

The Statoil group

1998



Key financial figures 1998



(NOK bn)

Key financial figures	1998	1997
Operating profit	7.0	17.0
Profit before taxation	4.7	14.0
Net profit	0.3	4.3
After-tax return on capital employed	1.8%	8.6%
Equity ratio	30.3%	32.4%

Key operating figures	1998	1997
Employees	18 133	16 777
Lost-time injuries per million working hours	2.7	3.8
Total entitlement production (1 000 boe/day)	608	588
Proven oil reserves (mill boe)	2 418	2 051
Proven gas reserves (bn scm)	340	366

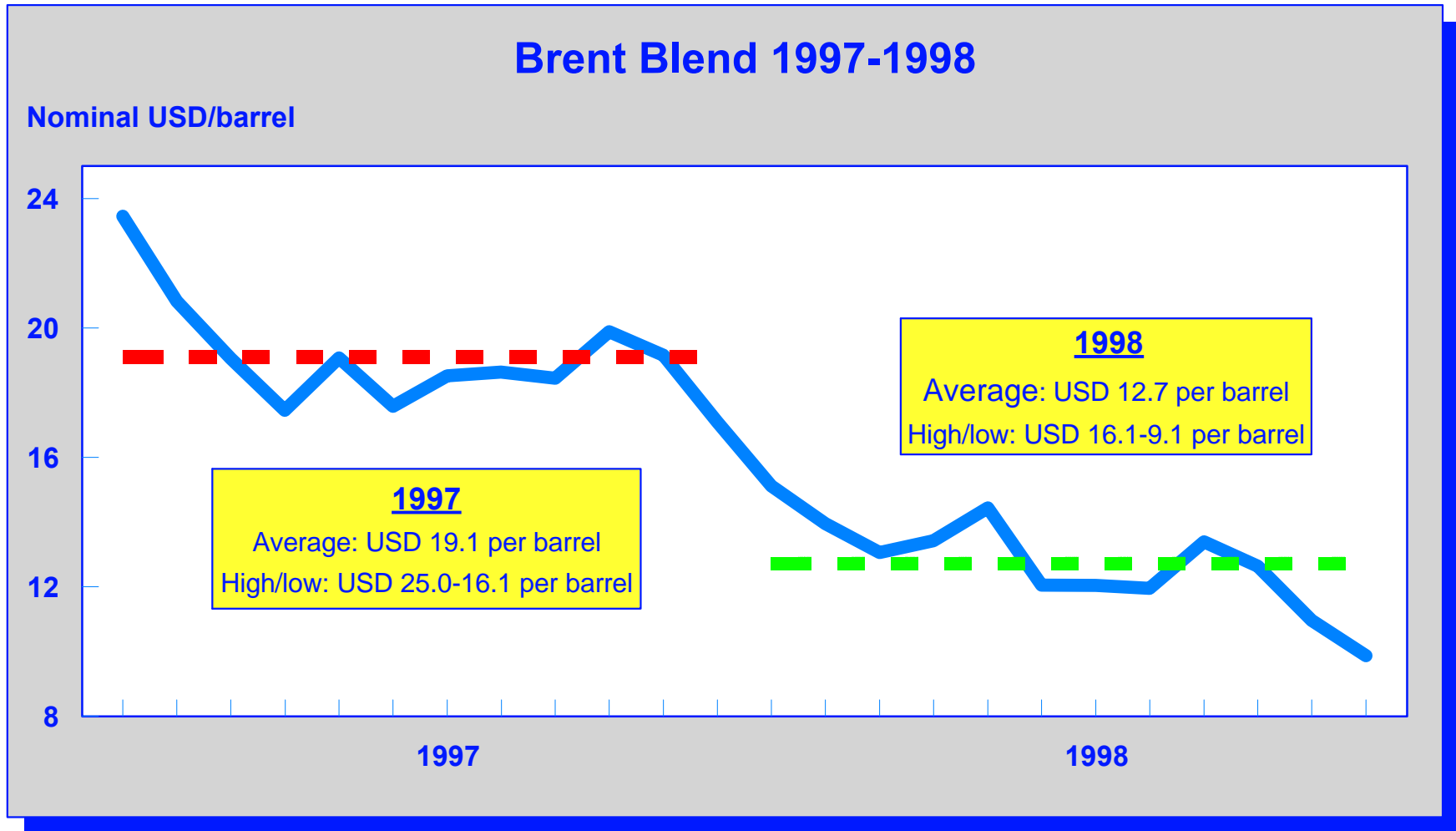
Market	1998	1997
Average Brent Blend (USD/bbl)	12.7	19.1
Average exchange rate (NOK/USD)	7.6	7.1

Important factors affecting this year's financial results



- *High levels of regularity and security maintained for production facilities and transport systems, despite a serious fire on Sleipner A*
- *Five per cent increase in proven oil and gas reserves, compared to the 1997 figures. Oil reserves have risen by 18 per cent*
- *Entitlement production up by 20 000 boe/day to 608 000 boe/day, despite a three per cent decrease in production off Norway*
- *A 33 per cent fall in the average crude oil price from 1997 reduced pre-tax profits by NOK 6 bn*
- *Write-downs and other charges to profits added up to NOK 4 bn in 1998*
- *Exploration costs rose by NOK 1 bn in 1998*
- *Weak markets for the shipping, petrochemicals, refining and retailing businesses*
- *Poor results from marketing of electricity and trading with crude oil and refined products, with the value of oil stocks also falling*
- *Restructuring of businesses, including disposal of operations in Thailand*

