Succeeding through cooperation

Annual report and accounts 2004

STATOIL

Statoil is represented in 29 countries and has its head office in Stavanger.

Statoil 2004

The picture on the front cover of this annual report was taken on the helicopter deck of the Statfjord A platform. Agate Langeland, materials coordinator, is welcomed on board for a new shift by production operative Kollfinn Buvik.

Along with 630 Statoil colleagues and a similar number of contractor personnel, they staff an oil and gas field which has played an extremely important role in Statoil's economy and expertise development. Without Statfjord, Statoil would not have been the same company.

On 24 November 2004, it was 25 years since production started on Statfjord. The field has produced oil equivalent to 50 times Norway's annual requirements and has exported substantial volumes of gas to customers in continental Europe.

Although output today is a sixth of what it was at maximum, the plan is to uphold profitable production and processing until 2020. A plan for Statfjord late life has been submitted to the authorities. The Statfjord veteran will continue to deliver and contribute to the goal of maintaining today's level of production on the Norwegian continental shelf (NCS) beyond 2010.

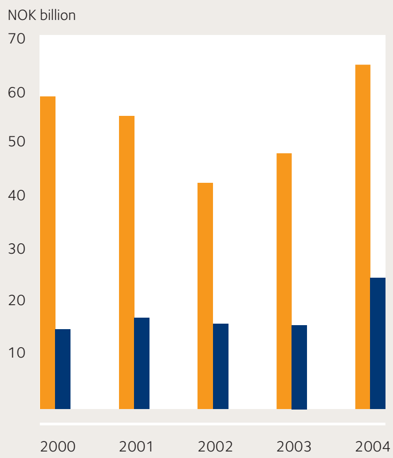
Upholding production on the NCS is one of two important ambitions. The other is to strengthen efforts to secure long-term international growth.

This report tells of our strategies and goals, shows a cross-section of our business and communicates the results which have made 2004 a record year for Statoil. High oil and gas prices have laid the basis. So have able and motivated employees who, through their efforts and collaboration, have achieved success and good results.

www.statoil.com/statoils_world

Key figures

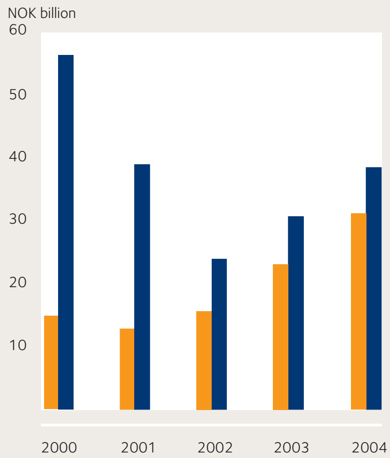
INCOME



Income before financial items, other items, income taxes and minority interest

Net income

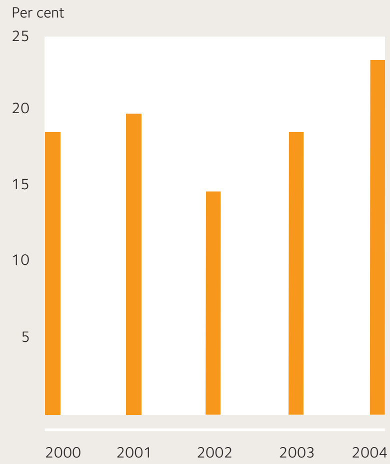
CASH FLOW



Cash flow used in investing activities

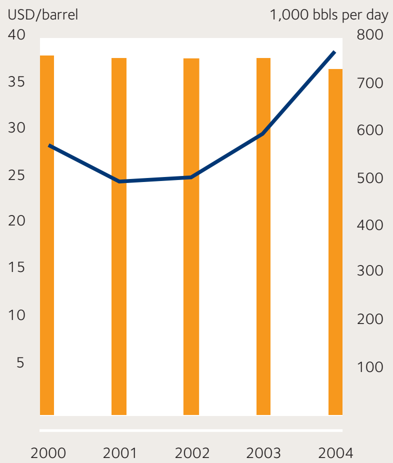
Cash flow provided by operating activites

RETURN



Return on average capital employed after tax

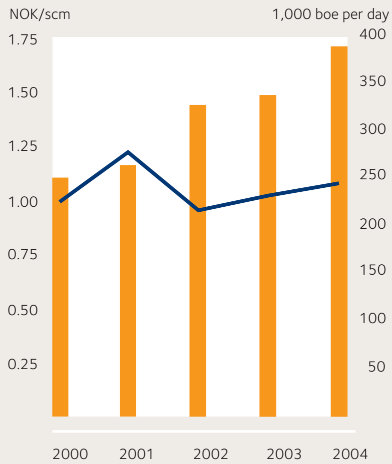
OIL PRODUCTION/PRICE



Entitlement oil production

Average oil price Brent Blend

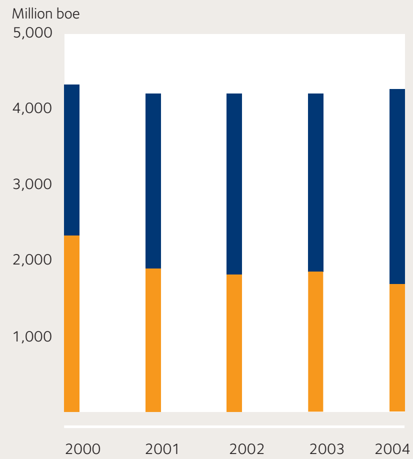
GAS PRODUCTION/PRICE



Sales equity gas production

Average gas price

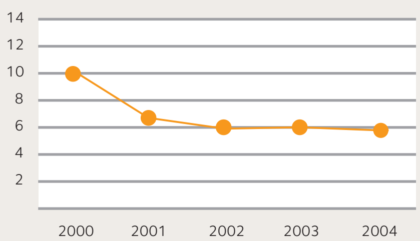
PROVEN OIL/GAS RESERVES



Natural gas

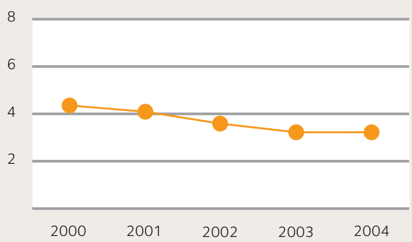
Oil and NGL

TOTAL RECORDABLE INJURY FREQUENCY



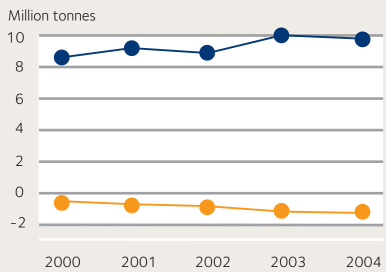
Number of total recordable injuries per million working hours

SERIOUS INCIDENT FREQUENCY



Number of serious incidents per million working hours

CARBON DIOXIDE (CO_2)



CO_2 reductions made through measures implemented between 1997 and 2004 for Statoil operations

Total CO_2 emissions from Statoil operations

USGAAP – Financial highlights

	2004	2003	2002	2001	2000
Financial information (NOK million)					
Total revenues	**306,218**	249,375	243,814	236,961	230,425
Income before financial items, other items, income taxes and minority interest	**65,107**	48,916	43,102	56,154	59,991
Net income	**24,916**	16,554	16,846	17,245	16,153
Cash flow provided by operating activities	**38,807**	30,797	24,023	39,173	56,752
Cash flow used in investing activities	**31,959**	23,198	16,756	12,838	16,014
Interest-bearing debt	**36,189**	37,278	37,128	41,795	36,982
Net interest-bearing debt	**20,326**	20,906	23,592	34,077	23,379
Net debt to capital employed	**19.0%**	22.6%	28.7%	39.0%	25.0%
Return on average capital employed after tax	**23.5%**	18.7%	14.9%	19.9%	18.7%
Operational information					
Combined oil and gas production (thousand boe/day)	**1,106**	1,080	1,074	1,007	1,003
Proven oil and gas reserves (million boe)	**4,289**	4,264	4,267	4,277	4,317
Production cost (USD/boe)	**3.5**	3.2	3.0	2.8	3.0
Finding and development cost (USD/boe, three-year average)	**8.5**	5.9	6.2	9.1	8.2
Reserve replacement ratio (three-year average)	**1.01**	0.95	0.78	0.68	0.86
Share information (in NOK, except number of shares)					
Net income per share	**11.50**	7.64	7.78	8.31	8.18
Share price at Oslo Stock Exchange 31 December	**95.00**	74.75	58.50	61.50	-
Weighted average number of ordinary shares outstanding	**2,166,142,636**	2,166,143,693	2,165,422,239	2,076,180,942	1,975,885,600

(1) Special items covers certain gains on sale of assets, write-downs and provisions. See "Operating and financial review and prospects".

