licence interests off Norway for holdings in UK licences as part



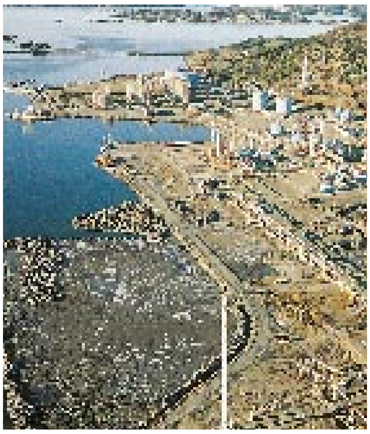
STATOIL'S GAS RESERVES OFF NORWAY IN BN SM^3.

of a long-term plan to concentrate its efforts in selected core areas.

During the year, recoverable oil volumes in fields operated by Statoil off Norway were upgraded by 421 million barrels. Statfjord accounted for 189 million barrels of this total.

Statoil drilled and spudded 14 exploration and appraisal wells as operator in 1997. Drilling was pursued in all areas of the Norwegian continental shelf except the Barents Sea. The group secured a large exploration area in the special Barents Sea licensing round.

Expanding reserves off Norway through a commitment to new exploration areas and models is a Statoil goal. Great interest has focused on the deepwater blocks awarded in the Vøring area as part of the 15th offshore licensing round. Statoil was given the operatorship for the Vema Dome. The first well there proved to be dry. Exploration of the Vøring area by Statoil and other operators will continue. BP and Hydro have made interesting deepwater discoveries on the Nyk Ridge and in the Ormen Lange area respectively.



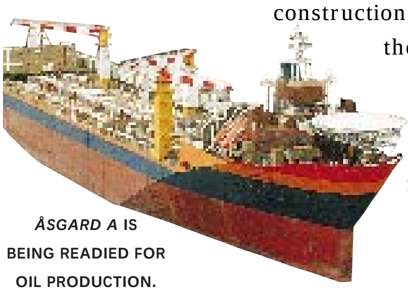
THE KÅRSTØ COMPLEX IS BEING EXPANDED TO ACCEPT GAS FROM ÅSGARD.

Development projects and business progress

Statoil participates in a number of development projects in Norway and internationally, both as operator and as a licensee.

Åsgard in the Norwegian Sea ranks as the biggest development off Norway today. This project is being pursued in two phases. Oil production from Åsgard A was originally due to start in October 1998 but has now been rescheduled to the first quarter of 1999. This postponement reflects the low level of completion on the production ship when it was delivered to Statoil from the yard in Japan. Gas is due to start flowing from Åsgard B in October 2000. In the 1995 plan for development and operation, development costs for Åsgard were put at NOK 29.7 billion in current money. This estimate has since been raised to NOK 33.8 billion and will be further increased by the delays to the production ship.

The development also embraces construction of a pipeline for transport of rich gas to Kårstø and the construction of receiving and fractionation facilities there. Fractionation and extraction plants will be built at Kårstø in connection with the Åsgard project, and completed before gas deliveries from this field begin. In addition, a fractionation plant for ethane is planned at Kårstø. The plan for installation and operation originally put investment at NOK 2.6 billion. This has since been raised to NOK 8 billion, primarily as a result of expanding the development and making it more complex. In addition, some cost elements were underestimated at the planning stage.



ÅSGARD A IS BEING READIED FOR OIL PRODUCTION.

Statoil is developing the Siri field in the Danish North Sea, with oil scheduled to begin flowing in November 1998. The group has opted for a development solution which means the period from licence award to production start is just over three years. Siri is estimated to contain recoverable reserves of 50-60 million barrels, but Statoil aims to improve recovery and expand the reserve base in the area. The group has a 40 per cent interest in Siri, where development costs are put at roughly NOK 2.5 billion.

As planned, the Zeepipe IIB gas trunkline began operating on 1 October 1997. The project came in at a total cost of roughly NOK 3 billion, which is 12 per cent lower than forecast in the plan for installation and operation.

The Europipe II trunkline will carry Åsgard gas from Kårstø to Dornum in Germany, and these deliveries are due to start on 1 October 2000. To increase flexibility in Norway's gas transport systems to continental Europe, however, plans call for the line to begin operating on 1 October 1999. Because of objections to the planned route, alternative solutions are being studied to meet the scheduled completion date.

Statoil has submitted a plan for installation and operation of the Troll Oil Pipeline II. This facility

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 I	15.0%	Statoil
Haltenpipe	11.9%	Statoil
Systems under construction		
NorFra	9.7%	Statoil
Åsgard Transport	13.6%	Statoil

Overall procurement by Statoil in 1997 amounted to NOK 44.4 billion, an increase of 27 per cent from the year before. Sixty-five per cent of these purchases were made in Norway, while 35 per cent of the contracts were placed with foreign companies. The Norwegian content was somewhat lower than in 1996. This reflected a high level of activity for pipelaying services, which are not available from domestic suppliers, and for rig chartering in the international market.

Statoil was responsible in 1997 for 75 000 different purchases, individual orders and contracts as well as supplementary and change orders on existing contracts. Including all the small purchases not normally included in the statistical material, the figure comes close to 100 000.

Contractors are responsible for a substantial proportion of the operations required for value creation in Statoil. As a result, continuous improvement processes are pursued in the procurement entities to ensure that the group becomes an ever more competitive and effective operator without affecting safety on land or offshore. A growing number of long-term frame contracts are being awarded. In many cases, Statoil personnel work in integrated teams with contractor employees. The group utilises forms of cooperation which stimulate commitment and participation by the supplies industry at an early stage in the procurement process. This allows both contractors and the group to contribute to further improvements in purchasing.

Having the necessary expertise is essential for reaching Statoil's objectives on procurement and cooperation with suppliers. Once a supplier has been chosen, its best expertise - in combination with Statoil's own know-how - is crucial for a good result.

Together with its contractors, the group wants to meet future challenges by developing new technology. In that context, Statoil seeks to support the development of innovative products which can reduce its costs, enhance safety and improve environmental protection. At the same time, such advances will provide new commercial opportunities for the supplies industry.

PURCHASING

WORTH ALMOST NOK 45 BILLION

TERRY GOSSE (LEFT) AND BRIAN FISHER ARE WORKING AT KVÆRNER ROSENBERG'S STAVANGER YARD ON THE TOPSIDES FOR THE SIRI PLATFORM IN THE DANISH NORTH SEA.

will carry oil to Mongstad from the Troll C platform, presently under construction. Its overall cost is put at roughly NOK 600 million.

The NorFra gas trunkline has been completed, and will begin operation with its terminal at Dunkerque on 1 October 1998. In addition, modifications to Statpipe - the Ekofisk by-pass - and Ula Transport will come on line when the Ekofisk II development is completed in the summer of 1998. Construction of the new Ekofisk centre means that Tommeliten Gamma is set to cease production.

THE NORFRA LANDFALL AT DUNKERQUE IN FRANCE.

The Veslefrikk licence submitted a bid in the autumn of 1997 to supply third-party services for Huldra. Installations on Veslefrikk have been chosen as the processing solution for Huldra condensate in the plan for development and operation of this field, which calls for production to start in 2000.

Plans for installation and operation of gas transport systems from Norne and Heidrun via Åsgard were submitted in the summer of 1997. Both lines are due to start up in the autumn of 2000.

Statoil and Saga Petroleum have initiated a collaboration on developing Kristin, Lavrans, Tyrihans North and South and Trestakk in the Halten Bank South area off mid-Norway. Reserves are put at roughly 200 billion cubic metres of gas and almost 630 million barrels of oil and condensate.

PRODUCTION SHIP *NAVION MUNIN* ON THE LUFENG FIELD IN THE SOUTH CHINA SEA.

Naturkraft, owned by Statoil, Hydro and Statkraft, was awarded a licence in 1996 to build two gas-fired power stations. This decision was appealed to the Ministry of Petroleum and Energy, which decided to reject the appeal in June 1997. The Norwegian Pollution Control Authority has given permission to make preparations for starting construction, but an emission permit has yet to be issued. Before a final decision on a development is taken, its profitability must be clarified. Conditions set by the authorities will be crucial in this context.

Statoil has increased its shareholding in Hafslund ASA to about 17 per cent of the voting stock. This company generates hydroelectricity. In January 1997, Statoil acquired 14.5 per cent of the shares in Vattenfall Naturgas AB. The latter purchases gas for the Swedish market and owns and operates the Swedish gas pipeline network.

Upstream operations outside Norway

The goal for international upstream operations in Statoil is to contribute 300 000 barrels of oil equivalent per day by 2005 to meeting the group's overall objective of a daily production of one million barrels of oil equivalent.

Statoil's reserves outside Norway expanded substantially during 1997, rising from eight to 16 per cent of the group's reserves. International reserves now total 750 million barrels of oil equivalent.

The group produced 34 000 barrels of oil equivalent per day from fields outside Norway in 1997, mainly from Britain's Alba, Jupiter, Dunlin and Gryphon fields and from Bongkot off Thailand.

Statoil brought the Lufeng 22-1 field in the South China Sea into production on 27 December 1997. The group is also operator for the Viking field in the US Gulf of Mexico.

Early production began from Azeri-Chirag off Azerbaijan on 12 November. This field is operated by AIOC, a consortium of international oil companies and Azeri state oil company Socar. Statoil has an 8.56 per cent interest in the field. Oil from Azeri-Chirag is piped through Russia to Novorossiysk on the Black Sea. Work has begun on a western-route pipeline through Georgia to the Black Sea port of Suspa. A decision should be taken in 1998 on a possible full development of the field, which would require the construction of additional transport capacity.

The Aran acquisition two years ago has not yielded the results expected. Production properties in the Connemara field off Ireland were not up to expectation. Work on a development of this discovery has therefore been halted, with NOK 1.2 billion in costs charged against income.

Statoil participates in two licences off Angola. Two major oil discoveries - Girassol and Dalia - have been made in the licence operated by Elf. Girassol has been declared commercial, with production planned to start in 2001. Exploration has begun in the other licence, where Esso is operator.

In Kazakstan, the group participates in the Offshore Kazakstan International Operating Company (OKIOC). This consortium has signed an agreement with the national authorities which gives

BRINGING AZERI-CHIRAG ON STREAM IN THE CASPIAN.

it the first right to choose 12 exploration blocks in the Caspian. Preparations for spudding the first of the selected wells are under way, with drilling scheduled to start in August-September 1998.

Statoil Venezuela CA is involved in planning and developing heavy crude in the Orinoco Belt and upgrading this to light low-sulphur oil. The group has a 15 per cent interest in Sincor, which will decide on a possible development during 1998.

A 30 per cent interest is also held by Statoil in the production sharing agreement for the LL-652 field in Lake Maracaibo, with Chevron as operator. This field was awarded in 1997. It currently produces 12 000 barrels per day, but plans call for this to be upgraded to 115 000 barrels per day.

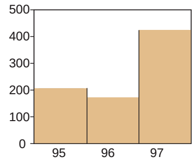
Statoil has signalled that it wishes to divest its offshore interests in Thailand, which include gas production from the Bongkot field.

Operations by Statoil on the UK continental shelf expanded substantially during 1997. When awards were made in Britain's 17th offshore licensing round during February 1997, the group received five operatorships and interests in four additional licences.

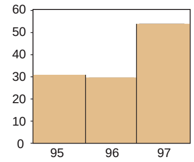
The Vietnamese authorities have approved the development of the two gas fields discovered by Statoil and BP in the Nam Con Son basin. Together with partners, investment is due to be made in field installations, a pipeline and receiving terminal, a fertiliser plant and a power station.

Statoil was successful with 31 of its 41 bids for acreage in the US Gulf of Mexico, and secured the operatorship for five of these blocks.

Experience from international operations so far shows that attaining Statoil's defined goals will be demanding in the short term. The group places great emphasis on analysing economic and political risks, and is also very concerned to promote respect for human rights.



INTERNATIONAL OIL RESERVES IN MILL BBL.



INTERNATIONAL GAS RESERVES IN BN SM^3.