The industry's main challenge



Consolidated profit and loss account 1998

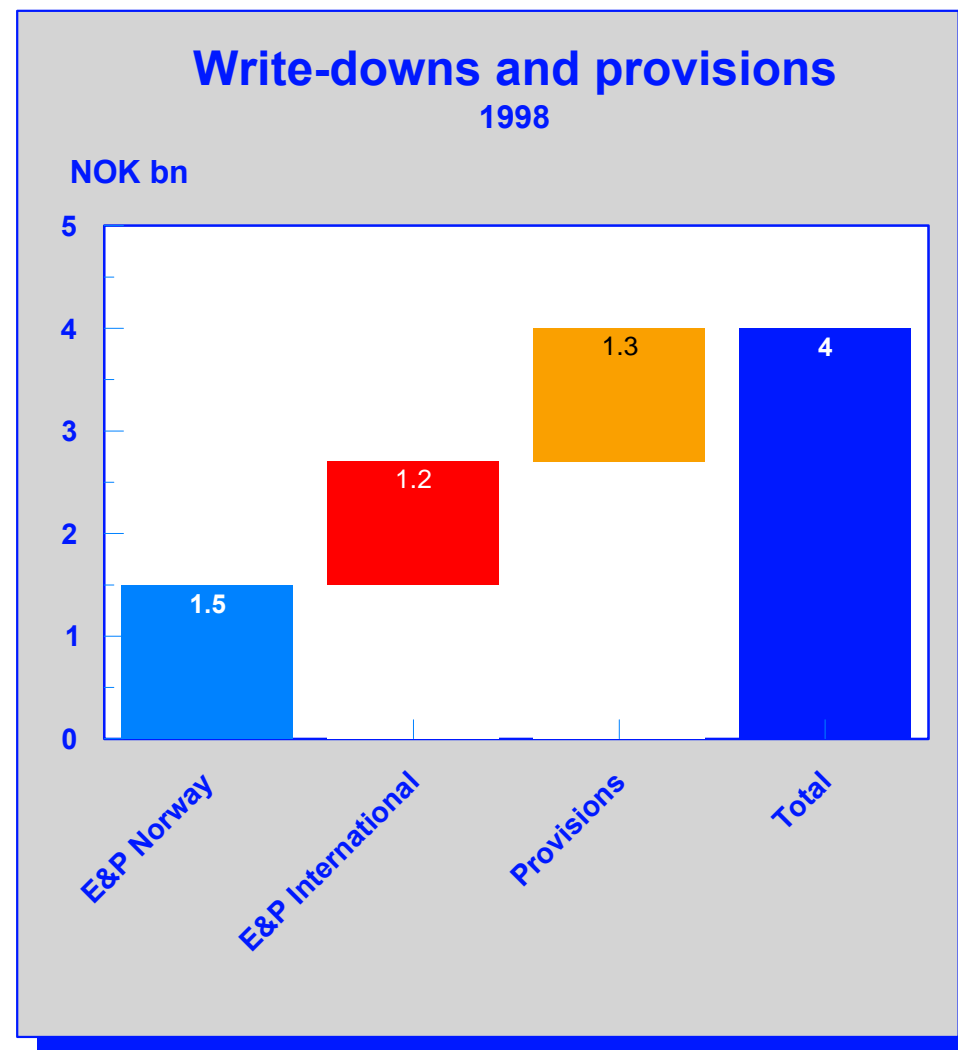
(NOK bn)

	1998	1997	Change
Operating revenue	106.7	124.7	(18.0)
E&P Norway	9.2	18.2	(9.1)
E&P International	(2.4)	(2.8)	0.4
Refining & Marketing	0.2	1.3	(1.1)
Petrochemicals	0.4	0.4	0.0
Other	(0.3)	(0.1)	(0.2)
Operating profit	7.0	17.0	(10.0)
Net financial items	(2.3)	(3.1)	0.7
Profit before taxation	4.7	14.0	(9.3)
Taxation	4.5	9.6	(5.1)
Minority shareholders' interest	-0.1	0.0	(0.1)
Net profit	0.3	4.3	(4.0)

(IAS - International Accounting Standard)

Write-downs and provisions 1998

- **E&P Norway (NOK 1.5 bn)**
 - Write-downs on fields in production (Varg and Yme)
 - Provision for expected future losses on rig contracts
- **E&P International (NOK 1.2 bn)**
 - Write-downs on *Lufeng* (China)
 - Write-downs on Gryphon and Dunlin (UK)
 - UK exploration portfolio
- **Provisions for expected future expenses (NOK 1.3 bn)**
 - West Navion II
 - Naturkraft etc
 - Costs related to restructuring of Statoil and Borealis
- **Price assumption: USD 12 barrel next three-five years**



Cash flow and capital expenditures

- **Cash flow from operations 1998**

- Cash flow before taxation decreased primarily because of low oil prices
- After-tax cash flow on a par with 1997 owing to lower tax payments