Definitions

Net interest-bearing debt =
Gross interest-bearing debt less cash and cash equivalents.

Net debt to capital employed =
The relationship between net interest-bearing debt and capital employed.

Average capital employed =
Average of the capital employed at the beginning and end of the accounting period. Capital employed is net interest-bearing debt plus shareholders' equity and minority interests.

Return on average capital employed after tax =
Net income plus minority interests and net financial expenses after tax as a percentage of capital employed.

Production costs per barrel oil equivalent=
Operating expenses associated with production of oil and natural gas divided by total production (lifting) of oil and natural gas.

Finding and development costs =
Calculated from new proven reserves, excluding acquisitions and disposals of reserves.

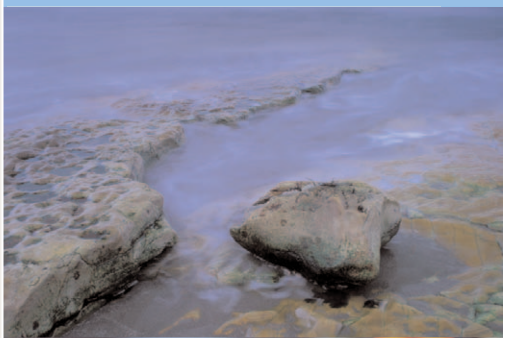
Reserve replacement ratio =
Additions to proven reserves, including acquisitions and disposals, divided by volumes produced.

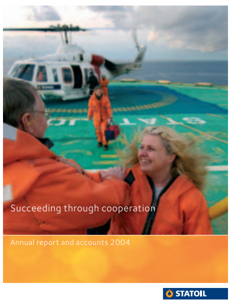
Barrel of oil equivalent (boe) =
Oil and gas volumes expressed as a common unit of measurement. One boe is equal to one barrel of crude, or 159 standard cubic metres of gas.

Carbon dioxide (CO_2) =
Carbon dioxide emissions from Statoil operations embrace all sources such as turbines, boilers, engines, flares, drilling of exploration and production wells and well testing/workovers. Reductions in emissions are accumulated for the period 1997-2004.

Total recordable injury frequency =
The number of total recordable injuries per million working hours. Employees of Statoil and its contractors are included.

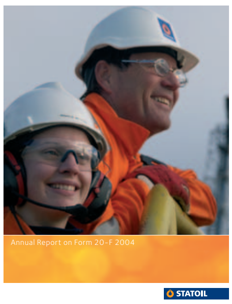
Serious incident frequency =
The number of incidents of a very serious nature per million working hours. An incident is an event or chain of events which has caused or could have caused injury, illness and/or damage to/loss of property, the environment or a third party.



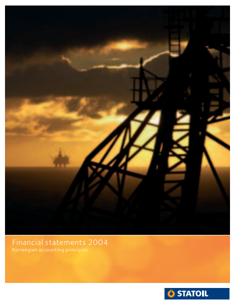


This annual report and accounts contains the directors' report, the financial analysis, the consolidated financial statement (USGAAP) and the HSE accounting. In addition come articles which give a good picture of our operations and governance systems as well as our plans and strategies.

The sustainability report provides information about our commitments, results and ambitions as a member of society. Key topics are values, ethics, human resources policies, financial performance and effects, the environment and social responsibility.



The 20-F report provides a detailed and extensive review of our operations. Its title refers to the document from the US Securities and Exchange Commission which specifies what the report must contain.



The financial statements 2004 Norwegian accounting principles contain the Statoil group accounts and the company accounts for Statoil ASA, in accordance with the Norwegian accounting principles (NGAAP).

The Statoil group's strategy

Statoil's principal strategic directions can be summarised in the following points:

- maintain production from the NCS at one million barrels per day beyond 2010
- secure growth of two-four per cent in 2007-10 through increased international production
- establish positions in growing gas markets and secure new reserves
- increase the return from downstream operations to the group's average
- continue to develop targeted technology as a competitive edge

On the basis of projects already sanctioned, Statoil expects an annual production increase of about eight per cent over the next two-three years. This substantial expansion is expected to be parallelled by competitive earnings in terms of the return on capital employed. Production growth will be particularly strong in the international business. At the same time, activity on the NCS will remain the cornerstone of the group's operations for a long time to come.

Big investments

To ensure Statoil's long-term progress, an extensive investment programme of NOK 100-105 billion will be pursued over the next three years. The bulk of this spending is earmarked for known projects, but large sums are also being devoted to exploration and business development. This strong commitment will not affect the group's profitability requirements. Each project must be sufficiently robust. Overall, the investment programme will contribute to an annual production growth of two-four per cent in 2007-10.

Important instruments

The group's improvement efforts are directed towards both results in the near future and more long-term value creation. To achieve the first, we place emphasis on more efficient drilling, improved recovery from producing fields, good project execution, applying best practice and integrated operations where specialist teams can cooperate on tasks with simultaneous access to shared information.

Health, safety and environmental improvements have a high priority. Securing access to good exploration acreage which can lead in turn to increased production is also important. In addition, Statoil aims to secure gas for a growing market and to strengthen its position in the far north.

To achieve its objective of becoming a leading international oil and gas company, Statoil must continue to develop a corporate culture based on a common set of values. Statoil has drawn up a revised edition of *We in Statoil*, which expresses the group's values base. This document will be an important tool in efforts to create a common identity for the group.

Statoil's goals

Statoil published new goals for 2007 at the end of 2004. These objectives embrace production, operational activities and profitability.

Improved profitability and efficiency

As a measure of improved profitability in the underlying business, the group's return on capital employed will grow to 13 per cent in 2007. This objective replaces the goal of a 12 per cent return by the end of 2004. The return at 31 December 2004 was 12.3 per cent.

Strong production growth

Statoil's oil and gas production in 2004 averaged 1,106,000 boe per day. The goal is to increase this output to 1,400,000 boe in 2007. That represents a sharpening from the earlier 2007 target of 1,350,000 boe, and corresponds to an average annual growth of eight per cent in 2004-07. The production expansion will primarily take place internationally, but will also entail an increase in daily output on the NCS of 100,000 boe to 1.1 million boe in 2007.

Improvement programme

Statoil implemented a programme during 2001-04 in which NOK 3.2 billion in improvements were achieved through greater efficiency and reduced costs in the upstream sector, increased gas sales and enhanced profitability for downstream activities.

The table below presents Statoil's targets for 2004 and 2007, as well as results achieved in 2004 for return on capital employed, increased access to reserves in relation to production, and costs per barrel for exploration, development and production.

Financial and operational results and targets	Achieved 2004	Target 2004	Target 2007
Production (boe/d)	1,106,000	1,120,000	1,400,000
Return on capital employed*	12.3%***	12%	13%
Production costs (boe)*	USD 2.96***	<USD 2.7	<NOK 22.0
Reserve replacement ratio**	1.01	>1.0	--

* Normalised
** Three-year average
*** Excluding In Salah

Business strategies

Exploration & Production Norway

Maintain production

Statoil's long-term objective for the NCS is to maintain daily production from these waters at one million barrels of oil equivalent beyond 2010. This will call for a big commitment, because a number of the fields are mature and their output is declining. It is necessary first and foremost to achieve a production volume from new discoveries which compensates for the loss of output from fields in decline. Second, work on improving costs and recovery factors must be further strengthened. Statoil has great faith in the NCS and sees substantial opportunities in these waters – particularly in the Norwegian Sea and the far north.