Fields on stream - some important interests

International	Interest	Operator
Lufeng, China	75.0%	Statoil
Bongkot, Thailand	10.0%	Total
Hyde, UK	45.0%	BP
Dunlin, UK	14.4%	Shell
Gryphon, UK	15.0%	Kerr McGee
Alba, UK	17.0%	Chevron
Jupiter, UK	30.0%	Conoco
Azeri-Chirag, Azerbaijan	8.6%	AIOC
Viking, USA	50.0%	Statoil

STATOIL UK BECOMES AN ENERGY COMPANY

The group now has an energy company in Britain which operates along the whole value chain from oil and gas production on the UK continental shelf to deliveries to end users.

Statoil UK moved in January 1997 to new London premises - Statoil House - centrally located in Lower Regent Street. More than 200 people currently work for this subsidiary.

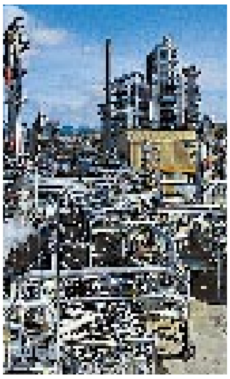
From a modest daily output of 2 000 barrels of oil equivalent, mostly gas, in the early 1990s, the British company reached a production of 36 000 barrels of oil equivalent per day in 1997. The expansion in production primarily reflects the acquisition of Aran in 1995 and swap deals concluded by the Rubicon project in 1997. Output is due to increase further when Schiehallion comes on stream in the summer of 1998. Plateau production from this field will be 200 000 barrels per day, with Statoil's share amounting to 9 000 barrels. Located west of Shetland, Schiehallion is operated by BP and developed with a production ship.

Awards were made under Britain's 17th offshore licensing round in March 1997. Statoil did well, with five operatorships and interests in a further four licences. Before exploration begins in this acreage, Statoil has reserves totalling 120 million barrels of oil equivalent on the UK continental shelf.

Together with Mobil and Enterprise Oil, its partners in the Atlantic Margin Group (AMG), Statoil UK will use the same rig to drill six wells. A joint office to operate this unit was established in Aberdeen on 1 January 1998. The AMG collaboration reduces operating costs for the partners. An expansion of this exploration cooperation beyond the six planned wells will be considered on the basis of experience gained.

In 1997, Statoil UK could look back on the first full year of operation for its wholly-owned Alliance Gas Limited (AGL) subsidiary. This company expanded revenues substantially, with satisfactory results, after the restructuring in 1996. However, Britain's liberalised gas market is characterised by stiff competition and narrow margins. AGL ranks today as one of the biggest gas companies in the UK, selling 1.3 billion cubic metres in this market during 1997. A quarter of the volume represented Statoil's entitlement gas from British fields. Major AGL customers include the Marks & Spencer retail chain and London Underground, which get their electricity from power stations fuelled by gas purchased from AGL.

REFINING AND MARKETING



THE MONGSTAD REFINERY HAD ITS BEST YEAR IN 1997.

OIL TRADING IN STATOIL.

The refining and marketing business segment embraces the Refining, Marketing and Oil Trading & Supply business areas as well as the Navion shipping company.

Oil sales

Statoil sold an average of 2.1 million barrels of crude oil per day during 1997, on a par with the year before. These sales also embrace oil belonging to the state's direct financial interest (SDFI).

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

North-western Europe was the most important outlet for the group's crudes, but the north-eastern USA and Canada absorb roughly a quarter of the volume marketed by Statoil.

Fourteen crude oil cargoes were sold to the Asia-Pacific market in 1997, as against five the year before. Most of these consignments went to Taiwan. Statoil sold its first crude cargo to China during the year.

The average per barrel price for Brent Blend in 1997 was NOK 135 (USD 19.09) compared with NOK 133 (USD 20.67) the year before. Prices for this reference crude ranged from USD 24.95 to USD 16.08 during 1997.

Retailing

Competition is stiff in the Scandinavian retail market for oil products. A growing number of unstaffed outlets around Norway are exerting heavy pressure on petrol margins. Market instability and jockeying for position between the companies have prompted frequent and lengthy price wars.

Profitability was weakened in 1997 by lower petrol margins, a decline in sales volume for certain products, and restructuring and business development projects.

Measures have been implemented to trim just over NOK 400 million from annual costs in this business while downsizing its workforce by roughly 350 employees.

To meet future competition, Statoil devoted substantial resources during 1997 to developing a new service station concept. The first trial forecourts are under construction in Sweden during the spring of 1998.

The group initiated test marketing of electricity to Norwegian and Swedish households and industry in 1997. Such sales will be integrated in Statoil's other energy marketing efforts, since the real concern of customers is to secure lighting and heating and not the particular energy carrier involved.

A number of pilot industrial customers are buying "usable energy" from Statoil, measured in kilowatt-hours but supplied as either oil or electricity. The choice of energy form is dictated by price and the customer's production conditions.

In Sweden, Statoil has concluded a depot collaboration with Shell. Mutual utilisation of each other's depot networks allows both companies to improve their efficiency and competitiveness.

The group sold its 50 service stations in eastern Germany during 1997, but is continuing to develop station networks in Poland and the Baltic states. At 31 December, Statoil had about 65 stations operational in Poland and roughly 60 more in the Baltic states. The group ranks among the largest international players in both these markets.

Conoco's former service stations in the Republic of Ireland were successfully integrated into Statoil's operations. This has yielded a substantial expansion in market share and earnings. The group currently occupies a leading position in the Irish market.

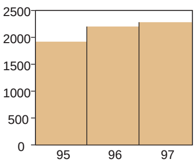
Refining

Statoil's refining operations yielded their best-ever results in 1997. Good market prices were achieved during the year. Margins in the industry showed a particular improvement for upgraded refineries with little or no heavy oil production and good prices for special products such as propane and calcinated coke.

The refineries have defined ambitious improvement programmes with the focus on increased value creation, reduced costs and profitable invest-

Key figures (NOK million)

Income statement	1997	1996	1995
Operating revenue	97 449	89 037	72 127
Operating costs	94 261	85 605	70 091
Depreciation	1 887	1 764	1 634
Operating profit	1 301	1 668	402
Balance sheet at 31 December			
Current assets	21 086	20 363	17 459
Fixed assets	23 777	21 068	20 580
Total assets	44 863	41 431	38 039



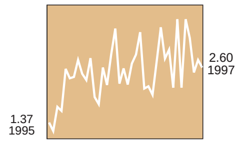
STATOIL'S OIL MARKETING 1 000 B/D.

ment projects. These programmes have made big contributions to results for the year, not least through very high plant availability and capacity utilisation, optimising the crude oil and condensate mix, exploiting premiums in the market and cost cuts.

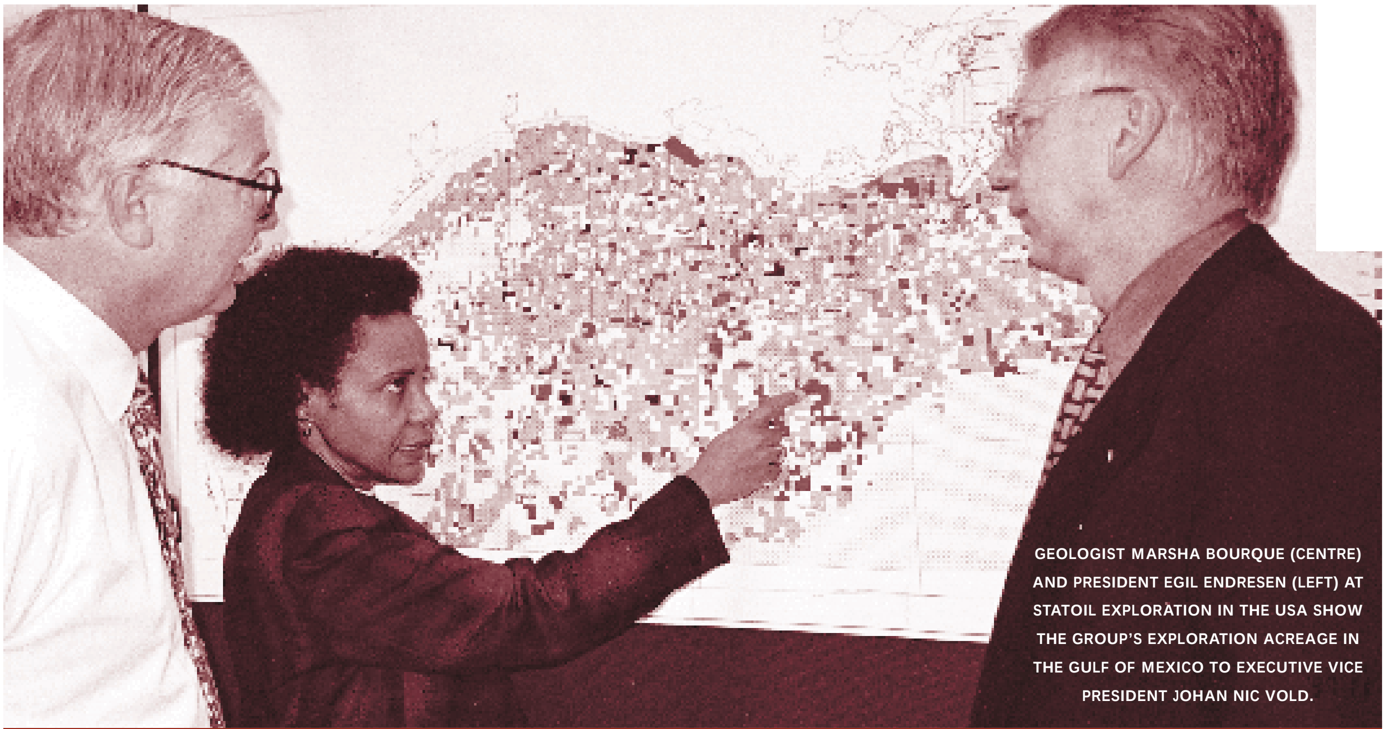
Daily throughput during 1997 for the refineries at Mongstad in Norway and Kalundborg in Denmark amounted to 273 000 barrels.

A new plant which came on line at the Mongstad refinery in 1997 makes it possible to produce petrol with a benzene content below one per cent. This will be well within the specifications for petrol quality which the EU is expected to introduce. During the year, Kalundborg delivered petrol with two per cent benzene to the Danish market and with a one per cent content for Denmark's emergency stocks.

Statoil is participating in laying the Vestprosess pipeline to carry natural gas liquids and condensate from Kollsnes and Sture to Mongstad. The group has also resolved to build an NGL plant at Mongstad and to modify the crude oil facilities at this refinery. Total investment for Statoil is put at roughly NOK 1.4 billion, and the installations will be ready in autumn 1999. Once these projects have



GROSS REFINING MARGIN (FCC) USD/BBL.



GEOLOGIST MARSHA BOURQUE (CENTRE) AND PRESIDENT EGIL ENDRESEN (LEFT) AT STATOIL EXPLORATION IN THE USA SHOW THE GROUP'S EXPLORATION ACREAGE IN THE GULF OF MEXICO TO EXECUTIVE VICE PRESIDENT JOHAN NIC VOLD.