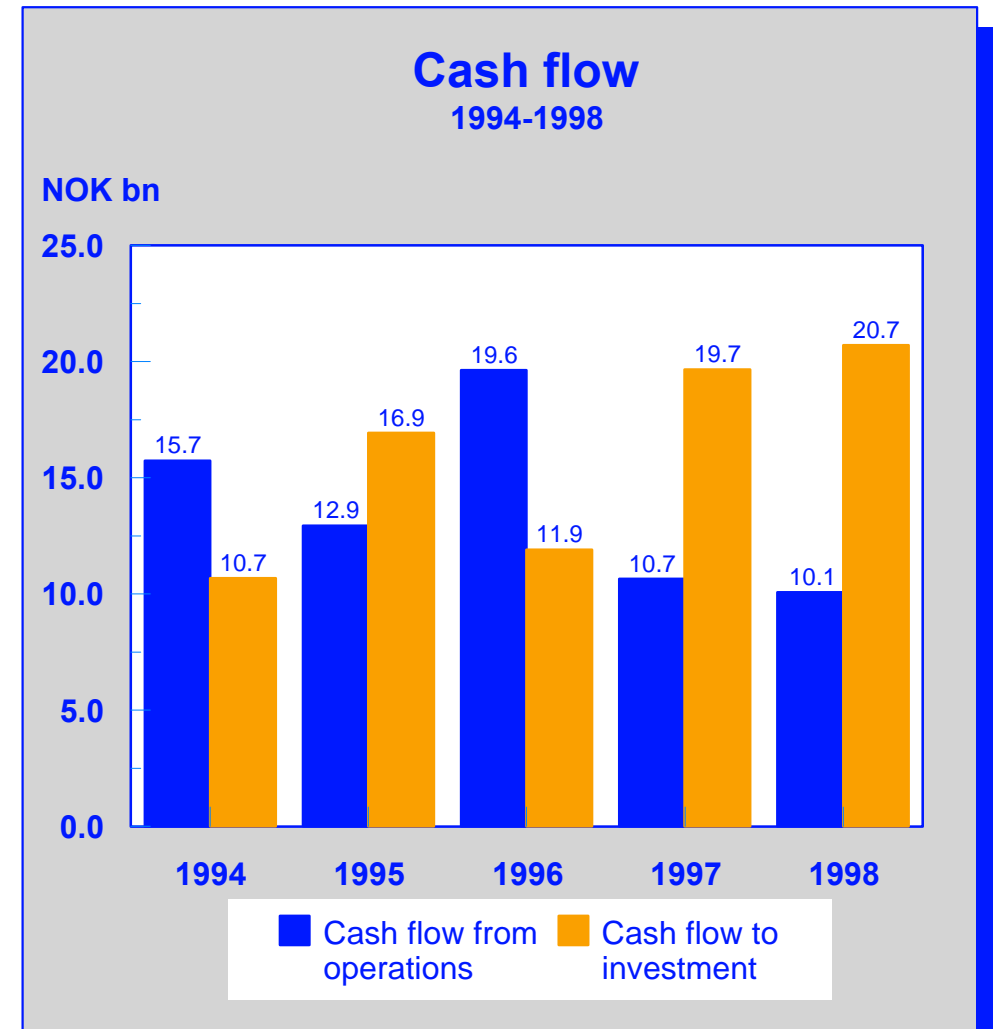
- **Cash flow to investment in 1998**

- Statoil is currently investing heavily in projects such as Åsgard and Troll, and retail operations outside Scandinavia. It has also increased its shareholding in Saga Petroleum

- **Interest-bearing debt rose by NOK 15.7 bn in 1998 to NOK 45.2 bn**

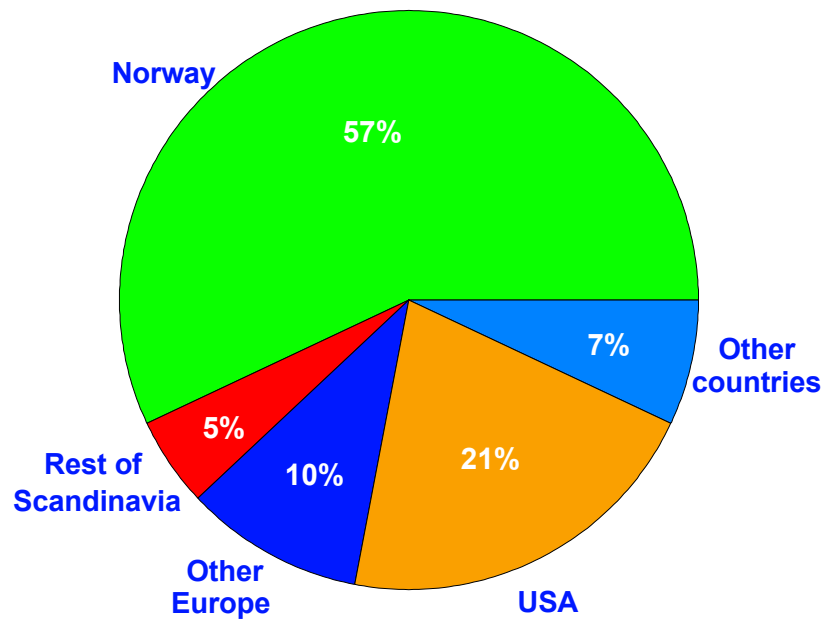
- Current level of interest-bearing debt is acceptable
- Equity has increased from NOK 40 bn to NOK 41.8 bn
- Equity ratio is 30.3 per cent, based on book values
- Real value of fixed assets is significantly higher than book value