International Exploration & Production

Strong international growth

Forty per cent of total investment spending in the next few years will be devoted to the International Exploration & Production business area. This is necessary for positioning the group for new opportunities and continued growth. Based on sanctioned international projects, production is expected to rise by roughly 40 per cent internationally over the next three years. Strategies for international expansion focus primarily on getting more value out of existing projects by ensuring that fields are matured more quickly. Exploration activities must then be expanded to secure additional reserves.

Natural Gas

Foothold in growing gas markets

Objectives for Natural Gas are primarily to optimise value creation from resources on the NCS, establish positions in growing gas markets and identify additional reserves. Statoil will also participate in the short-term market emerging in its core areas. Its Snøhvit project and participation in the Cove Point terminal in Maryland, USA, its position in Europe and its interests in north Africa and the Caspian mean that the group is well placed.

Manufacturing & Marketing

Getting maximum value from assets

Statoil's Manufacturing & Marketing business area aims to optimise value creation from the total crude oil, natural gas liquids and refined products available to the group and the Norwegian government. Active efforts are being made to achieve added value through integration, brand-building, and exploitation of profitable synergies and growth opportunities. The Mongstad and Tjeldbergodden facilities will be further developed as industrial centres in the value chain. Statoil intends to strengthen its position in retailing and sale of petroleum products and renewable energy forms in its core markets.

Technology & Projects

Contributing to business goals

The most important commercial challenges within Statoil's technology strategy are to increase the group's oil and gas output from existing fields, help to find new reserves and strengthen project execution. The most important areas on which this commitment will concentrate are exploration operations and reservoir management, well design, subsea field development, improved recovery from producing fields, cost efficiency, safe operations, environmental protection and development of the gas value chain.

The group

Statoil is an integrated oil and gas company with 23,899 employees and activities in 29 countries. Its total revenues in 2004 came to NOK 306.2 billion. The group is operator for 60 per cent of all Norwegian oil and gas production, and its international production is rising steeply.

One of the world's biggest sellers of crude oil, Statoil is also a major supplier of natural gas in the European market and has substantial industrial operations. The group has service stations in the Scandinavian countries, Ireland, Poland, the Baltic states and Russia.

Statoil is one of the world's most environmentally-efficient producers and transporters of oil and gas. Its goal is to create value for its owners through profitable and safe operations and sustainable commercial development. Statoil is listed on the Oslo and New York stock exchanges.

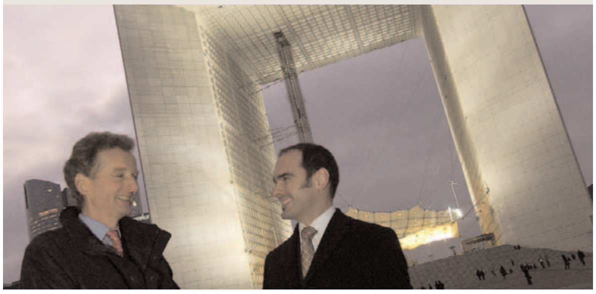
Highlights in 2004

- Net income of NOK 24.9 billion. The best-ever result in Statoil's history and 51 per cent up on 2003
- 29 per cent increase in international oil and gas output
- Production in the year replaced by additions of new reserves
- Eight of 12 exploration and appraisal wells resulted in finds
- Increased return for the owners. Earnings per share came to NOK 11.50 as against NOK 7.64 in 2003

Exploration & Production Norway

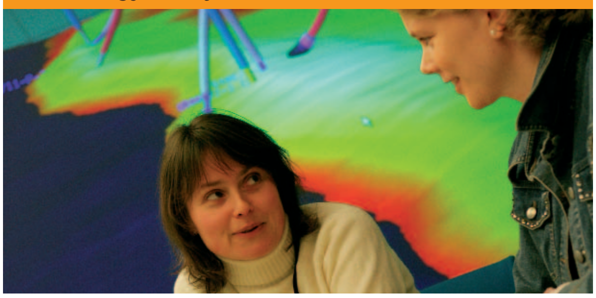
International Exploration & Production

Natural Gas



Manufacturing & Marketing

Technology & Projects



Business areas

Facts	Highlights in 2004
Exploration & Production Norway is responsible for Statoil's operations on the Norwegian continental shelf. Fields operated by the group account for about 60 per cent of Norwegian oil and gas production. Statoil is operator for 22 on-stream oil and gas fields, which comprise 19 platforms or production ships with crew, four unstaffed installations and 21 subsea facilities. Employees: 5,743, of whom 3,250 work offshore.	• Production began from the Kvitebjørn gas and condensate field on 26 September. • Statfjord has been producing for 25 years – will continue until 2020. • Finds made in four of six exploration wells. • Increasing exploration activity and becoming operator for 13 wells in 2005.
International Exploration & Production is responsible for Statoil's exploration, development and production of oil and gas outside the NCS. The group has production in Angola, Algeria, Azerbaijan, the UK and Venezuela. The business area stood for 10 per cent of Statoil's oil and gas production in 2004, and output shows strong growth. Employees: 583, of whom 225 work outside Norway.	• Production rose by 30 per cent to 115,000 barrels of oil equivalent. • Operating result almost tripled – from NOK 1.5 to NOK 4.2 billion • In Salah gas field in Algeria started production. • Start-up of Kizomba A gave strong production growth in Angola • New large exploration acreage in Algeria and Brazil
Natural Gas is responsible for transporting, processing and marketing Statoil's own gas from the NCS to European destinations. Markets supplies belonging to the Norwegian government, and accounts for two-thirds of Norway's gas exports. Responsible for international gas marketing and for Statoil's commitment to the market for liquefied natural gas (LNG). Statoil has large interests in and responsibility for technical operation of export pipelines, land-based facilities and terminals. Employees: 809, of whom 145 work outside Norway.	• Record-high gas sales. • Twenty-year agreement to triple capacity at an LNG terminal in the USA. • New gas sales contracts with Dutch company Essent and British Gas Trading. • Joint venture with ConocoPhillips for gas receiving facilities in Germany.
Manufacturing & Marketing embraces the group's operations in transporting oil, processing, sale of crude oil and refined products and retailing. Responsible for selling and refining Statoil's and the Norwegian government's crude as well as selling natural gas liquids, refined products and natural gas in the Nordic countries. Statoil runs two refineries and one methanol plant, has more than 2,000 service stations in nine countries and owns a 50 per cent share in the Borealis petrochemicals group. Employees: 12,976, of whom 10,704 work outside Norway.	• Record-high oil prices with Brent Blend reference crude quoted at USD 52 per barrel. • Purchased ICA's 50 per cent holding in Statoil Detaljhandel Skandinavia. • Acquired 27 service stations in Denmark from Haahr Benzin. • Improved energy efficiency at the Mongstad refinery by expanding the Vestprosess plant. • Launched sulphur-free petrol and diesel in the Norwegian market.
Technology & Projects is responsible for Statoil's research and technology development, and for planning and executing major developments. The business area has a special responsibility for technological innovation which contributes to finding more oil and gas, and to recovering more of the resources in producing fields. It is in charge of commercialising technology and industrial rights. Employees: 1 697, of whom 75 work outside Norway.	• New method for subsea well workovers has halved costs. • New exploration technology adopted to identify oil deposits before drilling starts. • New technology to treat produced water before it is discharged to the sea has been installed on Statfjord.

Big opportunities

It was a good year for Statoil in 2004. Along with a strong performance by the organisation, high oil and gas prices laid the basis for a very good financial result. Statoil's employees have demonstrated a high degree of concentration and perseverance in the group's improvement work. We see the results in the form of reduced unit production costs, high operating regularity and good results for health, safety and the environment.

Since its flotation in 2001, the group has shown a very positive development. A good follow-up of operational and financial goals has provided the means for more effective operations than ever before. The portfolio of projects and activities is tightly defined and of a high international quality. Statoil is now one of the industry's most profitable companies.

Solid achievements over the past years have paved the way for the future. But there is still considerable potential for further development. Globalisation and intensified international competition mean that we must become even better at mastering change.

Looking ahead, two principal challenges stand out. We must maintain production from the Norwegian continental shelf for as long as possible but not at the expense of profitability. Further, we have to strengthen efforts to create viable and profitable international projects.