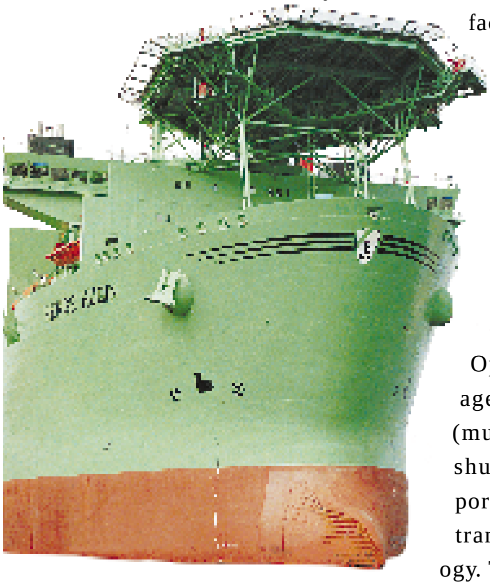
STRONGER IN WORLD'S LARGEST ENERGY MARKET

The position of Statoil in the USA - the world's largest energy market - was strengthened over the past year. In 1997, the group celebrated 10 years of operations at its Statoil North America Inc (SNA) subsidiary, which has primarily traded crude oil and refined products. Average daily sales by Statoil in the USA during the year came to 409 000 barrels of crude oil and 24 000 barrels of products. SNA serves today as the parent company for Statoil's operations in the USA. Sales of crude and products are channelled through Statoil Marketing & Trading (US) Inc, gas is supplied by The Eastern Group, while Statoil Exploration (US) Inc pursues exploration in the Gulf of Mexico. Through Eastern, Statoil acquired Blazer Energy Corporation in 1997. This company was involved in exploration, production, purchasing and marketing of oil and gas. The acquisition covered gas fields and distribution networks in the Appalachian area of the north-eastern USA as well as interests in Gulf of Mexico fields. This purchase has made Eastern the biggest gas producer in the Appalachian region, while Blazer's interests in the Gulf of Mexico have been transferred to Statoil Exploration in Houston. The acquisition increased the group's US oil and gas reserves from 35 million barrels of oil equivalent to 125 million. Following the takeover, Statoil's shareholding in Eastern was increased to 99.8 per cent. This company is a total supplier of energy, with a particular involvement in production and distribution of gas and electricity. During 1997, Statoil built up an exploration company in Houston with some 50 employees who have broad experience from the Gulf of Mexico. Statoil Exploration (US) Inc currently holds interests in 89 licences in the Gulf of Mexico. Most of this acreage lies in very deep water.

been completed, Mongstad will be integrated even more strongly into the group's overall Norwegian oil operations. The new facilities will contribute to good synergies between the Kollsnes, Sture and Mongstad installations.

An investment of NOK 135 million has been approved by Statoil for extending the cycle, upgrading and throughput in the cracker at Mongstad. This work will be done during the regular maintenance turnaround in April-May 1998.

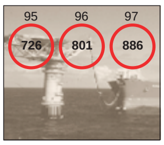
Roughly NOK 250 million is to be invested at Kalundborg in a plant for increased upgrading of heavy oil. Due to come on line in early 1999, this facility will improve the refinery's yield structure.



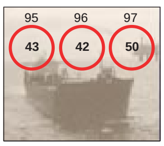
MULTIPURPOSE SHUTTLE TANKER *BERGE HUGIN* WILL PRODUCE BRITAIN'S PIERCE FIELD.

Navion

Navion AS was established on 1 October 1997, with Statoil owning 80 per cent of the shares and the remaining 20 per cent held by Rasmussengruppen AS. Operations embrace floating storage and production solutions (multipurpose shuttle tankers), shuttle tankers, conventional transport of crude and refined oil, gas transport and maritime technology. The company is a continuation of the former Shipping & Maritime Technology business area in Statoil, supplemented by ships transferred from the Rasmussen group. It also owns 50 per cent of the shares in Rasmussen Maritime Services AS, which has management and site supervision responsibility for all Navion newbuildings. At 31 December, the company had 125 employees.



NUMBER OF OIL CARGOES LOADED OFFSHORE.



SHIPS IN SERVICE.

Its fleet in service at 31 December totalled 50 vessels, including two multipurpose shuttle tankers, 16 conventional shuttle tankers, three storage ships, 24 conventional tankers - 12 for crude oil and 12 for products - four gas carriers and a methanol tanker. These vessels meet high technical and environmental standards. In addition, eight ships on order are due to become operational by 1999. These include two multipurpose shuttle tankers, five ordinary shuttle tankers and a production ship hull.

Navion offers complete production, loading and transport solutions for fields of all sizes. Its Navion Munin vessel began producing oil from the Statoil-operated Lufeng 22-1 field in the South China Sea during December 1997. This project was completed on schedule and to budget. A contract has also been secured from Enterprise Oil for development, production and offshore loading on Britain's Pierce field. This project will utilise the multipurpose shuttle tanker Berge Hugin, owned 50-50 by Navion and Bergesen d.y ASA. The Pierce contract is worth some NOK 2 billion for a minimum period of five years, with the field due to come on stream in the third quarter of 1998. In addition, two multipurpose shuttle tankers under construction for Navion will be outfitted for drilling by companies owned jointly with Smedvig ASA. One has been chartered to Statoil for operations on the Åsgard field and other areas, while the second is due to drill for Shell in the Gulf of Mexico.

Developing advanced technological solutions through cooperation and alliances with selected engineering and manufacturing partners is given emphasis by Navion. It cooperates with such companies as Advanced Production and Loading (APL) and Framo Engineering over the submerged turret loading (STL) and submerged turret production (STP) systems, and with Advanced Production Systems (APS) on processing equipment for multipurpose shuttle tankers.

Offshore loading of crude oil into specially-equipped vessels is another core business for Navion. The company offers flexible contracts of affreightment in this sector as an alternative to time charters. Positive progress has continued in this market. The company has a substantial number of contracts of affreightment for both Norwegian and British fields - including Norne, which came on stream in November 1997. Demand for offshore loading has expanded in line with rising production from the Norwegian continental shelf. This prompted orders for four new shuttle tankers during the year.

Navion is also a substantial player in conventional tanker transport, with an overall cargo capacity of roughly two million deadweight tonnes. The market for conventional shipping and gas transport has shown positive progress. Navion's earnings benefited from good market positions in relation to rising freight rates.

Important strategic challenges facing Navion are to maintain and extend its position as the leading supplier of offshore loading services in the North Sea while simultaneously offering complete services internationally for field development, production and transport.

PETROCHEMICALS

Statoil's petrochemicals business segment embraces the Methanol business area and a 50 per cent holding in the Borealis petrochemicals group.

Borealis

Borealis was established in 1994 through a merger of petrochemical operations at Statoil and Neste, which own this group 50-50. With 5 000 employees and production facilities in eight countries, Borealis is one of the largest European petrochemical producers. Its principal products are the plastic raw materials polyethylene and polypropylene (polyolefins) as well as the base petrochemicals ethylene and propylene (olefins).

Results achieved by Borealis in 1997 marked a substantial improvement on the year before. This performance reflects both firmer market conditions for petrochemical products and the effects of internal improvement processes. Margins in the industry rose during 1997 as a consequence of strong growth in demand for polyolefins and limited new production capacity. This resulted in high capacity utilisation. The petrochemicals market in early 1998 is characterised by high margins.

European demand for polyolefins is expected to continue expanding, but less rapidly than over the past 10-15 years. Growth in demand is expected to remain high in other regions, such as Asia, Latin America and eastern Europe, where consumption of plastics remains very low. There is a danger that prices and margins will be reduced over the next few years through the construction of new capacity.

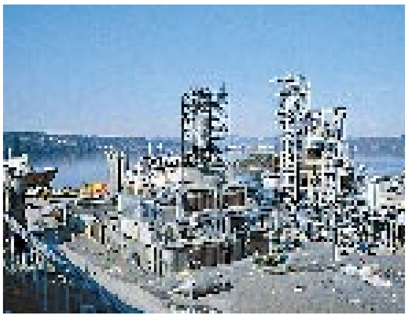
Borealis achieved positive results from its improvement programmes in 1997. Throughout the year, the group also maintained high and stable output at virtually all its plants. It intends to reduce fixed costs at each production facility by 30 per cent.

Key figures (NOK million)

Income statement	1997	1996	1995
Operating revenue	1 335	420	1 261
Operating costs	860	203	155
Depreciation	79	4	0
Operating profit	396	213	1 106
Balance sheet at 31 December			
Current assets	302	5	125
Fixed assets	7 733	6 770	6 337
Total assets	8 035	6 775	6 462

The group has taken over as operator of the North Sea Petrochemicals propylene and polypropylene plants in Belgium, which are owned with Montell. With effect from 1 January 1997, Borealis became sole owner of the polypropylene plant.

Several projects are being pursued in Asia. Establishing production capacity in this region is seen as an important factor for long-term success in the industry because of strong growth there in consumption of petrochemical projects. Borealis and Abu Dhabi's state-owned oil company Adnoc have signed a letter of intent on collaborating over the construction of one ethylene and two polyethylene plants. A 40 per cent stake in the production company will be held by Borealis. The polyethylene plants will incorporate the Borstar technology developed by the group. Production is due to start in 2001. In China, Borealis is working to establish joint ventures for polyethylene production.



THE PETROCHEMICAL COMPLEX OPERATED BY BOREALIS AT BAMBLE IN NORWAY.

With the improvement efforts launched by Borealis and its new projects in Asia, the group has taken an important stride towards strengthening its leading position in European markets and laid a good foundation for establishing production and marketing outside Europe.

Borealis improved its health, environmental and safety position in 1997, but further improvements remain both necessary and realistic.

Hydrocarbon emissions were reduced from 7 700 tonnes in 1996 to 7 140 tonnes, while sulphur dioxide and nitrogen oxide emissions remained virtually unchanged.

Neste signed a letter of intent in September 1997 on the sale of its 50 per cent interest in Borealis to the Austrian oil company OMV and the International Petroleum Investment Company (IPIC), Abu Dhabi's state-owned company for foreign investment. OMV and IPIC will each own 25 per cent of Borealis. At the same time, Borealis signed a letter of intent on acquiring OMV's PCD polyolefin company. Final contracts on these transactions are due to be signed during the first half of 1998.

Methanol

The methanol project was completed in spring 1997 after three and a half years of construction work with a lost-time injury frequency of 2.3 per million

THE METHANOL PLANT AT TJELDBERGODDEN WAS OFFICIALLY OPENED IN JUNE 1997.

working hours. This is very low compared with other Norwegian projects, both inside and outside Statoil. The methanol plant at Tjeldbergodden in mid-Norway began operation on 5 June, and quickly reached full production. Its output has been successfully introduced to the north-west European market, and production for the coming year is already sold.

Work at Tjeldbergodden is based on multi-skilled teams and a focus on the process. This organisational model serves as a pilot within Statoil for new and more effective modes of operation.

OTHER OPERATIONS

Norferm, which is owned by Statoil and Nycomed, has awarded a contract to APV Dairy for construction of a bioprotein plant in association with the methanol plant at Tjeldbergodden. With production due to begin in summer 1998, this facility will have an annual capacity of 10 000 tonnes.

Production of liquefied natural gas was initiated in late 1997 at Tjeldbergodden by Tjeldbergodden Luftgassfabrikk. With an annual capacity of 10 000 tonnes per year, this liquefaction plant represents the first commercial production of LNG in Norway. Statoil is marketing the product itself, with Trondheim Energiverk as its biggest customer. The latter uses LNG to replace heavy fuel oil in the city of Trondheim's district heating system. LNG represents a contribution to developing cleaner energy.

Statoil is working on business developments at Tjeldbergodden which would make additional use of capacity in Haltenpipe, available land and the infrastructure.

FINANCIAL CONDITIONS AND RISKS

Key financial parameters for Statoil include return on capital employed and the equity ratio. Capital employed is defined as total capital less non interest-bearing debt.

Interest-bearing debt

The group's interest-bearing debt is largely denominated in US dollars, either directly or through currency swap agreements. This strategy has been adopted because future cash flow from operations in USD is expected to be significantly higher than interest charges and debt repayments.

NOK 2.8 billion in currency loss has been charged against income in 1997 because of the strengthening of the USD exchange rate against the Norwegian krone. Most of this loss is unrealised, and will be more than offset by the increased sales value of future production.

The average interest rate on the group's debt in 1997 was 5.4 per cent as against 6.2 per cent the year before. These loans have an average maturity of seven years and a short interest lock-in period.

Equity capital

Statoil aims to have a book equity capital which amounts to at least 35 per cent of total capital. An equity ratio of this size is considered necessary to achieve satisfactory financial flexibility and to exploit commercial opportunities in a business as competitive and capital intensive as the petroleum industry. At 31 December 1997, the equity ratio was 32.4 per cent.

Return on capital

While the group's long-term objective is a return on capital employed of 12 per cent, the actual figure for 1997 was 8.6 per cent. The principal reasons for the failure to reach the target include costs incurred in international upstream operations - with the Connemara project off Ireland as the biggest item. In addition, Statoil is pursuing a number of development projects. These increase its capital employed, but will not generate revenue until later.

Fund management

Liquid assets held by the group and by Statoil's pension funds are largely placed in bonds and certificates. A growing proportion of these funds are held in liquid shares. Historically, such assets have been placed in Norwegian securities, but the foreign share has been increasing in recent years in order to spread risk. At 31 December, overall placements outside Norway accounted for roughly 26 per cent of the portfolio.