- **Balanced, equity-financed growth in 1999-2000**

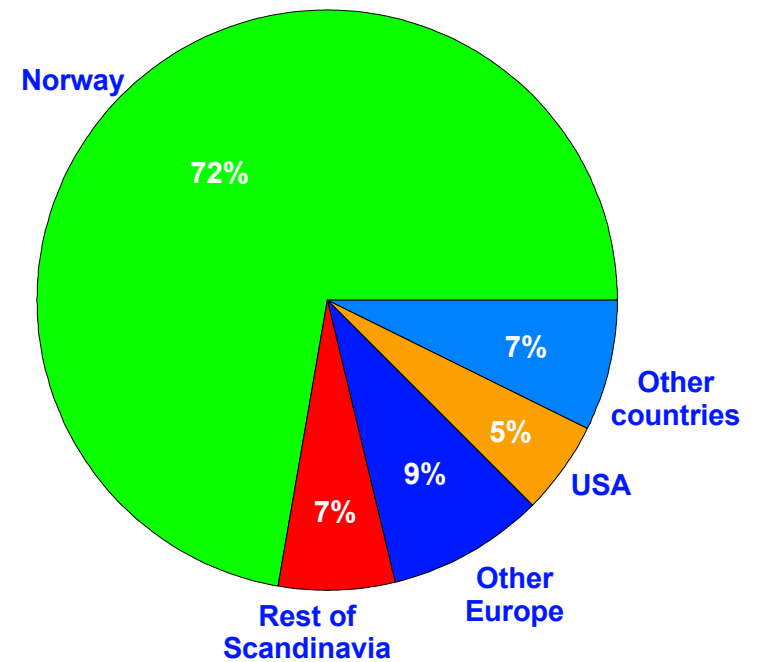


Investment by geographical area

Gross investment 1997 *
NOK 23 bn



Gross investment 1998 *
NOK 22.2 bn

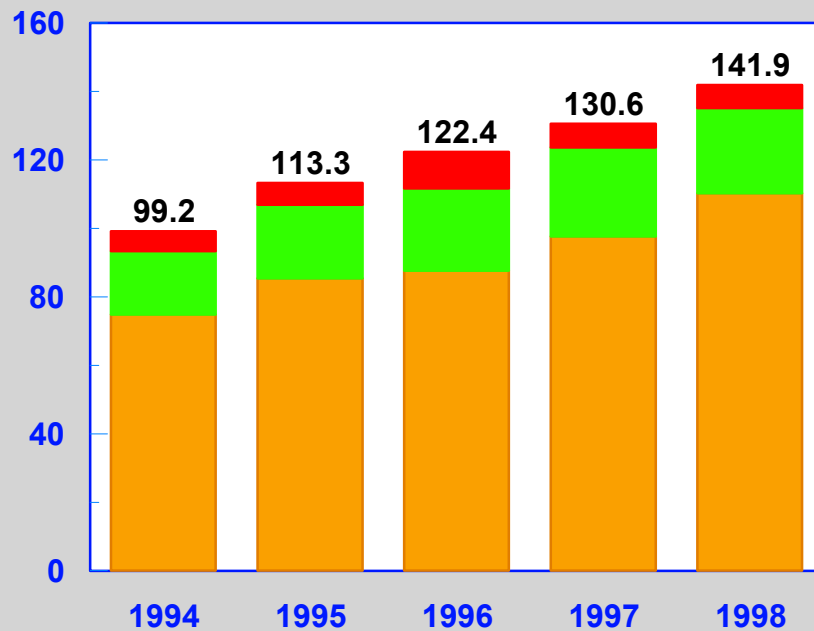


* Investment in Borealis consolidated in accordance with the equity method.
Statoil's 50 per cent share of total Borealis investment totalled NOK 2 bn in 1998 and NOK 800 million in 1997.