Through common effort, we will tackle the challenges along two axes. Ambitious targets have been communicated for production, profitability and unit costs in 2007. The pressure to achieve ever-better results will be kept up through close follow-up in the entire organisation. Concrete initiatives have been established to secure focus on the most important areas for improvement, and we have initiated steps to improve quality in the development of new field projects. This will in turn ensure that the group delivers good results in both the short and medium term.

But our efforts have a perspective far beyond 2007. Statoil has established an aggressive plan to secure profitable growth in the long term too. Activities in exploration and business development will gather headway, both in Norway and internationally. The Snøhvit project is our bridgehead in the Barents Sea and provides a good starting point for further development in far northern waters. With important upstream positions around Europe and access to new terminal capacity in the USA, Statoil is taking a new step towards the global gas market.

Statoil is a robust company with good industrial possibilities and competent and committed employees. Together we will develop Statoil into an internationally competitive group and a unique workplace.

A revitalised set of values and new management model provide a solid foundation which will help us go far. Through a sound philosophy for our operations, with a high level of ambition for health, safety and the environment, we will continue our work to gain the greatest possible value from oil and gas resources – for the good of Statoil and society.

Helge Lund
President and CEO

Installing insulation panels at the In Salah gas treatment plant in Krechba, Algeria. This facility came on line in 2004. In Salah is a major gas field in which Statoil has a 32 per cent interest. The involvement in Algeria represents an important extension of the group's role as an international gas player.

The following pages present four articles from various parts of Statoil's business. One of these focuses precisely on its role as an international gas company.

Ambitious plans for drilling and well operations are covered, together with the challenges presented by extreme levels of pressure and temperature in the Kvitebjørn and Kristin fields. A look is also taken at Statoil's Tjeldbergodden methanol plant, where employees believe a delegation of authority contributes to high job satisfaction and good results.

These presentations range widely, and report on solutions to demanding challenges. But they all share the same conclusion – cooperation is the way to success.

www.statoil.com/statoils_world

Global gas player

Statoil is acquiring a marked gas profile after having been primarily an oil company for its first 30 years. Set to rise sharply over the next 10-15 years, gas output will become increasingly important for the group in terms of both volume and value. And about 40 per cent of this production will derive from areas beyond the NCS.

www.statoil.com/statoils_world

Rapid progress is being made by Statoil as a gas company within a global perspective. In coming years, the group will obtain growing volumes of this commodity from several countries outside Norway. And gas will be transported by ship as well as pipeline.

"Developing value chains for gas will be one of our most important strategic priorities in coming years," says chief executive Helge Lund.

Build-up in several countries

Statoil ranks as the leading gas company on the NCS, serving as operator for more than 80 per cent of total gas production from these waters. In addition to its substantial Norwegian reserves, the group is realising its ambition of building up reserves and production in several other nations.

It has large gas holdings in Azerbaijan, primarily in the Shah Deniz field which is due to come on stream towards the end of 2006.

Statoil is involved in constructing the South Caucasus Pipeline to take this gas from the Caspian via Georgia to Turkey. The system will be ready in late 2005/early 2006.

Production started in 2004 from Algeria's In Salah gas field, where Statoil is a partner and joint operator. The group also participates in this country's In Amenas gas and condensate discovery, due to come on stream during 2005. These two fields rank as the third and fourth largest gas projects respectively in Algeria.

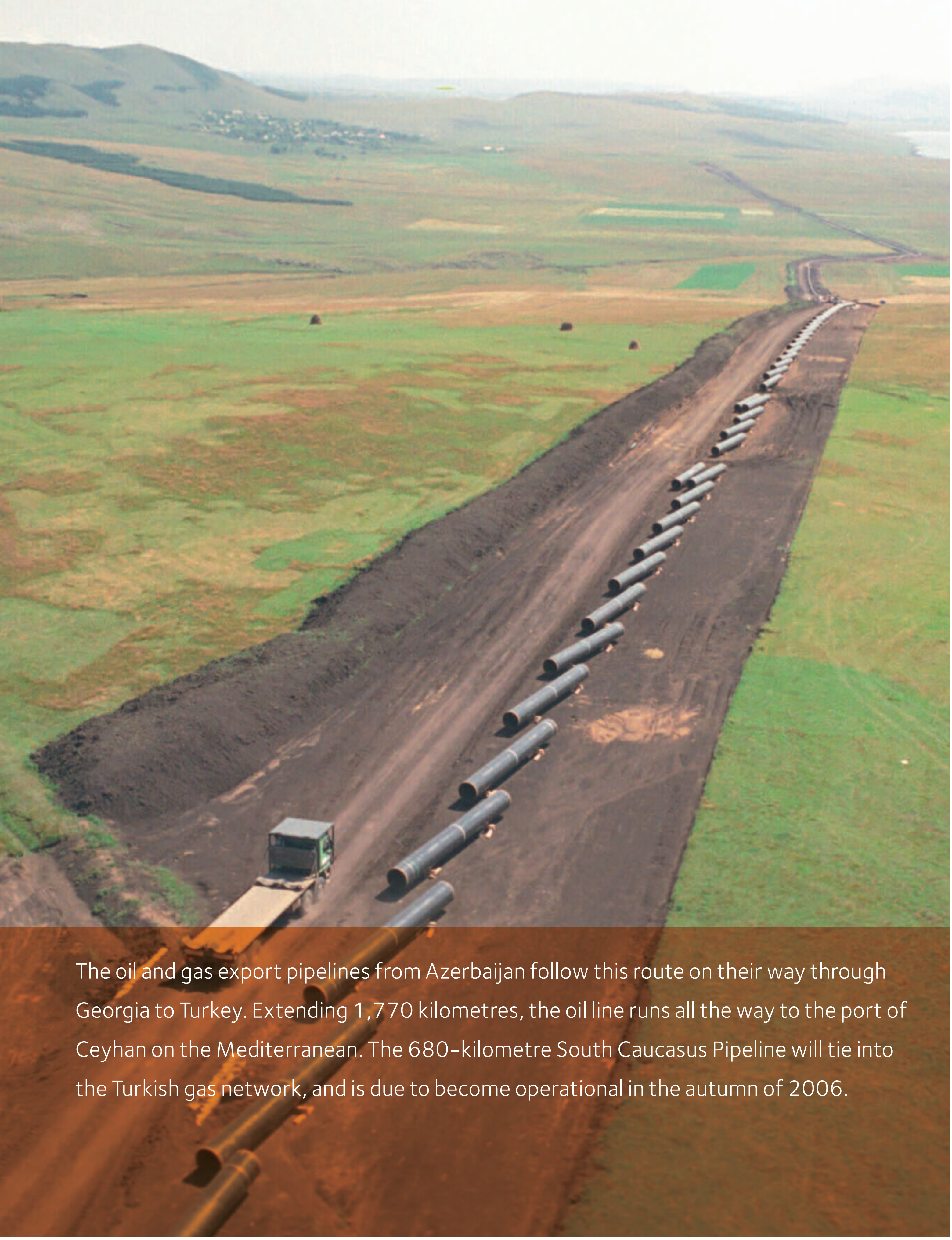
Key European supplier

Statoil is one of the biggest players in the European gas market today. With deliveries to 13 countries, the group accounts for about 10 per cent of Europe's gas consumption. That includes the Norwegian government's share of production, which is marketed by Statoil.

All Norwegian gas is currently exported by pipeline, but Statoil will start shipping liquefied natural gas by sea from Norway in 2006. The first European LNG export facility, and the most northerly in the world, will then be ready at Melkøya outside Hammerfest to give Norway a role in the world's fastest-growing energy market.

Statoil has secured access to the US gas market through an LNG receiving terminal at Cove Point in Maryland. Until the Melkøya plant is completed, the group is supplying this market with LNG purchased from other sources.

When Snøhvit comes on stream, Statoil will become a player in the liquefied natural gas market – the world's fastest-growing energy sector.



The oil and gas export pipelines from Azerbaijan follow this route on their way through Georgia to Turkey. Extending 1,770 kilometres, the oil line runs all the way to the port of Ceyhan on the Mediterranean. The 680-kilometre South Caucasus Pipeline will tie into the Turkish gas network, and is due to become operational in the autumn of 2006.