The return on funds under management - including the pension funds, which are not consolidated in Statoil's accounts - came to 14.4 per cent in 1997.

Property insurance

Statoil Forsikring a.s 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 and transport risks. Virtually all the insurance provided by the company is restricted to Statoil-related risks. Statoil Forsikring retains about 42 per cent of the sum assured, which totals roughly NOK 69 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 5.1 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 12 000 members in employment and 1 000 pensioners, and manage funds totalling NOK 8.8 billion. The pension funds are not consolidated in the Statoil accounts.

Valuation

The value of shareholder's equity in Statoil at June 1997 was estimated by two financial institutions to total NOK 110-120 billion.

An important consideration in these valuations is the assumptions made about future cash flows. Many factors could influence these flows, of which the most important are:

Oil production

Statoil's equity value is largely dependent on the production of entitlement oil. This depends in turn on reservoir properties, knowledge of these, and expertise which permits a high recovery factor. A five per cent change in the production of entitlement oil will affect operating profit by about NOK 1 billion.

Oil prices

At an output of entitlement oil corresponding to the 1997 level, a USD 1.00 change in the price of a barrel of oil will affect operating profit by roughly NOK 1.2 billion.

Gas

Statoil's supplies of entitlement gas increased significantly when Troll Gas began producing in 1996, and are likely to continue expanding in coming years. At today's level of production, a 10 per cent change in gas prices will affect operating profit by about NOK 500 million.

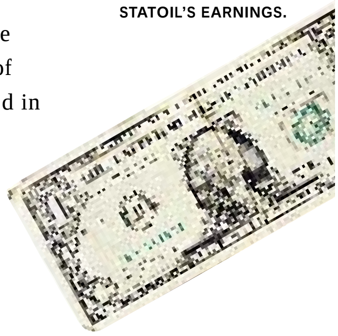
Operations

Stable and secure operation of production installations and high regularity in the pipeline systems are important both for revenue flow and for maintaining Statoil's reputation among customers as a reliable long-term supplier.

Reserves

Expanding reserves through discoveries, acquisitions and improved recovery will be crucial for future operations and cash flow.

THE EXCHANGE RATE OF THE US DOLLAR AGAINST THE NORWEGIAN KRONE IS IMPORTANT FOR STATOIL'S EARNINGS.



Foreign exchange

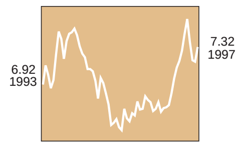
Statoil's net cash flow is largely denominated in US dollars. Viewed in isolation, a rise in the USD exchange rate against the NOK will increase the value of the group's future earnings. The bulk of the group's interest-bearing debt is denominated in USD. Although an increase in the USD/NOK exchange rate would be favourable in the longer term, the immediate accounting effect of a rise of NOK 0.50 per USD is an unrealised currency loss of roughly NOK 1.4 billion.

Petrochemicals

A change in polyolefin margins of DEM 100 per tonne would affect Statoil's net profit by roughly NOK 300 million.

Covariances

Analyses 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.



USD/NOK EXCHANGE RATE.

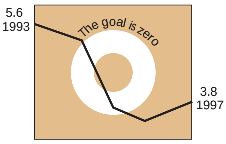
Tax

Historically, Statoil's cash flows have largely been created through production and transport of petroleum from the Norwegian continental shelf. Risks associated with this business have been greatly moderated by a marginal tax rate of 78 per cent. The expansion in the group's international upstream operations means that substantial expenditures are incurred in countries where the group is not yet in a tax position. Losses in these countries can only be deducted from taxable income in Norway to a limited extent.

HEALTH, THE ENVIRONMENT AND SAFETY

Statoil will be in the forefront for health, the environment and safety, and its aim is that nobody in the industry will do a better job with HES by 2000. The group's most important challenges in this area are:

- embedding the goal of zero injuries and polluting emissions
- climate change
- emission standards and green taxes
- requirements on product quality and liability
- exploiting the commercial opportunities for value creation offered by a conscious commitment to HES.



THE LOST-TIME INJURY FREQUENCY PER MILLION WORKING HOURS.

The chief executive's HES prize was awarded to the road tanker drivers at the Statoil Centre in Fredericia, Denmark, who have not had a lost-time injury for 30 years.

Safety

It is deeply regrettable that a total of 14 people lost their lives in connection with Statoil's operations in 1997. The helicopter crash near Norne caused 12 fatalities, while one person drowned on the Connemara field off Ireland and another died after a pipe-handling accident at Bredero in Farsund.

The level of safety, measured by the lost-time injury frequency, has been improving for a number of years. In 1996, lost-time injuries for Statoil employees and contractor personnel had a frequency of 3.4 per million working hours. This figure rose to 3.8 in 1997, a negative trend which the organisation has taken seriously and intends to reverse.

However, other measurements of safety show positive results. Great emphasis is placed in the exploration and production segment on reporting incidents with a high loss potential - both actual accidents and near-misses. This reporting is used in part to calculate a total risk index. The latter improved considerably during 1997, and the same positive trend was seen in the number of gas leaks.

ERIK CHRISTENSEN IS ONE OF THE ROAD TANKER DRIVERS AT THE STATOIL CENTRE IN FREDERICIA, WHICH WON THE CHIEF EXECUTIVE'S HEALTH, ENVIRONMENTAL AND SAFETY PRIZE FOR 1997.

Very ambitious targets have been set for HES work in Statoil. By 2000, no other company in the industry will be better in this area. The "zero mindset" represents an important tool in this connection. Its principal elements are that injuries and damage to the environment and material assets can be avoided and that all employees must think prevention and improvement in every context.

The environment

The climate conference at Kyoto in Japan approved a protocol on reducing greenhouse gas emissions which will have an impact on Statoil's operations. A broad commitment will be made to following up the intentions of this agreement. Statoil is supporting research and development which can contribute factual knowledge on the scientific, economic and social significance of climate challenges. Statoil participates in the World Bank's work on establishing a climate-related global investment fund.

An internal goal of reducing carbon dioxide emissions by 30 per cent over a decade has been set by Statoil. Covering its own plants, this target is measured against the level emissions would have reached in this period if no action were taken. An extensive technology programme has been initiated at an overall cost of NOK 600 million, of which Statoil will pay NOK 300 million. Successful implementation of this project will reduce the group's own emissions by about two million tonnes per year.

Through the development and application of technology and new solutions, the group is working to reduce discharges to the sea and emissions to the air. Emissions per unit produced have been reduced through such measures as more low nitrogen-oxide burners, cessation of permanent flaring on further installations and injection of produced water and drill cuttings. New technology for injecting drill cuttings has been applied for the first time on mobile rigs via a seabed system.

Recommendations from Norway's Miljøsok programme are being followed up in an internal improvement programme, with corporate goals for all types of emission to air and water.

Several motor fuels and lubricating oils based on biological raw materials are now being marketed.

RESEARCH AND DEVELOPMENT

Research and development in Statoil is intended to help meet the group's technological challenges in exploration, development and production with solutions which fulfil its requirements for profitability, safety and environmental protection. Many good R&D results were achieved during the year, putting Statoil up among the leaders in important sectors of the petroleum industry.

Statoil's research centre in Trondheim has 340 employees. R&D are pursued in close cooperation with universities, other research institutions and the supplies industry, both in Norway and internationally. Forty per cent of the NOK 600 million committed in 1997 was for work done by external partners. The group participates in several EU research programmes, and carries out technology assignments for licences in which Statoil is operator or partner. Through its collaboration with the Norwegian Academy of Sciences, Statoil supports basic Norwegian research in areas of significance for the national petroleum industry.

Four-dimensional seismic surveying has been adopted to monitor carbon dioxide injected into the Utsira formation in the Sleipner area.

A computer tool has been developed for determining reservoir properties from data on pore systems in the formation sands and knowledge of the physical laws governing liquid and gas flows. This tool will be used by geologists and reservoir engineers in Statoil to enhance reservoir understanding and to help improve recovery from such fields as Statfjord and Gullfaks.

Another tool developed by Statoil can predict whether or not a well will produce sand.

Combined injection of water and gas could significantly improve oil recovery. Research has clarified the most important factors which must be taken into account if the gains offered by this production process are to be achieved.

Statoil's five-year commitment to multiphase flow technology ended in 1997. Research and technological development have yielded good results as well as opportunities for cost-effective development of small satellite fields and landing of natural gas liquids.

Work on problems posed by hydrate (ice-like plugs) in pipelines has yielded improved methods for removing these obstructions. The hydrate team won an internal research prize this year for its expertise and research in this area.

Improvements have been made to a computer tool for simulating multiphase flow. A commercialisation agreement with Scandpower makes this Norwegian company responsible for marketing and administering the programme.

Flexible risers for use on Åsgard were tested and qualified at the Statoil research centre.

With its partners, Statoil has developed a plant which makes it possible to recover volatile organic compounds (VOCs) from crude oil cargoes on shuttle tankers rather than releasing them to the air. Converting VOCs to ship's bunkers turns an environmental problem into a valuable resource.

Statoil concluded a cooperation agreement with South Africa's Sasol on developing solutions for offshore conversion of gas to synthetic crude (syncrude) and sulphur-free motor fuels. This technology will help to ensure that gas is not lost, but brought to market as syncrude together with natural crude.

A technological alliance has been formed by Statoil with Germany's Linde AG on liquefied natural gas (LNG). This partnership submitted a proposal in 1997 to the licensees of the Snøhvit field. The alliance's study for a gas liquefaction plant off Hammerfest shows that investment costs and development time could be reduced by 30 per cent. Several patented solutions have been developed by the alliance.

The Visok - enterprise description of the Norwegian continental shelf - programme has been established as a key tool at Statoil for improving work processes in the exploration and development phases. Information technology combined with existing technical solutions and infrastructure have been adopted to make data available in line with operational requirements. The Visok team has developed computer solutions which provide access to licence and resource data for the Norwegian continental shelf through interactive map solutions. In addition come distributed computer solutions for planning, managing and following up exploration and development operations.

STATOIL RESEARCH PRIZE 1997

Professor Olav Eldholm at the geological institute of the University of Oslo was the winner of Statoil's research prize for 1997. Presented for the seventh time, this NOK 150 000 award goes to Norwegian researchers pursuing topics of significance for the group's operations. Prof Eldholm was honoured for his work on the formation and development of the outer part of the Norwegian continental shelf, known as the continental margin. Starting from the formation of the North Atlantic, he has analysed geological developments and the structure of the Earth's crust associated with these areas. This work is highly relevant to the geological understanding of new exploration areas in deep water.

A TOTAL OF 900 KILOMETRES OF PIPELINE WAS LAID IN 1997. *LB 200* HELPED TO LAY THE NORFRA LINE.