Balance sheet

Assets 1994-1998

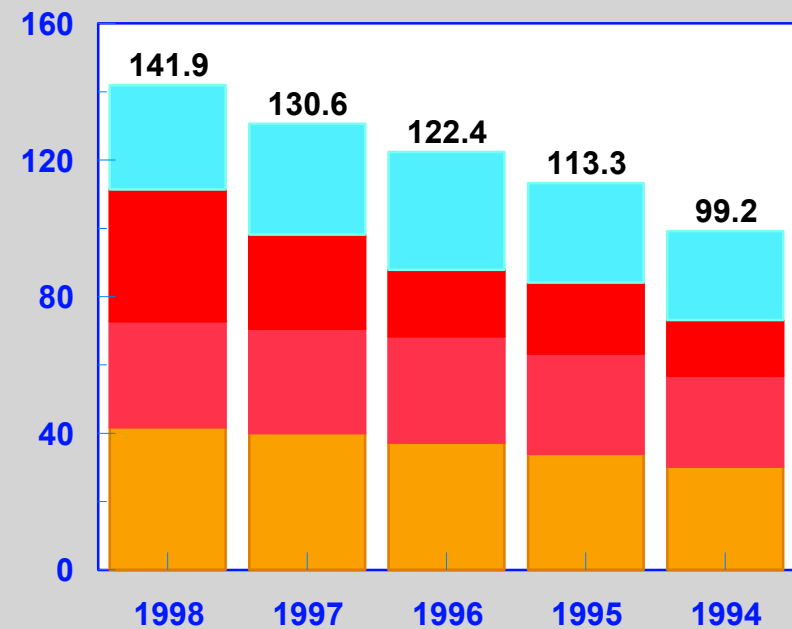
NOK bn



- Liquid assets
- Short-term receivables and stocks
- Total fixed assets

Liabilities and equity 1994-1998

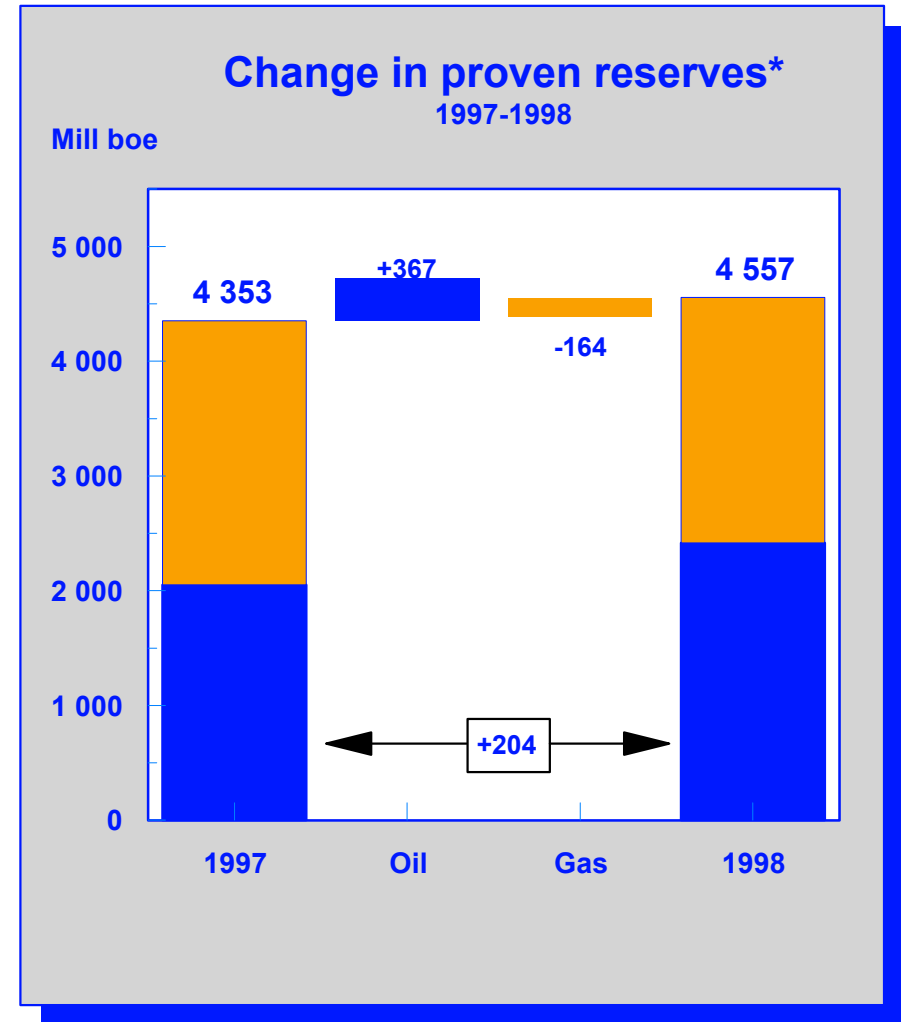
NOK bn



- Total current liabilities
- Long-term loans
- Deferred taxation and provisions
- Equity

Total proven reserves

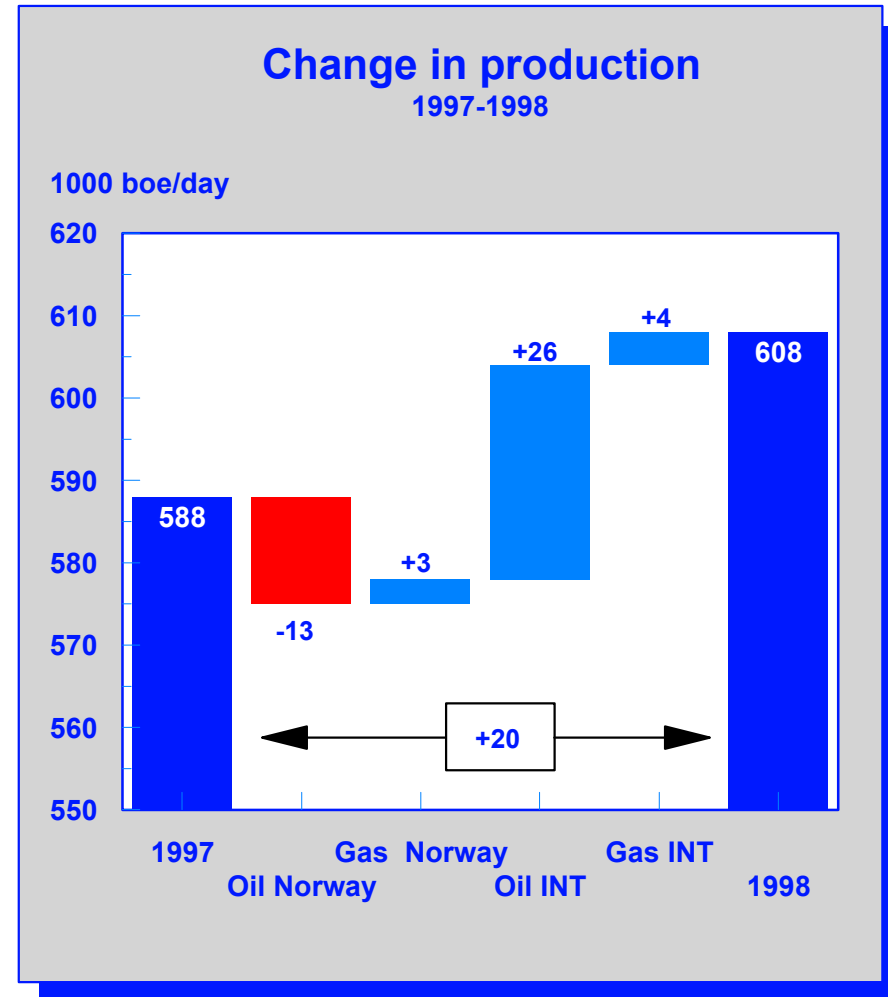
- **Five per cent increase in total proven reserves from 1997 to 1998**
 - Oil reserves up by 18 per cent
 - Gas reserves down by seven per cent
- **Reserves off Norway reduced by three per cent**
 - Revision of gas reserves (Statfjord, Sleipner area and Åsgard)
- **Reserves internationally increased by 45 per cent**
 - Sincor (Venezuela)
 - Revision of Girassol (Angola), Azeri/Chirag (Azerbaijan) and Schiehallion (UK)
 - Bongkot field (Thailand) sold
- **International share of total reserves rose from 16 to 22 per cent during 1998**



* Reserves expected to be discovered with a high degree of certainty. Figures include condensate and NGL.