Efficient drilling boosts production

A major challenge has been handed to Mads Grinrød and his 700-strong team in Statoil's drilling and well operations unit. The group is committed to expanding its oil and gas production by eight per cent every year, to 1.4 million barrels of oil equivalent by 2007. More effective drilling operations will provide improved oil recovery and reduced costs.

www.statoil.com/DARTandOSC

The group aims to reach its output objective by producing more oil and gas with new developments and improving recovery from existing fields, rather than by acquiring other companies. Good production results are totally dependent on drilling and well operations being pursued quickly, safely and at the lowest possible cost.

Second largest

The basis for success is certainly present. Statoil has substantial expertise in drilling and well operations, and Mr Grinrød's specialists are responsible on average for about 25 jobs in this area at any given time. The group ranks as the world's second largest offshore drilling operator, with 12 mobile rigs on charter. Only Petrobras, Brazil's national oil company, is bigger.

Although this activity is already substantial, plans call for further expansion. Statoil participated in 16 exploration wells in 2004, and this figure is set to reach 33-40 in 2005. That includes 18-20 on the NCS, with 12-13 operated by the group. Annual Statoil production on the NCS is due to be increased by 10 per cent up to 2007 – a demanding target, given that several of Norway's mature fields are in decline.

Greater efficiency

Mr Grinrød emphasises that greater efficiency rather than more personnel is the answer, and a dedicated programme to make drilling more efficient has been launched by Statoil.

"We must organise our work better by bringing together expertise and knowledge more effectively than we do today," he says. "That will strengthen both planning and execution of our operations. We're going to increase effective drilling time from 77 to 90 per cent. This means that problem-solving of various kinds can only account for 10 per cent of an operation."

He explains that Statoil stands to save NOK 600 million per year on drilling and well operations.

"We can cut spending estimates for planned wells. That's important, because lower drilling costs will often be crucial in determining whether we can successfully improve recovery. It's often a case of producing small quantities of oil worth little more than the cost of extracting them. Reducing these expenses is also significant if we're bidding for a field development which involves a big drilling programme. Being able to calculate a lower cost per well than our competitors could determine the outcome."

Drilling and well operations in Statoil 2004

- Purchased goods and services worth more than NOK 4.5 billion from 44 companies
- Chartered rigs for NOK 2.6 billion from six contractors
- Provided work for 7,000 people in supplier companies
- Drilled wells with a total length of 260,000 metres
- Purchased goods worth NOK 400 million from local Norwegian companies

Cooperation is important

Statoil's drilling and well operations are pursued in cooperation with a number of contractors and suppliers, explains vice president Mads Grinrød.

"Our approach is to establish good integration with these companies, so that we achieve the optimum results. This means giving them access to our procedures and execution plans, and generally full openness about all the factors which can help them to do the best possible job together with and for us."

Svein Lien at work on Scarabeo 5. He is one of 7,000 employees in 44 companies who deliver goods and services for Statoil's drilling and well operations.

Taming strong forces

A new generation of Norwegian oil and gas fields now being brought on stream by Statoil presents extreme challenges in the form of high pressure and temperature. Kvitebjørn in the North Sea began producing in 2004, with Kristin in the Norwegian Sea due to follow in 2005. Technologically speaking, these developments could well be characterised as extreme sports because huge natural forces are in play within their reservoirs.

www.statoil.com/kep2005

A pressure of 780 bar prevails in the Kvitebjørn reservoir, 4,000 metres beneath the seabed. The temperature is 150°C. Kristin features a reservoir pressure of 911 bar and a temperature of 170°C. Comparable figures for more conventional fields are 200-300 bar and less than 100°C.

Pioneer project

While Kvitebjørn has been developed with a steel jacket-supported platform, Kristin will have a floating production unit. The latter ranks as the first field in the world with subsea installations built for such extreme pressure and temperature. Gas under pressure in the reservoir would expand a thousand-fold were it to rise uncontrolled to the surface. The equipment to stop that happening must be specially constructed.

Good example

Kvitebjørn has been incorporated in Statoil's value chain through a tie-in to the Troll Oil Pipeline II to Mongstad, a dedicated gas pipeline to the Kollsnes processing plant outside Bergen and the existing Vestprosess transport link from Kollsnes to Mongstad.

This development accordingly provides a good example of exploiting infrastructure already in place on the NCS. The Kvitebjørn-Kollsnes pipeline will also carry gas from the Visund field in the northern North Sea. The transport system has been designed to accommodate a multiphase flow of gas, natural gas liquids and water.

Mixed with Troll gas

Kvitebjørn produces a rich gas, from which NGLs such as propane, butane and naphtha are stripped at Kollsnes. The NGLs are sent on to Mongstad through the Vestprosess system. The separation process reduces the energy value of the gas, but that loss is made good with dry gas from Troll so that customer requirements are met when the Kvitebjørn production is piped from Kollsnes to continental Europe. This swap transaction at Kollsnes is possible because Statoil has the necessary processing facilities and because the huge gas reserves in Troll allow it to serve as a volume guarantor and swing producer for other fields. That yields major synergies and increases value creation.

Kvitebjørn

Gas and condensate field proven south-east of Gullfaks in 1994. Developed with a fixed platform housing drilling module, processing facilities and living quarters.

Licensees: Statoil (50 per cent), Petoro (30 per cent), Hydro (15 per cent) and Total (five per cent).

Kristin

Gas and condensate field proven about 20 kilometres south-west of Åsgard in 1997. Under development with a floating production platform and subsea installations.

Licensees: Statoil (41.6 per cent), Petoro (18.9 per cent), Hydro (14 per cent), ExxonMobil (10.5 per cent), Eni (nine per cent) and Total (six per cent).

Huge natural forces are being tamed on the Kvitebjørn and Kristin fields. The levels of pressure in their reservoirs correspond to those experienced in the world's deepest oceans.

Recipe for results

The 120 employees at Statoil's Tjeldbergodden methanol plant in mid-Norway seem to have found the right recipe, if not for the good life then at least for the good working life. Growing amounts of methanol are being produced at lower cost, sickness absence is minimal at 2.7 per cent and no lost-time injury has been sustained for five years. Employees work hard and consciously on preventive health measures, and Statoil's annual working environment survey indicates high job satisfaction.

www.statoil.com/tjeldbergodden

Nobody at the plant has any high-flown explanations to offer when asked why all the indicators are pointing in the right direction.

"It's to do with the way we organise things," says process technician Frank Sinnes. "I used to work in the metals industry, and was nowhere near getting the responsibilities and tasks I have here."

"We have a very strongly entrenched HSE culture," observes human resources manager Arne Sandnes. "Combined with the way we organise the work, this creates motivation and commitment. I also think people identify strongly with a company which is the only big local employer."

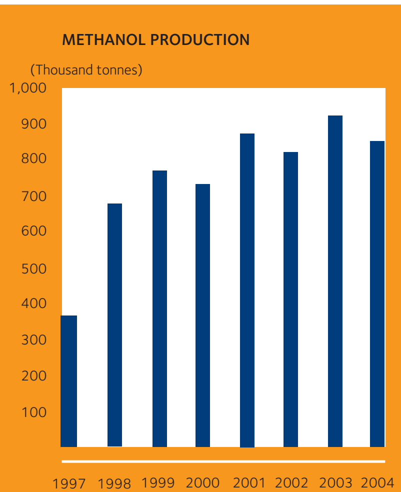
Team in charge

The key to Tjeldbergodden's success lies in its chosen organisational model. Classic departments do not exist. The most important entities are the shift teams which keep the plant operating around the clock. Each team has full decision-making authority for running the facility. That motivates. The production operatives on each shift have to master several skills, which has also proved a motivating factor.

A plant meeting is held a couple of times a week to take operational decisions. This is attended by the head of the shift team on duty at the time, plus the coordinators for the three functional networks which cover all aspects of plant operation – maintenance, production and human resources. Every employee belongs to one of these networks, which are responsible for their own plans and budgets. The network coordinators are elected for two years at a time. Frank Sinnes, for instance, has been responsible for human resources and will be going back to his regular job as a production operator in a couple of months.