ANNUAL ACCOUNTS FOR 1997

STATOIL GROUP

DEN NORSKE STATS OLJESELSKAP A.S

NORWEGIAN ACCOUNTING STANDARDS			*NOK MILLION*	*INTERNATIONAL ACCOUNTING STANDARDS*		
1995	*1996*	*1997*		*1997*	*1996*	*1995*
			Sales and other operating revenue			
101 080	124 017	**142 097**	Operating revenue	**142 046**	124 017	101 080
(15 705)	(17 451)	**(18 125)**	Sales tax, excise duties	**(18 125)**	(17 451)	(15 705)
1 149	422	**813**	Share of net profit in associated companies (12)	**805**	415	1 142
86 524	106 988	**124 785**	Net operating revenue (2, 3)	**124 726**	106 981	86 517
			Operating costs			
45 013	54 883	**67 206**	Cost of goods sold (3)	**67 206**	54 883	45 013
19 420	23 100	**28 492**	Operating and administration costs (4)	**28 492**	23 100	19 420
1 297	1 644	**3 473**	Exploration costs (6)	**2 285**	1 277	1 020
6 902	8 828	**9 175**	Depreciation (7)	**9 701**	9 487	7 474
72 632	88 455	**108 346**	Total operating costs	**107 684**	88 747	72 927
13 892	18 533	**16 439**	Operating profit	**17 042**	18 234	13 590
(812)	(674)	**(3 033)**	Financial items (8, 9)	**(3 053)**	(310)	1 099
13 080	17 859	**13 406**	Profit before taxation (19)	**13 989**	17 924	14 689
8 474	12 752	**9 630**	Taxation (10)	**9 644**	12 627	9 414
10	16	**34**	Minority shareholders' interest	**34**	16	10
4 596	5 091	**3 742**	Net profit	**4 311**	5 281	5 265

NORWEGIAN ACCOUNTING STANDARDS			*NOK MILLION*	*INTERNATIONAL ACCOUNTING STANDARDS*		
1995	*1996*	*1997*		*1997*	*1996*	*1995*
			ASSETS			
			Current assets			
			Liquid assets (11)			
1 037	4 595	**1 404**	Bank deposits	**1 404**	4 595	1 037
5 116	5 754	**5 076**	Other liquid assets	**5 537**	6 055	5 261
			Short-term receivables (11)			
16 328	18 007	**19 879**	Accounts receivable	**19 879**	18 007	16 328
2 705	1 865	**2 149**	Other receivables	**2 149**	1 868	2 705
			Stocks (11)			
802	1 628	**1 118**	Raw materials	**1 118**	1 628	802
1 718	2 573	**2 852**	Finished products	**2 852**	2 573	1 718
27 706	34 422	**32 478**	Total current assets	**32 939**	34 726	27 851
			Fixed assets			
			Shares and long-term investments			
4 519	4 619	**5 393**	Associated companies (12)	**5 440**	4 673	4 581
1 085	1 771	**1 900**	Shares in other companies (12)	**1 900**	1 771	1 085
4 086	3 762	**3 924**	Investments (5)	**3 924**	3 762	4 086
68 189	69 691	**77 843**	Property, plant and equipment (2, 6, 7)	**86 394**	77 448	75 663
77 879	79 843	**89 060**	Total fixed assets	**97 658**	87 654	85 415
105 585	114 265	**121 538**	Total assets	**130 597**	122 380	113 266

NORWEGIAN ACCOUNTING STANDARDS			*NOK MILLION*	*INTERNATIONAL ACCOUNTING STANDARDS*		
1995	*1996*	*1997*		*1997*	*1996*	*1995*
			LIABILITIES AND EQUITY			
			Current liabilities			
2 117	4 329	**1 910**	Interest-bearing debt (13)	**1 910**	4 329	2 117
12 499	12 702	**14 269**	Accounts payable	**14 269**	12 702	12 499
3 842	7 578	**3 321**	Taxes payable (10)	**3 321**	7 578	3 842
1 851	1 600	**2 941**	Dividend payable	**2 941**	1 600	1 851
8 805	8 294	**9 951**	Other current liabilities (13)	**9 951**	8 286	8 805
29 114	34 503	**32 392**	Total current liabilities	**32 392**	34 495	29 114
			Long-term liabilities			
22 126	20 473	**27 881**	Loans (14)	**27 612**	19 554	20 834
5 126	6 121	**6 605**	Other long-term liabilities (15)	**6 605**	6 121	5 126
17 992	18 792	**18 128**	Deferred taxation (10)	**23 962**	24 925	24 256
45 244	45 386	**52 614**	Total long-term liabilities	**58 179**	50 600	50 216
104	143	**1 548**	Minority shareholders' interest	**1 548**	143	104
			Shareholder's equity (16, 19)			
4 940	4 940	**4 940**	Share capital	**4 940**	4 940	4 940
26 183	29 293	**30 044**	Retained earnings	**33 538**	32 202	28 892
31 123	34 233	**34 984**	Total shareholder's equity	**38 478**	37 142	33 832
105 585	114 265	**121 538**	Total liabilities and shareholder's equity	**130 597**	122 380	113 266

Guarantees and secured liabilities (17)

Other liabilities and commitments (18)

Stavanger, 18 February 1998

Kjell O Kran
Ellen Mo
Bjørn E Egeland
Tormod Hermansen

Yngve Hågensen
Helge Midttun
Iver Pehrson

Mauritz Sahlin
Åse Simonsen
Gunn Wærsted
Harald Norvik
President and chairman
of the executive board

NORWEGIAN ACCOUNTING STANDARDS			*NOK MILLION*	*INTERNATIONAL ACCOUNTING STANDARDS*		
1995	*1996*	*1997*		*1997*	*1996*	*1995*
			Cash flow from/(to) operations			
81 743	105 510	**121 547**	Cash receipts from operations	**121 547**	105 510	81 743
(60 605)	(78 015)	**(98 437)**	Disbursements to operations	**(96 988)**	(77 541)	(60 328)
(696)	(692)	**(1 764)**	Net financial items	**(1 284)**	(109)	230
20 442	26 803	**21 346**	Net before-tax cash flow from operations	**23 275**	27 860	21 645
(8 711)	(8 222)	**(12 619)**	Taxes paid	**(12 619)**	(8 222)	(8 711)
11 731	18 581	**8 727**	Net cash flow from operations	**10 656**	19 638	12 934
			Cash flow from/(to) investing activities			
(16 247)	(11 776)	**(21 064)**	Acquisition of fixed assets	**(22 993)**	(12 833)	(17 450)
512	923	**3 326**	Sale/divestment of fixed assets	**3 326**	923	512
(15 735)	(10 853)	**(17 738)**	Net cash flow to investing activities	**(19 667)**	(11 910)	(16 938)
			Cash flow from/(to) financing activities			
(2 119)	(635)	**680**	Change in other liquid assets	**680**	(635)	(2 119)
1 995	(225)	**220**	Change in short-term debt	**220**	(225)	1 995
5 385	5 315	**8 762**	New long-term debt	**8 762**	5 315	5 385
(1 282)	(6 774)	**(2 242)**	Reduction in long-term debt	**(2 242)**	(6 774)	(1 282)
(1 615)	(1 851)	**(1 600)**	Dividend paid	**(1 600)**	(1 851)	(1 615)
2 364	(4 170)	**5 820**	Net cash flow from/(to) financing activities	**5 820**	(4 170)	2 364
(1 640)	3 558	**(3 191)**	Net changes in bank deposits	**(3 191)**	3 558	(1 640)
2 677	1 037	**4 595**	Bank deposits at 1 January	**4 595**	1 037	2 677
1 037	4 595	**1 404**	Bank deposits at 31 December	**1 404**	4 595	1 037

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, and its subsidiaries as described in note 10 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. Shares in a subsidiary are eliminated in the group accounts against its assets and liabilities. The difference between the market value of a subsidiary's assets and liabilities at the time of acquisition and their book value is assigned to the respective balance sheet items. Any excess value assigned to property, plant and equipment is depreciated accordingly. Other excess value, adjusted for any minority interests, is classified as goodwill (past equity method).
- 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. The group's interest in such companies' annual results, as adjusted for depreciation of any difference between the purchase price of the shares and the interest in booked equity capital is recorded as operating revenue in the group income statement in accordance with the equity method .
- Statoil's interests in oil and gas licences as well as other jointly-controlled operations are included in the respective income statement and balance sheet items (straight line method).
- Inter-group transactions and balances are eliminated.

Foreign currency translation

On consolidation, the income statements of foreign subsidiaries 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. Hedged stocks are valued at the lower of acquisition cost and hedged price.

The acquisition cost of goods produced by the group 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.

- *Oil and gas exploration expenditures*
  Drilling of exploratory wells in which hydrocarbons have been found, as well as acquisitions of exploration rights, are capitalised. If, on further evaluation, the reserves are not considered commercial, such previously capitalised exploration expenditures 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.
- *Interest*
  Interest on cash flows related to major development projects is capitalised until the asset is ready for use. Capitalised interest is included as

part of the cost price and depreciated along with the capital asset concerned.

- *Depreciation*
  Depreciation of production installations and field-dedicated transport systems for oil and gas is calculated using the unit of production method based on estimated proved reserves expected to be recovered during the licence period. 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.
- *Site removal costs*
  Annual provisions are made for future site abandonment and removal costs based on the current price level and an anticipated removal concept, using the unit of production method
- *Maintenance*
  Ordinary maintenance and repairs are charged against income when performed. Provisions are made for costs related to periodic maintenance programmes.

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

Royalty
The production volume paid by Statoil as royalty in kind for its participation in the various production licences is booked at market price and shown as operating income and 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 (paper market) are included in the operating profit/loss. Unrealised gains and losses on forward sales of crude oil and products are recorded as income/expenses as incurred.

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

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. 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 profit.

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.

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-date 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 unhedged 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 past equity method.

Full provision is made using closing-date tax rates and undiscounted amounts. Tax related to future dividends from operations taxable as shipping activities is included in the provision at its estimated present value. Earned future uplift has no fiscal effect on future reversals, and is not considered when calculating the deferred taxation.

Norwegian Accounting Standards which differ significantly from International Accounting Standards:

Exploration expenditures
Exploration drilling expenditures are charged against income as incurred.

Interest
Interest is charged against income as incurred.

Listed securities classified as current assets
Unrealised gains are not recognised as income.

Unrealised foreign exchange gains
Unrealised foreign exchange gains related to long-term monetary items are not recognised as income.

Forward trading
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 1997 and at 31 December 1997:				
Exploration and production	45 786	25 470	15 427	59 658
Refining and marketing	97 449	97 330	1 301	23 777
Petrochemicals	1 335	1 324	396	7 733
Other operations and eliminations	(19 844)	602	(82)	6 490
Total	124 726	124 726	17 042	97 658
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

* Operating revenue includes profit after taxation in associated companies.

Geographic distribution
Based on business location

NOK MILLION	*OPERATING REVENUE*	*EXTERNAL SALES*	*OPERATING PROFIT/(LOSS)*	*FIXED ASSETS*
For 1997 and at 31 December 1997:				
Norway	89 191	74 945	17 723	74 332
Europe (excluding Norway)	24 299	21 830	147	24 561
USA	26 060	25 809	(314)	6 102
Other	2 120	2 142	(514)	2 606
Eliminations	(16 944)	-	-	(9 943)
Total	124 726	124 726	17 042	97 658
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
USA	13 853	13 763	135	1 374
Other	1 153	1 152	(480)	1 280
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	13037	66 942
Europe (excluding Norway)	16 159	15 168	1 002	20 531
USA	3 807	3 512	18	8
Other	969	1 207	(467)	1 623
Eliminations	(5 095)	-	-	(3 689)
Total	86 517	86 517	13 590	85 415

3. Operating revenue analysed by product groups

NOK MILLION	*1997*	*1996*	*1995*
Crude oil and NGL	57 089	51 700	43 828
Pipeline transport	5 176	4 802	4 921
Natural gas	12 942	8 737	4 911
Refined products	36 903	33 234	24 641
Other revenue	12 616	8 508	8 216
Total	124 726	106 981	86 517
Foreign sales, included above:			
Crude oil and NGL	54 072	48 747	40 870
Natural gas	12 838	8 737	4 498
Refined products	31 414	27 615	19 581
Other revenue	8 187	4 642	6 120
Total	106 511	89 741	71 069

Total crude oil availability includes purchased royalty and state equity crude at NOK 14 394 million. Cost of sales, NOK 67 206 million, consists of purchased royalty and state equity crude plus other goods purchased for resale.

Operating revenue includes royalties of NOK 1 809 million. An equivalent amount is included in operating and administration costs.

The Rubicon agreements include farm-in and farm-out and swapping of a number of licence interests. Where such agreements essentially involve swapping, no financial gains are recorded. Where the cash segment of the settlement amounts to more than 25 per cent of the transaction value the sale or acquistion is recorded separately and any gains are taken to income. Other revenue includes NOK 540 million in gains from the Rubicon agreements.

4. Operating and administration costs

Payroll and statutory social benefits

Payroll and statutory social benefits amounted to NOK 8 120 million in 1997 as against NOK 6 935 million in 1996 and NOK 6 311 million in 1995. Payroll costs are charged in part to Statoil-operated activities.

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, Statoil Norge a.s and Navion AS are insured through Statoil's pension funds, which are organised as independent trusts. Their assets are invested in state, county or municipal bonds, as well as in Norwegian shares and real estate.