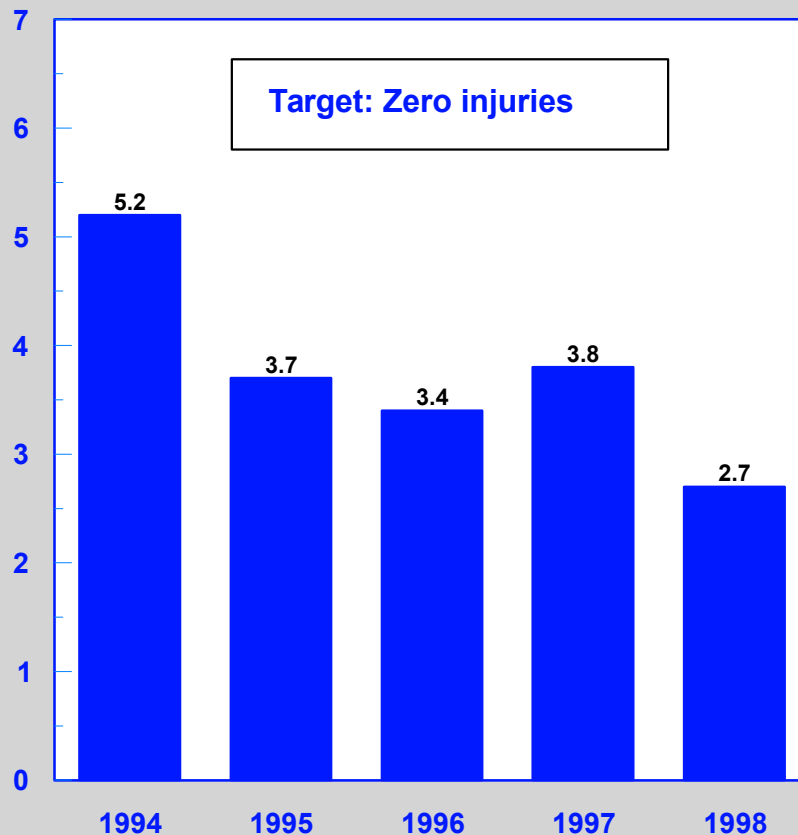
Total entitlement production 1998

- **Total production up by 20 000 boe per day compared with 1997 figures**
 - ▶ Oil production up by three per cent
 - ▶ Gas production up by five per cent
- **Reduced production off Norway**
 - ▶ Oil production down by three per cent
 - ▶ Gas production up by three per cent
- **Increased production internationally**
 - ▶ Oil production doubled during 1998
 - ▶ Gas production rose by 11 per cent
- **International share of total production rose from 10 per cent in 1997 to 15 per cent in 1998**

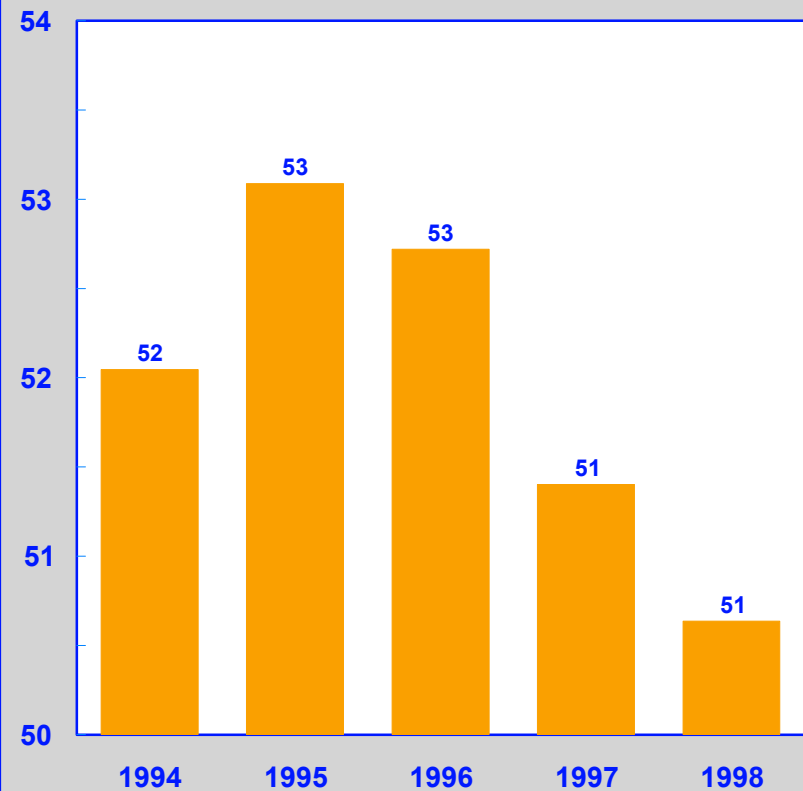


Health, the environment and safety

Lost-time injury frequency per million working hours



Carbon dioxide emissions Kilograms per tonne produced in oil equivalents



Why action is needed

Competitive environment

Dramatic drop in profits and worsening market conditions



Profitability

New and existing businesses must be profitable even in a USD 12 per barrel scenario