Demanding model

"This is not an uncomplicated operating model," admits vice president Arve Rennemo, who runs Tjeldbergodden. "It's demanding because authority is delegated and the individual employee plays several roles. That creates a sense of responsibility, motivation and job satisfaction in the whole workforce. As the man in charge, you must never be tempted to cut corners and take decisions outside our established structures. Coming here with traditional attitudes to exercising leadership would never work. I see my job as more of a facilitator and collaborator than a conventional manager."



Production growth since the Tjeldbergodden plant became operational in 1997. The reduced output in 2000, 2002 and 2004 reflects maintenance turnarounds.

Facts

- The Tjeldbergodden industrial complex embraces a gas receiving terminal, the methanol plant, an air separation facility and a gas liquefaction unit.
- Ranked as one of the largest of its kind in the world, the methanol plant's annual capacity of 900,000 tonnes corresponds to 25 per cent of the European total.
- The plant began production in 1997. Statoil has an 81.7 per cent interest, with DuPont holding 18.3 per cent.
- The gas receiving terminal, air separation plant and gas liquefaction unit have different owner constellations.

Production operators Jannicke Olsen Schei and Frank Sinnes enjoy the amount of responsibility assigned to the shift teams which operate the methanol plant at Tjeldbergodden.

Exploration & Production Norway

Statoil's equity production of oil and gas on the Norwegian continental shelf (NCS) amounted to 991,000 barrels of oil equivalent per day in 2004. Statoil's ambition is to maintain production at one million barrels of oil equivalent per day beyond 2010. The short-term target for 2007 has been raised by 10 per cent to a total level of 1.1 million boe per day.

Key figures (NOK million)	2004	2003	2002
Total revenues	74,050	62,494	58,780
Income before financial items, other items, taxes and minority interest	51,029	37,855	34,204
Gross investments	16,776	13,136	10,926

www.statoil.com/norwegian-fields

November 2004 marked 25 years of production on the Statfjord field, by which time this gigantic field had produced oil and gas worth a total of NOK 1,045 billion. Through the Statfjord late life project, work is now being done on plans for further development of the field. The plans include increasing the recovery factor from the present 63 per cent to almost 70 per cent for the oil and gas volumes that have not yet been produced. That is very high, also in the global context, and it illustrates how much progress Statoil has made in increasing recovery from mature fields. When the field opened, it was generally believed that it would be possible to produce 48 per cent of the reserves.

Tampen production in 2030

The goal for the Tampen area is that there should still be installations producing in 2030. The remaining recoverable oil reserves in the area amount to 2.5 billion barrels. That is more than the original reserves in Gullfaks, including satellite fields.

For Statfjord, the ambition is to maintain profitable production and processing of oil and gas right up until 2020. The implementation of extensive cost reductions is a precondition for achieving this goal. At most, Statfjord produced more than 850,000 barrels of oil per day. At present, 250,000 barrels of oil are processed via the field, and half of them come from fields linked to the Statfjord installations. At most, 1,000 men and women worked on the field. The number of personnel is now less than 600 and will be reduced by a further 110 by the end of 2005.

New fields in production

During 2004, production started on two Statoil-operated fields – Sleipner West Alpha North and Kvitebjørn. Production from Sleipner West Alpha North, which has been developed with a subsea installation linked to the Sleipner T platform, started in October. The development was carried out at a cost of NOK 2.3 billion, which is 25 per cent less than the original estimate.

Anne Margrethe Rosland is a process technician on Sleipner East. She commutes between her work in the North Sea and home life with four children at Bryne south of Stavanger.

Three-year-old Lina Marie and two-year-old twins Amalie and Liliane watch while their mother packs her bag for a new North Sea tour.

Production from Kvitebjørn, east of Gullfaks, started as planned in September. The development cost of NOK 10.2 billion is on budget. Gas and condensate from Kvitebjørn is transported by pipeline to Kollsnes, where a new plant has been built for the separation of gas in liquid form, such as butane, ethane and naphtha, and for the preparation of the lean gas for onward transportation to customers in Europe.

Kvitebjørn is the first field with an extremely high pressure and temperature to be developed by Statoil.

Statoil's average oil and gas production – Norwegian continental shelf		
1,000 barrels of oil equivalent/day		
Field	**2004**	**Statoil's share**
Statfjord	82.4	51.88%
Statfjord East	7.3	25.05%
Statfjord North	9.2	21.88%
Sygna	4.8	24.73%
Gullfaks	189.4	61.00%
Snorre	29.5	14.40%
Vigdis	19.4	28.22%
Visund	10.5	32.90%
Tordis	20.2	28.22%
Troll Gas Phase 1	99.8	20.80%
Kvitebjørn	7.4	50.00%
Sleipner West	106.3	49.50%
Sleipner East	23.2	49.60%
Gungne	16.5	52.60%
Veslefrikk	5.4	18.00%
Huldra	13.4	19.88%
Glitne	9.8	58.90%
Norne	34.9	25.00%
Heidrun	21.4	12.41%
Åsgard	97.4	25.00%
Mikkel	21.8	33.97%
Total Statoil-operated	830.0	
Total partner-operated	160.6	
Total production	990.6	
Underlifting	12.3	
Total lifted production	978.3	

www.statoil.com

The Kristin field

The Kristin gas and condensate field on the Halten Bank, which is currently being developed, has even more extreme pressure and temperature properties.

This has necessitated the extensive development and implementation of new technology.

In September, the substructure and deck of the semi-submersible production platform were joined together. The platform will be towed to and installed on the field in March, and production is scheduled to start in October 2005.

Snøhvit can deliver in 2006

Despite delays in the project, we expect to start up the export of liquefied natural gas (LNG) in the autumn of 2006. However, the project aims to start regular deliveries in the first quarter of 2007, which is six months later than originally planned.

The gas liquefaction plant on Melkøya off Hammerfest is now beginning to take shape. A total of 7,200 people have worked on Melkøya up until the end of 2004, and 2,500 of them come from Norway's three northernmost counties. As many as 600 different firms, and personnel from 46 different countries, have been involved in the construction work.

Extensive deliveries from the region

When the Snøhvit development was approved by the authorities, we expected deliveries from the three northernmost counties to total NOK 600 million. So far, such deliveries have totalled NOK 1.9 billion, three times as much as expected. The collaboration between the Snøhvit Industry Association and Statoil has been an important factor in achieving this result. At 31 December, Norwegian deliveries to the project have accounted for slightly more than 50 per cent of the total, compared with the expected 36 per cent.

In June 2004, the cost estimate for the development was increased from NOK 45.3 billion to NOK 51.3 billion. The original estimate was NOK 39.5 billion.

Exploration activity increasing

Statoil anticipates a steep increase in exploration activity on the NCS. In 2005, we expect to participate in drilling 18-20 exploration wells, and we will be operator for 12-13

Statoil's share of oil and gas production, Norwegian continental shelf	2004	2003	2002
Oil (thousand barrels per day)	625	661	670
Natural gas (thousand boe per day)	366	331	319
Total production (thousand boe per day)	991	991	989

of them. In 2004, Statoil participated in seven exploration and appraisal wells and finds were made in five of them.

In the three last licence awards in 2004 and 2003, Statoil was awarded 16 operatorships as well as stakes in five licences. We were awarded new areas in the North Sea, the Norwegian Sea and the Barents Sea.

Environment-friendly solutions

A number of measures have been implemented in order to reduce emissions to air and sea. Produced water is to be purified on Statfjord. We will achieve the goal of zero harmful emissions to the sea from existing installations by the end of 2005.

During the year, Statoil has made preparations for exploration drilling in the Barents Sea in 2005. This drilling is expected to be the most environment-friendly ever performed on the NCS.

The environment section on pages 38-41 deals with the concrete measures in more detail.

The open safety dialogue management tool has now been introduced throughout the business area, and its use is systematically followed up on a monthly basis. An open safety dialogue is a dialogue between an employee and their superior about the risks involved in the job and about possible preventive measures. In addition, the safe behaviour programme (see the sustainability report, page 19) which covers a total of 25,000 Statoil employees and contractor employees, is continuing. We believe that a positive effect of these measures, which have now been adopted on a group-wide basis, will gradually become apparent.