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	*1997*	*1996*	*1995*
Vested pension benefits earned	(5 650)	(4 589)	(4 280)
Non-vested early retirement benefits earned	(576)	(142)	(95)
Pension funds	8 839	7 357	6 220
Unrealised effect of changed estimates	198	(111)	210
Total	2 811	2 515	2 055
Accrued pensions are classified as:			
Long-term investment	3 657	3 171	2 612
Other long-term liabilities	846	656	557
Assumed rate of return	7.5%	7.5%	7.5%
Discount factor	7.0%	7.0%	7.0%
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	*1997*	*1996*	*1995*
Present value of earnings for the period	476	353	310
Interest cost of pension obligations	352	264	222
Assumed return on pension funds	(596)	(493)	(405)
Allocated effect of changes in estimates and difference between actual and assumed return	21	41	5
Pension costs included in payroll and statutory social benefits	253	165	132

5. Investments

Investments include accrued pension costs of NOK 3 657 million as shown in note 4.

6. Exploration expenditures

NOK MILLION	1997	1996	1995
Capitalised at 1 January - IAS	3 061	2 795	2 602
Incurred during the year	3 473	1 644	1 297
Expensed share of current year's exploration	(2 024)	(1 170)	(930)
Expensed, previously capitalised	(261)	(107)	(90)
Depreciation	(84)	(105)	(77)
Exploration expenditures sold at book value	(58)		
Exchange adjustments	2	4	(7)
Capitalised at 31 December - IAS	4 109	3 061	2 795

The capitalised amount at 31 December 1997 includes NOK 2 322 million in exploration expenditures in areas still not approved for development.

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

7. Property, plant and equipment

NOK MILLION	MACHINERY, OFFICE FURNITURE, VEHICLES, ETC	PROD PLANT OFFSHORE	PROD PLANT ONSHORE	BUILDINGS AND SITES	VESSELS	INTAN-GIBLES	CONSTRUC-TION IN PROGRESS	PROPERTY PLANT EQUIPM IAS	ADJUST-MENTS-(NOTE1)	PROPERTY PLANT EQUIPM NGAAP
Historical cost at 1 Jan 1997	4 945	94 102	26 686	13 781	4 218	897	8 640	153 269	(8 295)	144 974
Additions	3 474	8 300	4 626	1 141	4 533	1 077	1 618	24 769	(4 240)	20 529
Deletions at historical cost	250	7 242	400	1 564	873	0	14	10 343	2 147	12 490
Accumulated depreciation at 31 Dec 1997	3 968	54 124	15 264	5 301	1 125	1 519	0	81 301	(6 131)	75 170
Book value at 31 Dec 1997	4 201	41 036	15 648	8 057	6 753	455	10 244	86 394	(8 551)	77 843
Depreciation 1997	532	5 758	1 434	247	259	1 471	0	9 701	(526)	9 175

The book value of vessels, NOK 6 753 million, includes chartered vessels at NOK 221 million.
Depreciation for 1997 includes a NOK 1 200 million write-down of the Connemara project on the Irish continental shelf.

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

NOK MILLION	1997		1996		1995		1994		1993	
	Addns	Sales	Addns	Sales	Addns	Sales	Addns	Sales	Addns	Sales
	20 529	3 326	11 846	307	15 013	512	10 925	1 246	12 204	71

8. Financial items

The net amount is analysed as follows:

NOK MILLION	*1997*	*1996*	*1995*
Dividend received	88	73	41
Gain on sale of securities	392	74	89
Interest and other financial income	559	640	625
Currency exchange adjustments, short-term items	(539)	(162)	(319)
Currency exchange adjustments, long-term items	(1 564)	424	334
Interest and other financial expenses	(1 969)	(1 723)	(1 582)
Net financial items - NGAAP	(3 033)	(674)	(812)
Change unrealised gains on securities	160	159	103
Change unrealised exchange gains, long-term items	(660)	(379)	882
Capitalised building loan interest	480	584	926
Net financial items - IAS	(3 053)	(310)	1 099

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)	(89)	(52)					(197)
Interest rate swaps	1 058	585	126	8 672	2 590	1 983	4 389	19 403
Currency and interest rate swaps	(2 932)	348	(1 627)	556	1 190	1 970	-	(495)
Interest futures	143							143

Nominal values by product and currency

MILLIONS	*USD*	*DEM*	*GBP*	*ECU*	*JPY*	*CHF*	*BEF*	*DKK*	*SEK*	*NLG*	*NOK*
Forward contracts	(1 584)	436	(64)	110	9 816		9 269	(2 471)	(1 249)	(15 630)	11 427
Interest rate swaps	1 876	325		100		200	9 500	317			
Currency and interest rate swaps	(233)	(40)			52 000	400	2 559	(483)			(2 867)
Interest futures		54	7		(2 000)						(55)

MILLIONS	*FRF*	*MYR*	*IEP*	*ATS*	*ESP*	*FIM*
Forward contracts	(204)	17	(9)	(45)	(1 885)	(1)
Interest rate swaps	250					
Currency and interest rate swaps	(562)					

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 70 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

Tax expenses are analysed as follows:

NOK MILLION	*IAS*			*NGAAP*		
	1997	*1996*	*1995*	*1997*	*1996*	*1995*
Taxes payable	8 361	11 959	7 494	8 361	11 959	7 494
Deferred tax provision	1 283	668	1 920	1 269	793	980
Taxation for the year	9 644	12 627	9 414	9 630	12 752	8 474
Uplift benefit for the year	2 773	2 480	2 220	2 773	2 480	2 220

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 5.7 billion.

	1997		*1996*		*1995*	
NOK MILLION	*BASE*	*DEFERRED TAX*	*BASE*	*DEFERRED TAX*	*BASE*	*DEFERRED TAX*
Excess tax depreciation	34 247	22 169	33 737	22 465	34 318	22 756
Other temporary differences	2 604	1 793	3 282	2 460	1 461	1 500
In accordance with IAS	36 851	23 962	37 019	24 925	35 779	24 256
Adjustments for NGAAP:						
Capitalised exploration expenditures and interest	(8 552)	(5 390)	(7 757)	(5 301)	(7 474)	(5 266)
Unrealised gains, etc	(776)	(444)	(1 285)	(832)	(1 499)	(998)
In accordance with NGAAP	27 523	18 128	27 977	18 792	26 806	17 992

In connection with licence interests sold and swapped, the deferred tax liability was reduced by NOK 2.2 billion in the IAS and NOK 1.9 billion in the NGAAP accounts.

11. Current assets

Other liquid assets

NOK MILLION	*1997*	*1996*	*1995*
Time deposits	5	33	21
Listed shares	1 486	1 308	664
Bonds, certificates and other securities	4 046	4 714	4 576
Total IAS	5 537	6 055	5 261

NOK 461 million in unrealised gains at 31 December 1997 are not included in the NGAAP accounts.

Other liquid assets in Statoil Forsikring a.s are included at NOK 4 838 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 1997 amounted to NOK 276 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 held in reserve by government decree are, effective from 1997, assessed in accordance with the Fifo principle.

12. Shares and long-term investments

Associated companies

NOK MILLION	*BOOK VALUE*	*SHARE IN PROFIT/(LOSS)*	*EQUITY HOLDING*	*PAR VALUE*	*SHARE CAPITAL*
Borealis a.s	4 580	685	50%	DKK 2 000	DKK 4 000
Malaysian Refining Company Sdn. Bhd.	704	0	15%	MYR 333	MYR 2 220
Other companies	156	120			
Total	5 440	805			

Voting stock and equity holdings are identical.

Shares in other companies
Shares in other companies totalled NOK 1 900 million, including NOK 807 million in ordinary Saga Petroleum ASA shares. The equity holding in this company is 8.7 per cent, while 11.6 per cent of the voting stock is held.

Shares in Hafslund ASA are included at NOK 715 million.
The equity holding is 10.0%, and the voting stock held is 16.9%.

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

13. Short-term debt

NOK MILLION	*1997*	*1996*	*1995*
Current interest-bearing debt			
Short-term bank loans and overdrafts	464	243	468
Other interest-bearing debt	1 446	4 086	1 649
Current interest-bearing debt	1 910	4 329	2 117
Other current liabilities, non interest-bearing			
Net payable to co-ventures	3 009	2 537	2 210
Holiday pay, payroll and value-added taxes	2 676	2 651	2 818
Accrued liabilities	4 266	3 098	3 777
Other current liabilities, non interest-bearing	9 951	8 286	8 805

14. Loans

Currency positions

AMOUNTS IN MILLIONS	*LONG-TERM LOANS*	*CURRENCY SWAP AGREEMENTS*	*CURRENCY POSITION*	*EXCHANGE RATE*	*BOOK VALUE NOK*
NOK	2 967		2 967		2 967
BEF	2 790		2 790	19.84	554
DEM	615	40	655	409.20	2 680
GBP	31		31	12.12	376
FRF	250	562	812	122.30	993
DKK	683		683	107.42	734
ECU	90	60	150	8.09	1 214
JPY	62 000	(52 000)	10 000	5.63	563
USD	2 162	233	2 395	7.32	17 531
Long-term loans - IAS					27 612
Unrealised currency exchange gains					269
Long-term loans - NGAAP					27 881

Long-term loans include USD 60 million in commitments related to financial leasing.

The average rate of interest in 1997, excluding currency exchange effects, was 5.4 per cent.

Available borrowing facilities at 31 December 1997 amount to NOK 7.2 billion.

Instalment plan, long-term loans

YEAR	*NOK MILLION*
1998	3 843
1999	1 978
2000	3 737
2001	1 355
2002	2 530
Thereafter	14 169
Total	27 612

15. Other long-term liabilities

This item includes provisions of NOK 4 410 million for various insurance funds in Statoil Forsikring a.s and pension obligations of NOK 846 million as shown in note 4.

Accrued future site abandonment and removal costs of NOK 1 348 million are also included. The current year's provision amounts to NOK 142 million. It is assumed that in respect of such costs associated with the Norwegian continental shelf, a portion equivalent to the parent company's average tax rate over the life of the installation will be carried by the Norwegian state.

16. Equity changes IAS

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

NOK MILLION	*1997*	*1996*	*1995*
Equity at 1 January	37 142	33 832	30 215
Net profit for the year	4 311	5 281	5 265
Dividend for the year	(2 940)	(1 600)	(1 850)
Change in foreign currency exchange adjustment	(35)	(371)	202
Equity at 31 December	38 478	37 142	33 832

For reconciliation with the NGAAP, see note 19.

17. Guarantee commitments and secured liabilities

Of NOK 468 million in total guarantees provided by the group, the parent company has issued NOK 173 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 42 per cent is retained.

Lease agreements

At 31 December 1997, Statoil had signed one- to ten-year lease agreements for ten drilling rigs, helicopter services equivalent to eight helicopters, and 22 supply/stand-by vessels. In addition to the capitalised lease cost of vessels, the group has 38 vessels on charter with an average remaining lease period, excluding options, of 2.5 years .