Consequences

- ▶ *Reducing operating costs*
- ▶ *Reducing investment*
- ▶ *Reducing exploration activity*
- ▶ *Restructuring and partnerships*
- ▶ *Organisational changes*

Restore balance between long-term growth ambitions and short-term financial performance

Reducing operating costs

NOK 1 bn (10%) reduction from 1998 to 2000*

- *Adjust costs to lower level of earnings and activity*
- *Reduce number of business development projects*
- *Making service functions more efficient*
- *Continue and reinforce cost-cutting efforts at Statoil-operated plants*
- *Need for cost-cutting efforts at partner-operated plants*
- *Focus on core business internationally and on making operations more efficient*

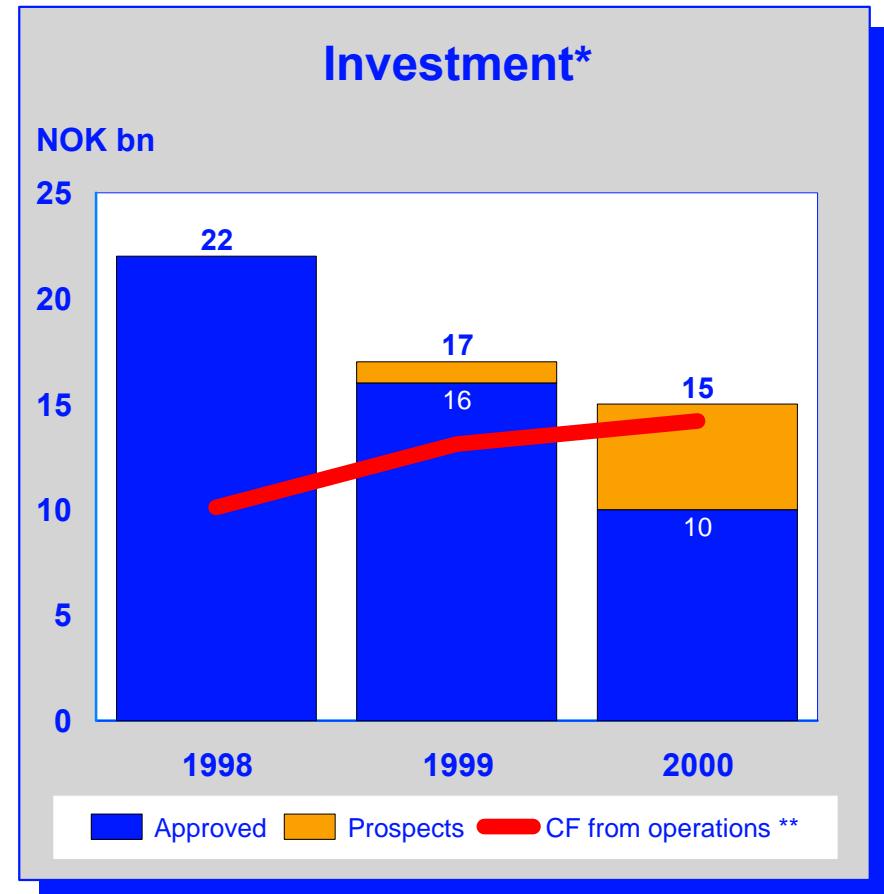
The need for further reductions will be evaluated

** Reduction in fixed operating and administration costs, excluding new businesses. Corresponds to a real cut in costs of 15 per cent.*

Reducing investment

20-30% reduction from 1998 to 1999

- *Clear-cut priorities and postponement of new projects*
 - *Kvitebjørn/Fram/Gjøa postponed*
 - *Grane/Kristin/Tyrihans/Lavrans under evaluation*
- *Reducing investment without compromising safety*
- *Postponing investment to expand capacity*
 - *Statoil Energy, methanol, refining*
- *Reducing and/or postponing investment related to administration, including a new office building at Forus West*
- *NOK 3-4 bn in planned divestments will reduce cash from to investment activities to about NOK 14 bn*
- *Balanced, equity-financed growth in 1999-2000*