Gas leak on Snorre

On the evening of 28 November 2004, a serious gas leak occurred in a well on the Snorre A platform. During preparations for drilling a sidetrack from an injection well, it was discovered that gas was leaking from the seabed under the platform. The leak was stopped by pumping heavy drilling mud into the well before the well was cemented and the gas reservoir isolated.

While 180 people were evacuated for the platform, 36 remained on board to stabilise the well.

No injuries were sustained by personnel during the incident and the platform resumed production in February 2005.

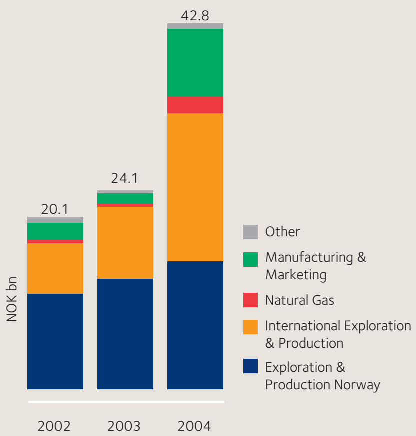
Projects under development

Field	Statoil's share	Statoil's investment[1]	Production start	Plateau production Statoil's share[2]	Lifetime-number of years
Ormen Lange[3]	10.84%	6.1	2007	46,000	30
Snøhvit	33.53%	16.1	2006	46,000	30
Kristin	41.60%	8.7	2005	91,000	20
Visund gas	32.90%	0.6	2005	28,000	24
Urd (Norne satellites)	40.45%	1.4	2005	22,000	12
Skinfaks/Rimfaks IOR	61.00%	2.2	2006	22,000	11
Volve	49.60%	1.0	2007	30,000	6
Statfjord late phase	44.34%	6.4	2007	22,000[4]	12

1) Estimated in NOK bn. 2) Boe/day. 3) Partner-operated project. 4) New additional production

Operations vice president Arne Sigve Nylund (right) presented the plan for development and operation of Statfjord late life to director-general Gunnar Gjerde at the Ministry of Petroleum and Energy in February 2005. The whole plan is contained on a single CD-Rom.

INVESTMENTS PER BUSINESS AREA



International Exploration & Production

International oil and gas output increased by almost 30 per cent in 2004, reaching 115,000 barrels of oil equivalent (boe) per day. This steep increase will continue in the years ahead, reaching a level in the region of 300,000 boe per day in 2007.

Key figures (NOK million)	2004	2003	2002
Total revenues	9,765	6,615	6,769
Income before financial items, other items, taxes and minority interest	4,188	1,781	1,129
Gross investments	18,987	8,019	5,032

www.statoil.com/statoils_world

Statoil's ambitions for growth are clearly expressed in its international exploration activities. In 2004, Statoil participated in eight exploration wells, and finds were made in five of the six wells that have been completed. The exploration programme for 2005 comprises 15-20 wells. Four to five of the wells will be operated by Statoil.

Investments of almost NOK 20 billion were made in Statoil's international exploration and production business in 2004. Three new fields came on stream in 2004. In the next three-four years, Statoil will concentrate its investments on Angola, Azerbaijan and Algeria.

Increased production in Angola

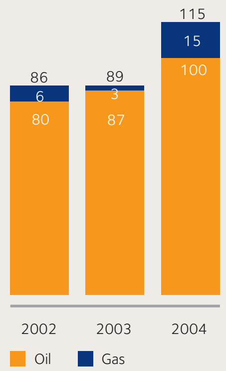
Angola will be the first country outside Norway where Statoil reaches production figures in excess of 100,000 boe per day. That will take place in 2006 or 2007. At the end of 2004, Statoil's share of production in Angola was around 60,000 daily barrels, approximately 70 per cent up on the end of 2003.

With a 13.3 per cent stake, Statoil is a participant in three deep-water blocks in which a number of finds have been made. Each block covers an area corresponding to 10 blocks in the North Sea.

Three exploration wells were drilled in 2004 and oil was found in all of them. The Kizomba A field in block 15 started production in August. The field has been developed using a production vessel, and plateau production is set at 250,000 barrels per day.

Algeria

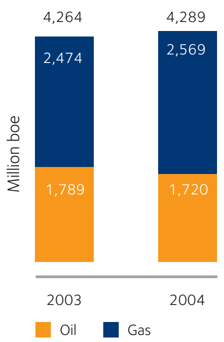
The agreement for the purchase of 31.85 per cent of the In Salah gas field and 50 per cent of In Amenas was approved by the authorities, and the transaction was completed in 2004. In Salah and In Amenas are Algeria's third and fourth largest gas projects respectively. The first phase of the In Salah project started production in July 2004. The In Amenas project, which comprises four fields, is under development. The first part of the development is expected to begin production in late 2005/early 2006. After a decade these two fields are expected to account for 20 per



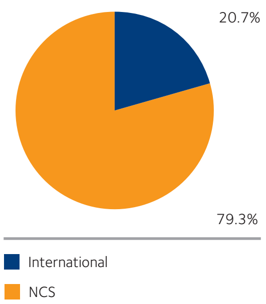
Statoil's share of oil and gas production outside Norway	2004	2003	2002
Oil (thousand barrels per day)	100	87	80
Natural gas (thousand boe per day)	15	3	6
Total production (thousand boe per day)	115	89	86

Terminal operative Rahmouni Bachir has climbed to the top of the In Salah gas treatment plant in the Sahara. Statoil is joint operator of this facility, which became operational in 2004.

STATOIL'S OIL AND GAS RESERVES



DISTRIBUTION OF RESERVES IN 2004



cent of Algeria's gas exports to Europe.

Statoil was awarded operatorship for the Hassi Mouina exploration block in 2004. Statoil has a 75 per cent stake, while the national gas company Sonatrach owns the remaining 25 per cent. The exploration area is all of 23,000 square kilometres. Sonatrach has already made one find in the block.

Azerbaijan

In Azerbaijan, Statoil is involved in production and further development of the Azeri-Chirag-Gunashli (ACG) oil fields and in the development of, and sale of gas from, the Shah Deniz field.

In 2004, Statoil's production was about 10,000 barrels of oil per day from the ACG field's early production. The first phase of the main part, Central Azeri, started production in February 2005.

The Shah Deniz gas project in the Caspian Sea is under development. Once the Shah Deniz field has reached plateau production, Statoil's share will amount to roughly two billion cubic metres per year. The gas will be sold to Azerbaijan, Georgia and Turkey. Once ACG and Shah Deniz have reached plateau production, Statoil's share of the combined production from the two fields will reach 95,000 boe per day.

Oil from ACG and gas from Shah Deniz will be processed at the onshore terminal Sangachal, which is currently being extended. Both the 1,770-kilometre oil pipeline, Baku-Tblisi-Ceyhan (BTC), and the 650-kilometre gas pipeline through Azerbaijan and Georgia to Turkey will be completed during the course of 2005.

Iran

Statoil is operator for the offshore development of phases six, seven and eight of South Pars, which is reckoned to be the world's biggest gas field. The development consists of three production platforms and three pipelines to land. The steel substructures for the platforms are in place. Two of three transport pipelines to land were also installed in 2004.

Two operatorships in Brazil

In 2004, Statoil was awarded operatorship for two exploration areas in Brazil. Statoil has been engaged in exploration activities in Brazil since 2001, and has an excellent collaboration with the national oil company, Petrobras. Statoil has interests in five exploration areas and is operator for three of them.