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

YEAR	*NOK MILLION*
For 1998	2 086
For 1999	1 697
For 2000	1 448
For 2001	1 286
For 2002	861
Thereafter	2 981
Total	10 359

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

Contractual commitments

NOK MILLION	*1998*	*THEREAFTER*	*TOTAL*
Contractual commitments made	8 587	4 802	13 389

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 1997, the group was committed to participating in 53 wells offshore Norway and 23 wells abroad, with interests ranging from 10-50 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	*1997*	*1996*	*1995*
Profit before taxation - IAS	13 989	17 924	14 689
Net capitalised/expensed exploration expenditures	(1 129)	(368)	(277)
Net capitalised interest on building loans	(480)	(584)	(926)
Change in unrealised gains	500	228	(979)
Depreciation of capitalised exploration expenditures and building loan interest	526	659	573
Profit before taxation - NGAAP	13 406	17 859	13 080
Shareholder's equity - IAS	38 478	37 142	33 832
Capitalised exploration expenditures	(4 109)	(3 061)	(2 795)
Capitalised interest on building loans	(4 443)	(4 696)	(4 679)
Change in unrealised gains	(776)	(1 285)	(1 499)
Deferred taxation	5 834	6 133	6 264
Shareholder's equity -NGAAP	34 984	34 233	31 123

NOK MILLION		1997	1996
Operating revenue	(2)	83 503	79 601
Operating costs			
Cost of goods sold		43 135	36 519
Operating and administration costs	(3, 4)	15 871	16 221
Exploration costs		1 593	1 133
Depreciation	(5)	5 547	7 082
Total operating costs		66 146	60 955
Operating profit		17 357	18 646
Financial items	(6)	(3 099)	(846)
Extraordinary income	(7)	3 656	-
Profit before taxation		17 914	17 800
Taxation	(8)	9 516	12 636
Net profit		8 398	5 164
Allocation of net profit:			
Group contribution		516	-
Restricted equity reversing fund		-	(43)
Statutory reserve		2 450	850
Dividend		2 940	1 600
Distributable reserve		2 492	2 757
		8 398	5 164

NOK MILLION		*1997*	*1996*
ASSETS			
Current assets			
Liquid assets			
Bank deposits		0	3 075
Other liquid assets		649	1 486
Short-term receivables	(9)		
Accounts receivable		11 192	11 669
Inter-group receivables		2 857	3 179
Other receivables		1 190	1 004
Stocks	(9)		
Raw materials		764	609
Finished products		743	796
Total current assets		17 395	21 818
Fixed assets			
Long-term receivables and investments			
Shares in subsidiaries	(10)	25 204	16 175
Shares in other companies	(10)	1 865	1 758
Shares in associated companies	(10)	752	451
Investments	(4)	3 445	3 284
Inter-group receivables		6 071	2 772
Property, plant and equipment	(5)	48 052	52 247
Total fixed assets		85 389	76 687
Total assets		102 784	98 505

NOK MILLION		*1997*	*1996*
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable		9 672	10 525
Taxes payable		3 150	7 521
Dividend payable		2 940	1 600
Inter-group payables		2 294	811
Other current liabilities	(11)	5 788	7 725
Total current liabilities		23 844	28 182
Long-term liabilities			
Loans	(12)	21 305	17 425
Inter-group loans		2 721	2 729
Other long-term liabilities	(13)	1 562	1 378
Deferred taxation	(8)	17 498	17 880
Total long-term liabilities		43 086	39 412
Shareholder's equity			
Share capital (49 397 140 shares at NOK 100 each)		4 940	4 940
Statutory reserve		11 207	8 757
Distributable reserve		19 707	17 214
Total shareholder's equity		35 854	30 911
Total liabilities and shareholder's equity		102 784	98 505

Guarantees and secured liabilities (14)
Other liabilities and commitments (15)

Stavanger, 18 February 1998

Kjell O Kran	Yngve Hågensen	Mauritz Sahlin
Ellen Mo	Helge Midttun	Åse Simonsen
Bjørn E Egeland	Iver Pehrson	Gunn Wærsted
Tormod Hermansen		Harald Norvik President and chairman of the executive board

NOK MILLION	1997	1996
Cash flow from/(to) operations		
Cash receipts from operations	84 213	77 938
Disbursements to operations	(62 403)	(53 188)
Net financial items	(1 837)	(1 105)
Taxes paid	(12 405)	(7 919)
Net cash flow from operations	7 568	15 726
Cash flow from/(to) investing activities		
Acquisition of fixed assets	(15 693)	(11 643)
Sale/divestment of fixed assets	4 472	641
Net cash flow to investing activities	(11 221)	(11 002)
Cash flow from/(to) financing activities		
Change in other liquid assets	882	(225)
Change in short-term debt	1 385	(84)
New long-term debt	5 112	6 124
Reduction in long-term debt	(5 201)	(5 806)
Dividend paid	(1 600)	(1 850)
Net cash flow to financing activities	578	(1 841)
Net changes in bank deposits	(3 075)	2 883
Bank deposits at 1 January	3 075	192
Bank deposits at 31 December	0	3 075

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	*1997*	*1996*
Crude oil and NGL	52 036	48 862
Pipeline transport	4 832	4 714
Natural gas	4 441	4 182
Refined products	18 731	17 112
Other revenue	3 463	4 731
Total	83 503	79 601
Foreign sales, included above:		
Crude oil and NGL	49 019	45 908
Natural gas	4 347	4 182
Refined products	15 106	13 055
Other revenue	271	1 951
Total	68 743	65 096

Other revenue includes gains of about NOK 2.2 billion from sales and swapping of licence interests.

3. Operating and administration costs

Payroll and statutory social benefits amounted to NOK 5 652 million in 1997, as against NOK 5 117 million in 1996.

NOK 277 500 was paid in remuneration to the combined members of the corporate assembly and NOK 1 325 000 to the directors. The chief executive received a salary and other remunerations of NOK 1 992 000. If resigning at the request of the board, the chief executive is entitled to severance compensation equivalent to two annual salaries. Audit fees in 1997 amounted to NOK 2 810 000 for regular audit services and NOK 1 550 000 for consultancy services.

Operating costs include NOK 1 595 million in write-down of shares in Statoil Investments Ireland Ltd.

4. Pension costs

Statoil has pension plans covering a total of 10 101 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 invested in state, county or municipal bonds, as well as in Norwegian shares and real estate.

Statoil's accrued pension obligations are analysed as follows:

NOK MILLION	1997	1996
Vested pension benefits earned	(4 450)	(3 549)
Non-vested early retirement benefits earned	(575)	(114)
Pension funds Statoil's pensjonskasse	7 835	6 502
Unrealised effect of changed estimates	203	(111)
Total	3 013	2 728

A total of NOK 3 403 million is classified as long-term investment and NOK 390 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	1997	1996
Present value of earnings for the period	399	304
Interest cost of pension obligations	303	220
Assumed return on pension funds	(530)	(432)
Allocated effect of changes in estimates and difference between actual and assumed return	25	44
Pension costs included in payroll and statutory social benefits	197	136

5. Property, plant and equipment

NOK MILLION	MACHINERY, OFFICE FURNITURE, VEHICLES, ETC.	PROD PLANT OFFSHORE	PROD PLANT ONSHORE	BUILDINGS AND SITES	VESSELS	INTANG-IBLES	CONSTRUC-TION IN PROGRESS	TOTAL
Historical cost at 1.1.97	3 350	78 744	19 875	2 905	4 268	58	6 600	115 800
Additions	2 594	4 703	609	70		(16)	(426)	7 533
Deletions at historical cost	132	5 367	184	597	3 752	(17)	8	10 021
Accumulated depr at 31.12.97	3 214	47 699	13 419	526	390	11	0	65 260
Book value at 31.12.97	2 598	30 381	6 880	1 853	127	47	6 166	48 052
Depreciation 1997	342	4 470	623	75	33	4	0	5 547

The book value of vessels consists of financial leases.

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

	1997		1996		1995		1994		1993	
NOK MILLION	ADDNS	SALES	ADDNS	SALES	ADDNS	SALES	ADDNS	SALES	ADDNS	SALES
Total	7 533	4 472	7 826	25	9 928	430	8 121	1 127	7 664	42

6. Financial items

The net amount is analysed as follows:

NOK MILLION	1997	1996
Dividend received	98	103
Sales of securities	94	(45)
Interest received from subsidiaries	337	128
Interest and other financial income	104	270
Loss on currency exchange, short-term items	(535)	(184)
Gain/(loss) on currency exchange, long-term items	(1 423)	424
Interest to subsidiaries	(152)	(118)
Interest and other financial expenses	(1 622)	(1 424)
Net financial items	(3 099)	(846)

7. Extraordinary income

With effect from 1 January 1997, the Shipping & Maritime Technology (SMT) business area was demerged as a separate subsidiary. The gain of NOK 3 656 million is shown as extraordinary income.

8. Taxation

The year's taxes are analysed as follows:

NOK MILLION	1997	1996
Taxes payable	8 034	11 840
Deferred tax provision	1 482	796
Taxation for the year	9 516	12 636
Uplift benefit for the year	2 773	2 480

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 5.7 billion.

Permanent differences of about NOK 3.8 billion related to the demerger of Statoil's shipping business, sale of real estate, write-down of shares in Statoil Investments Ireland and farm-out of licence interests are incorporated in the 1997 financial statement.

	1997		1996	
NOK MILLION	BASE	DEFERRED TAX	BASE	DEFERRED TAX
Excess tax depreciation, offshore	19 607	15 293	19 772	15 422
Excess tax depreciation, onshore	2 729	764	2 978	834
Other temporary differences	2 027	1 441	2 242	1 624
Total	24 363	17 498	24 992	17 880

Deferred tax liabilities are reduced by NOK 1.9 billion in connection with sales and swapping of licence interests.

9. 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 190 million.

Stocks

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

10. Shares

Shares in subsidiares

NOK MILLION	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	1 495
Statoil (UK) Ltd	100%	GBP	240	GBP	240	2 567
Statoil Deutschland GmbH	100%	DEM	22	DEM	22	1 148
Statoil North America Inc	100%	USD	295	USD	295	3 029
Statoil (Thailand) Ltd	100%	THB	1 230	THB	1 230	317
Statoil SIAM Ltd	100%	THB	81	THB	81	24
Statoil Asia Pacific Pte Ltd	100%	SGD	10 000	SGD	10 000	45
Statoil Nigeria a.s	100%	NOK	433	NOK	433	433
Navion AS	80%	NOK	1 350	NOK	1 688	5 400
Latvija Statoil SIA	100%	LVL	10	LVL	10	150
Statoil Coordination Center N.V	69%	BEF	9 845	BEF	14 341	1 972
AS Eesti Statoil	100%	EEK	169	EEK	169	102
Statoil Russia AS	100%	NOK	33	NOK	33	33
Statoil Venezuela Exploration a.s	100%	NOK	610	NOK	610	610
Offshore Technology AS	100%	NOK	120	NOK	120	120
Statoil Vietnam as	100%	NOK	30	NOK	30	30
Offtech Invest AS	67%	NOK	116	NOK	116	123
Statoil Investments Ireland Ltd	100%	IEP	212	IEP	212	898
Other subsidiaries						19
Total						25 204

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

Shares in other companies

Shares in other companies totalled NOK 1 865 million, including NOK 807 million in ordinary Saga Petroleum ASA shares. The equity holding in this company is 8.7 per cent, while 11.6 per cent of the voting stock is held.

Shares in Hafslund ASA account for NOK 715 million. The equity holding is 10.0 per cent and the voting stock is 16.9 per cent.

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

Shares in associated companies

NOK MILLION	EQUITY HOLDING	PAR VALUE	COMPANY´S SHARE CAPITAL	BOOK VALUE
Malaysian Refining Company Sdn Bhd	15%	MYR 333	MYR 2 220	704
Other companies				48
Total				752

Recorded at historical cost.

11. Other current liabilities

NOK MILLION	1997	1996
Net payable to co-ventures	1 744	2 535
Other current liabilities	4 044	5 190
Total	5 788	7 725

12. Loans

Currency positions

AMOUNTS IN MILLIONS	LONG-TERM LOANS	CURRENCY SWAP AGREEMENTS	CURRENCY POSITION	EXCHANGE RATE	BOOK VALUE NOK
NOK	3 799		3 799		3 799
BEF	13 223		13 224	19.84	2 624
DEM	358	265	623	409.20	2 550
FRF	250	562	812	122.30	993
DKK	200	(1 317)	(1 117)	107.42	(1 200)
ECU	90	60	150	8.09	1 213
JPY	62 000	(52 000)	10 000	5.63	563
USD	1 558	233	1 791	7.32	13 104
Currency translation reserve					380
Total					24 026
Loans from subsidiaries					(2 721)
Long-term loans shown in balance sheet					21 305

Long-term loans include commitments of USD 32 million related to financial leasing.
The average rate of interest in 1997, excluding currency translation effects, was 5.4 per cent.

Available borrowing facilities at 31 December 1997 amount to NOK 7.2 billion.

Instalment plan, long-term loans:

YEAR	NOK MILLION
1998	3 404
1999	2 267
2000	3 074
2001	1 640
2002	2 269
Thereafter	11 372
Total	24 026

13. Other long-term liabilities

At 31 December 1997, provision of NOK 390 million for pension obligations was made.

Accrued future site abandonment and removal costs of NOK 1 172 million are also included. The current year's provision amounts to NOK 129 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.

14. Guarantee commitments

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

Other guarantees provided amount to NOK 173 million.

15. 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 42% is retained.