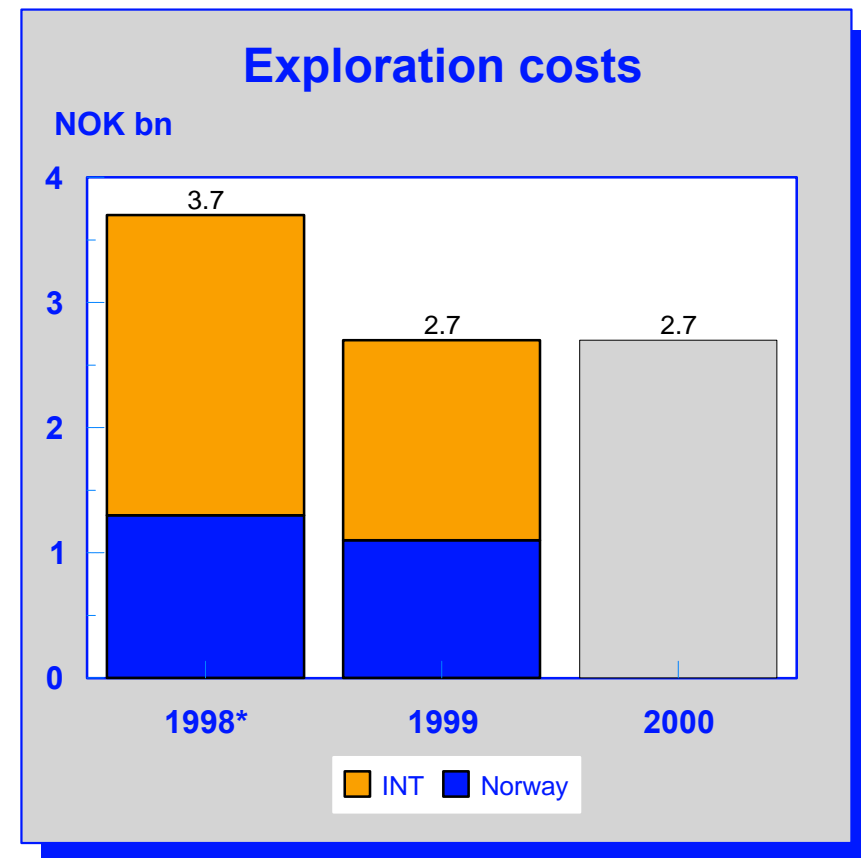
* Gross investment, excluding divestments

** Cash flow from operations in a USD 12 per barrel scenario

Reducing exploration costs

Reduction by NOK 1 bn (30%) from 1998 to 1999-2000

- *Reduced number of profitable exploration projects owing to low crude oil prices*
- *Focus on core areas both off Norway and internationally*
- *New licensing rounds and/or improved general market conditions will affect the level of activity*



* Total exploration costs, excluding overhead exploration costs

Initiatives to restructure Statoil's portfolio

Upstream activity

- *Focus on core areas off Norway*
- *Focus on core areas internationally (Angola/Azerbaijan/UK/Ireland/Venezuela)*
- *Dispose of non-core assets/operations*

Downstream activity

- *Initial public offering of Navion postponed, new alliances/restructuring possibilities being explored*
- *Letter of intent with Shell on cooperation in refining (Mongstad/Pernis)*
- *Partnership agreement with ICA/Hakon for retail operations in Scandinavia*
Plans to develop an energy company in the Nordic countries on a partnership basis

Petrochemicals

- *Develop methanol business in cooperation with strategic partners*

Organisational changes

New overall structure for the Statoil group

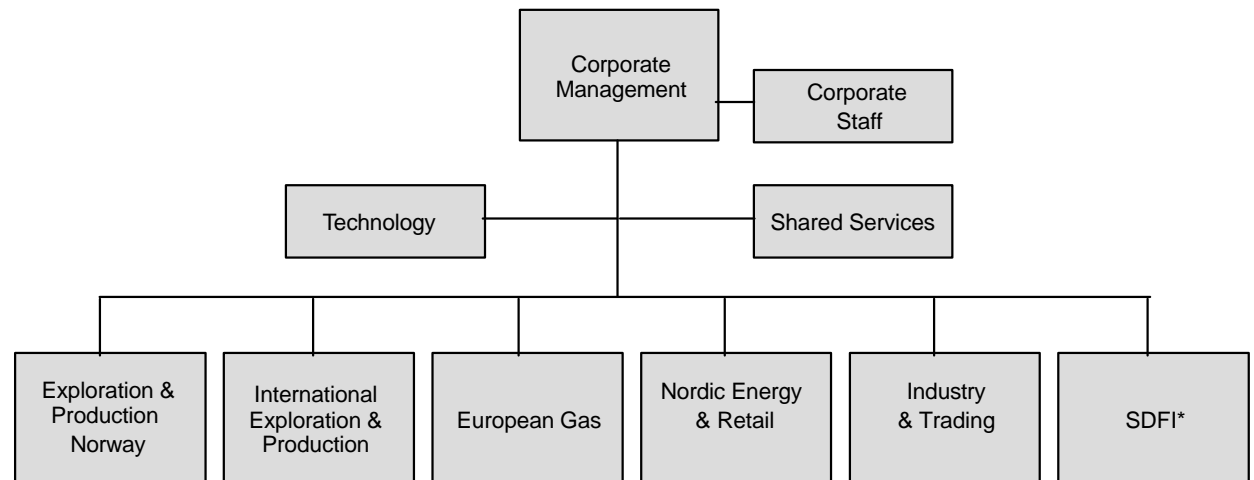
New overall structure and business areas

Reduced and more focused corporate staff functions

Centralised technology unit

Competitive service functions

New organisation model for Statoil



* State's direct financial interest

Downsizing the workforce

Reduce payroll by about 1 500 by the end of 2000

Reduced level of investment and exploration

Smaller and more efficient staff and support functions

New skills and expertise needed



Phase out contract personnel



Business-driven retirement and severance arrangements



Redundancies in Norway cannot be ruled out

These measures will be given a more specific content in close cooperation with the trade unions

Summary

1. *Statoil has delivered poor financial results in 1998, with low oil prices as the primary reason. These figures also reflect some misjudgements*
2. *Statoil has created substantial value throughout 1998, such as the increase in reserves*
3. *Statoil is now adjusting itself to a new reality and to changes in external conditions*
4. *Statoil is retaining its very ambitious goals for profitability and long-term growth and value creation*

Profitability target

After-tax return on capital employed (RoCE) of 10 per cent by 2001



Restructuring
Progress in primary markets
General market conditions



Growth target

Total production of one million boe per day in 2005