Lease agreements

At 31 December 1997, Statoil had signed one- to ten-year lease agreements for ten rigs, helicopter services to the equivalent of eight helicopters, and 22 supply/stand-by vessels.

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

YEAR	*NOK MILLION*
For 1998	661
For 1999	659
For 2000	605
For 2001	513
For 2002	402
Thereafter	582
Total	3 422

Contractual commitments

NOK MILLION	*1998*	*THEREAFTER*	*TOTAL*
Contractual commitments made	4 565	2 614	7 179

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 1997, the company was committed to participate in 53 wells offshore Norway with an average equity interest of about 10-50 per cent.

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 1997, which show a net profit for the year of NOK 8 398 million for the parent company, a consolidated profit for the year of NOK 3 742 million based on Norwegian accounting principles and NOK 4 311 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 1997 and the result of the operations for the financial year, in accordance with Norwegian generally accepted accounting principles and international accounting standards.

STAVANGER, 18 FEBRUARY 1998
ERNST & YOUNG & CO AS

ERNST ALSAKER
STATE AUTHORISED PUBLIC ACCOUNTANT (NORWAY)

RECOMMENDATION FROM THE CORPORATE ASSEMBLY

Resolution:
At its meeting on 11 March 1998, 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 1997.

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.

OSLO, 11 MARCH 1998

LEIF T LØDDESØL
CHAIRMAN, CORPORATE ASSEMBLY

Corporate assembly
Leif T Løddesøl, Margrete Riple Odland, Arve Berg, Kjell Bjørndalen, Jorunn Strand Vestbø, Jan Reinås, Asbjørn Rolstadås (acting), Wenche Meldahl, Jetfred Sellevåg, Siri Bentsen, Sigrun Tonning Søgnen, Turid Enoksen

Proved and probable reserves are those volumes of oil, gas and NGL which are expected to be recovered under current economic and technological conditions, based on analyses of geological and technical data.

Revisions of previous estimates reflect a reassessment of petroleum volumes in place as well as anticipated increases in recovery factors, mainly because of improved technology.

The effects of the Rubicon agreements relating to farm-in, farm-out and swapping of interests are included under 'change in interest'.

Statoil has signed a service contract in Venezuela. Expected recovery of the field's reserves beyond basic production is included in international oil reserves.

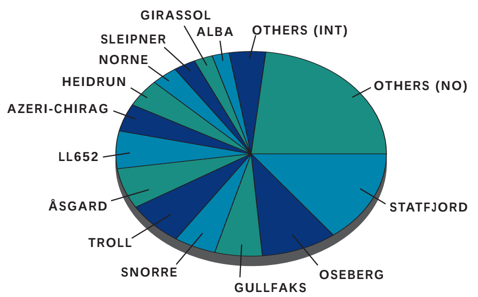
Oil and gas reserves include royalty crude payable in kind. Of the year's gross output, royalty crude amounts to 13.7 million barrels. For 1996 and 1995, royalty crude came to 14.6 and 26.8 million barrels respectively. Of estimated proved and probable reserves in place, royalty crude is calculated at 59.2 million barrels.

'Proved reserves' is an estimate of quantities which, with a high degree of certainty, are expected to be recovered on the basis of a stochastic aggregation of the portfolio.

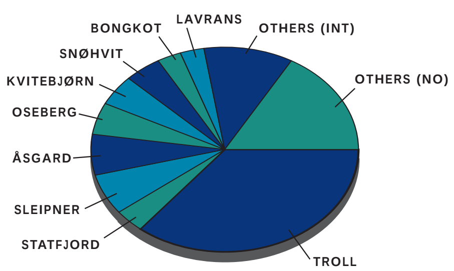
OIL IN MILLIONS OF BARRELS GAS IN BILLIONS OF CUBIC METRES*	*OFFSHORE NORWAY*	*INTER-NATIONAL*	*TOTAL OIL*	*OFFSHORE NORWAY*	*INTER-NATIONAL*	*TOTAL GAS*	*TOTAL MILL BARRELS O.E*
PROVED AND PROBABLE RESERVES							
1995							
Reserves at 1 January	2 016	25	2 041	347	22	369	4 362
Revisions of previous estimates	63	4	67	0	5	5	98
Added through new discoveries	34	74	108	1	2	3	127
Change in interest	(120)	98	(22)	(12)	1	(11)	(91)
Production	(182)	0	(182)	(5)	0	(5)	(213)
Proved and probable reserves at 31December	1 811	201	2 012	331	30	361	4 283
Analysed by:							
Fields on stream	1 099	42	1 141	36	9	45	1 424
Fields under development	218	1	219	122	1	123	993
Fields under appraisal	494	158	652	173	20	193	1 866
1996							
Revisions of previous estimates	95	(45)	50	(18)	(1)	(19)	(70)
Added through new discoveries	171	0	171	23	1	24	322
Change in interest	0	15	15	0	0	0	15
Production	(192)	(4)	(196)	(6)	(1)	(7)	(240)
Proved and probable reserves at 31December	1 885	167	2 052	330	29	359	4 310
Analysed by:							
Fields on stream	1 050	38	1 088	161	9	170	2 157
Fields under development	353	70	423	28	6	34	637
Fields under appraisal	482	59	541	141	14	155	1 516
1997							
Revisions of previous estimates	112	(18)	94	(1)	0	(1)	88
Added through new discoveries	66	114	180	11	0	11	249
Change in interest	(100)	164	64	1	26	27	234
Production	(175)	(10)	(185)	(6)	(2)	(8)	(235)
Proved and probable reserves at 31December	1 788	417	2 205	335	53	388	4 646
Analysed by:							
Fields on stream	960	106	1 066	154	25	179	2 192
Fields under development	415	61	476	33	14	47	772
Fields under appraisal	413	250	663	148	14	162	1 682
Proved reserves at 31 December 1995			1 853			324	3 891
Proved reserves at 31 December 1996			1 899			337	4 019
Proved reserves at 31 December 1997			2 051			366	4 353

*) Includes natural gas liquids

OIL



GAS



Executive board

Harald Norvik, president and chairman of the executive board
Stig Bergseth, executive vice president
Peter Mellbye, executive vice president
Terje Vareberg, executive vice president
Johan Nic Vold, executive vice president
Erling Øverland, executive vice president

Business areas

Tor Fjæran, Exploration & Development Norway (LUN)
Ottar Rekdal, Natural Gas Marketing & Supply (GUM)
Randi Grung Olsen, Exploration & Production Technology (TPK)
Rolf Magne Larsen, International Exploration & Production (INT)
Roar S Andersen, Research & Development (R&D)
Kristian B Hausken, Natural Gas Business Development (GBD)
Geir Pettersen, Oil Operations (DRO)
Leidulf Ramstad, Refining (RAF)
Henrik Carlsen, Natural Gas Production & Transport (GPT)
Thor Inge Willumsen, Oil Trading & Supply (O&S)
Finn R Kulås, Methanol (MET)
Kjølv E Egeland, Industrial Development (I&K)
Sten Åke Forsberg, Marketing (MAR)
Nina Udnes Tronstad, Information Technology (IT)
Kjell Fuglestad (acting), Financial Services (FIN)

Corporate staff functions

Eldar Sætre, corporate controllers and planning (ØSK)
Kåre Thomsen, corporate accounting and tax (R&S)
Dick Andersson, corporate audit (REV)
Jacob S Middelthon, legal affairs (JUR)
Solveig Åsland, corporate services (FT)
Morten Loktu, BRA programme (BRA)
John Ove Lindøe, public affairs (INF)
Martin Bekkeheien, corporate strategy development (KSU)
Frank Blaker, human resources (P&O)
Peter J Tronslin, procurement and industry relations (KIR)
Arve Thorvik, health, the environment and safety (HMS)

Chief executive *Harald Norvik* was born in 1946 and holds an economics degree from the Norwegian School of Economics and Business Administration in Bergen. He became chief executive of Statoil in 1988. The P&O, INF and KSU staff functions report to him.

Executive vice president *Stig Bergseth* was born in 1949. He took a degree in technical and petroleum geology at the Norwegian Institute of Technology. Mr Bergseth is responsible for supervising the following business areas and staff functions: LUN, TPK, F&U, KIR, I&K and HMS.

Executive vice president *Peter Mellbye* was born in 1949. He holds degrees from the Universities of Bergen and Oslo, majoring in political science with public law and economics as minor subjects. Mr Mellbye is responsible for supervising the following business areas and companies: GUM, MAR and Navion.

Executive vice president *Terje Vareberg* was born in 1948. He has an economics degree from the Norwegian School of Economics and Business Administration in Bergen. Mr Vareberg is responsible for supervising the following business areas and companies: DRO, GPT, RAF, MET and Borealis.

Executive vice president *Johan Nic Vold* was born in 1947. He has an economics degree from the Norwegian School of Economics and Business Administration in Bergen. Mr Vold is responsible for supervising the following business areas: INT, GBD and O&S.

Executive vice president and chief financial officer *Erling Øverland* was born in 1952. He has an economics degree from the Norwegian School of Economics and Business Administration in Bergen. Mr Øverland is responsible for supervising the following staff functions and business areas: ØSK, R&S, REV, FT, JUR, the BRA project, FIN and IT.

DESIGN: APROPOS – PHOTOTYPESETTING: STATOIL – PRINTED BY: BRYNE OFFSET

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 international accounting standards (IAS) as applied by Statoil.

Oil and gas production

Oil and NGLs available to the SDFI in 1997 totalled 463 million barrels in all, up three per cent from the year before. The SDFI's share of gas production in 1997 came to 15 billion standard cubic metres, an increase of 36 per cent from 1996. This principally reflects the first full year of production for Troll Gas after it came on stream in the second half of 1996.

Reserves

New reserves replaced 85 per cent of the oil and NGLs produced in 1997, and 80 per cent of gas production. Kristin, Draugen, Troll and Rimfaks contributed the largest additional oil and NGL reserves, with Kristin and Kvitebjørn making the biggest contribution for gas. Both oil and gas reserves were reduced slightly in 1997. Proved and probable reserves of oil and NGL declined by 69 million barrels or 1.2 per cent, while proved and probable gas reserves contracted by three billion standard cubic metres or 0.2 per cent.

Key figures (NOK million)	*1997*	*1996*	*1995*
Operating revenue	76 000	70 300	43 600
Operating costs	14 000	13 100	10 500
Exploration costs	1 700	1 300	1 200
Depreciation	15 600	17 800	12 100
Operating profit	44 700	38 100	19 800
Property, plant and equipment at 1 Jan	135 000	134 600	121 900
Investment (net)	22 800	18 200	24 800
Depreciation	15 600	17 800	12 100
Property, plant and equipment at 31 Dec	142 200	135 000	134 600

Results

Operating profit for the SDFI in 1997 came to NOK 44.7 billion as against NOK 38.1 billion the year before. The principal reasons for this improvement were increased gas sales and reduced depreciation. An extraordinary write-down on Frøy was the main cause of the exceptionally high depreciation in 1996.

Property, plant and equipment

Net investment for the SDFI in fields and transport networks on the Norwegian continental shelf totalled NOK 22.8 billion as against NOK 18.2 billion in 1996. Åsgard, Troll Oil, Visund, NorFra and the Gullfaks satellites accounted for the largest capital outlays in 1997.

The SDFI's oil and gas reserves

OIL IN MILLIONS OF BARRELS*	*1997*		*1996*		*1995*	
GAS IN BILLIONS OF CU.M	*OIL*	*GAS*	*OIL*	*GAS*	*OIL*	*GAS*
Proved and probable reserves						
At 1 January	5 715	1 240	5 029	1 243	4 748	1 171
Revisions of previous estimates	205	(18)	484	(57)	220	53
Added through new discoveries	189	30	652	65	87	1
Change in interest	-	-	-	-	325	25
Production	(463)	(15)	(450)	(11)	(351)	(7)
At 31 December	5 646	1 237	5 715	1 240	5 029	1 243
Of which:						
Fields in production	2 894	631	2 933	644	2 865	58
Fields under development	1 538	116	1 205	97	669	559
Fields under appraisal	1 214	490	1 577	499	1 495	626
Proved reserves at 31 December	5 303	1 135	5 373	1 138	4 628	1 051

*) Oil includes natural gas liquids.