Russia and the Barents region

Russia is among the countries in the world with the largest share of unexploited oil and gas reserves. Statoil is investing in Russia as a new core area, and it therefore intensified its business development efforts in 2004. Russia and

Statoil's international oil and gas production

(1,000 barrels of oil equivalent/day)

Field	2003	Statoil's share
Girassol, Angola	25.3	13.33%
Jasmim, Angola	3.7	13.33%
Xikomba, Angola	9.3	13.33%
Kizomba A, Angola	7.9	13.33%
In Salah (gas), Algeria	12.7	31.85%
Azeri-Chirag-Gunashli, Azerbaijan	9.8	8.56%
Sincor, Venezuela	22.1	15.00%
LL652, Venezuela	1.0	27.00%
Lufeng, China	1.6	75.00%
Alba, UK	11.4	17.00%
Dunlin, UK	1.3	28.76%
Merlin, UK	0.04	2.35%
Schiehallion, UK	5.6	5.88%
Caledonia, UK	1.0	21.32%
Jupiter (gas), UK	2.2	30.00%
Total	114.9	

In September, Statoil's board approved the plans for participating in the Agbami oil field project off Nigeria. It is being developed with subsea installations tied back to a production and storage ship which will be almost identical to the one on Angola's Girassol field (pictured). Due to come on stream in 2008, Agbami is expected to produce 250,000 barrels of oil per day.

the Barents region have been established as new business units and allocated further expertise and resources. In September 2004, Statoil signed a letter of intent with Gazprom and Rosneft. The agreement concerns possible partnership for Statoil in the Shtokmanovskoye gas field in the Barents Sea, possible partnership for Gazprom/Rosneft in the Snøhvit field and a possibility for Statoil to utilise capacity at the Cove Point terminal to send Russian gas to the USA.

Find west of Shetland
In January 2004, Statoil acquired 30 per cent of the Rosebank/Lochnagar licence west of Shetland. The operator, Chevron Texaco, made a significant oil and gas find during the summer of 2004. Before drilling started the licence group applied for – and was awarded – the five blocks surrounding the prospect. This find will stimulate further activity along the Atlantic margin. Statoil applied for four licences in the second Faeroes offshore licensing round, and in January 2005 the group was awarded all four.

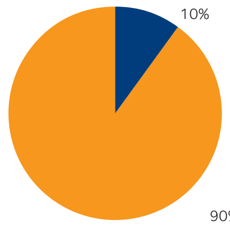
The Corrib gas project off Ireland is now developing well after a prolonged period of low activity due to delays in the approval process. Work is continuing with a view to production start in 2007.

Lufeng continues production
Production was temporarily halted on the Lufeng field in China in July in order to carry out new production drilling. This is expected to prolong production by several years. The field has already produced approximately 30 per cent more than anticipated when production started in 1997.

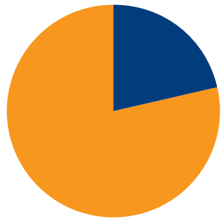
Personnel development
All employees in the business area have completed the joint introductory part of the safe behaviour programme, which aims to increase understanding of safety among suppliers and employees. This will be followed up with local measures in 2005.

An increasing proportion of Statoil's employees are recruited in countries other than Norway. It is a priority task to provide good opportunities for development for employees in those countries where Statoil has a long-term business perspective. This may involve key personnel being given positions at head office for a period, before being appointed to important international positions. It is important for Statoil to build an organisation characterised by understanding and respect for the history, religion and culture of different countries. This is important if we are to succeed internationally.

PRODUCTION IN 2004



PLANNED PRODUCTION IN 2007



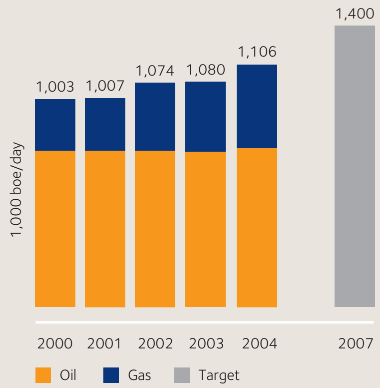
Projects under development

Field	Statoil's share	Statoil's investment[1]	Production start	Plateau production Statoil's share[2]	Lifetime-number of years
ACG Azeri	8.56%	4.1	2005	57,000	20
ACG Phase 3	8.56%	2.7	2008	20,000	20
Kizomba B	13.33%	3.2	2005	30,000	21
Dalia	13.33%	3.3	2006	27,000	21
Rosa	13.33%	1.7	2007	18,000	20
Corrib	36.50%	2.8	2007	20,000	19
South Pars 6, 7 and 8	Up to 40%	2.5	2006	15,000	4[3]
In Amenas	50.00%	5.0	2005/2006	28,000	18
Shah Deniz	25.50%	4.4	2006	37,000	26
Agbami	18.85%	6.3	2008	47,000	16

1) Estimated in NOK bn. 2) Boe/day. 3) Pay-back period.

Statoil is operator for the offshore part of phases six-eight in Iran's South Pars gas development. Sections of pipeline are prepared for transport to the laybarge.

ANNUAL OIL AND GAS PRODUCTION



Natural Gas

Statoil's sales of natural gas from the NCS are still growing. A total of 25.0 billion cubic metres were sold in 2004, an increase of 3.2 billion from the year before. In addition, the group sold 29.0 billion cubic metres on behalf of the state's direct financial interest (SDFI), compared with 25.6 billion in 2003.

Key figures (NOK million)	2004	2003	2002
Total revenues	33,326	25,452	24,536
Income before financial items, other items, taxes and minority interest	6,784	6,005	6,134
Gross investments	2,368	860	1,525

www.statoil.com/snohvit

European consumption of natural gas is continuing to expand, and reached 510 billion cubic metres in 2003. Figures from the International Energy Agency (IEA) show growth of 3.4 per cent in the first eight months of 2004. The IEA expects Europe to consume 705 billion cubic metres in 2020, and EU import requirements to rise from 50 to 80 per cent between 2002 and 2030.

New EU directives for gas and electricity came into force on 1 July 2004. All customers outside the household sector can now freely choose their supplier, which has increased competition in the industrial and services sectors. This principle is due to be extended to all types of customers by July 2007. Regulated third-party access to the transport network has also been introduced, and each member country must establish a regulatory authority to monitor that the directives are being observed.

Gas demand in the USA is expected to rise from the current level of 620 billion cubic metres to 860 billion cubic metres in 2020. A flattening in domestic production will open for substantial imports of LNG.

Statoil's position

In addition to its own gas, Statoil markets supplies belonging to the Norwegian government and accordingly accounts for about two-thirds of all gas exports from Norway. An increase of 13 per cent in foreign sales from 2003 to 2004 meant that the group retained a strong position in the European gas market. With deliveries to 13 countries, Statoil meets roughly 10 per cent of consumption in Europe.

Germany and the UK are the largest national gas markets, accounting between them for almost 40 per cent of total consumption in Europe. Statoil has a solid position in Germany, with

The first of four carriers scheduled to ship liquefied natural gas from the Hammerfest LNG plant in northern Norway was launched in November 2004. Named *Arctic Discoverer*, it is under construction at Mitsui Engineering & Shipbuilding in Japan for delivery at the end of 2005.

Statoil has a 22 per cent share of the French gas market, one of the biggest in Europe. Jørgen Faye (left) from the group's gas office in Paris and David Gazel from Gaz de France meet under La Grande Arche in the French capital.

about 15 per cent of the market in 2003. The group is strengthening its position in the UK through a number of contracts with such customers as British Gas Trading, a subsidiary of Centrica. Statoil is also strongly placed in France, with 22 per cent of the market. Among customers, E.ON Ruhrgas, Gaz de France and British Gas Trading take the largest volumes from Statoil.

A five-year contract was secured in 2004 from Dutch energy company Essent on annual deliveries of up to 1.4 billion cubic metres. A one-year contract for one billion cubic metres delivered in 2004-05 was also placed by British Gas Trading, and a short-term contract by E.ON Ruhrgas.

The principal elements in Statoil's gas strategy are to maximise value creation from the NCS and develop its international gas operations. Long-term contracts will remain its leading source of value creation, but paying great attention to short-term business activities is important for maximising the value of Statoil's resources.

Increased access to UK market

Work is under way to lay a new 1,200-kilometre gas pipeline from the NCS, via the Sleipner installations, to Easington on the eastern coast of England. Statoil is responsible for planning and executing the pipelaying in cooperation with operator Hydro. From the autumn of 2007, the group will export gas from the Ormen Lange field via this pipeline. The tie-in on Sleipner East means that it can also send other gas to the UK market from the autumn of 2006.

Processing and transport

Holdings in processing plants, pipelines and receiving terminals for Norwegian gas were unified in the Gassled partnership on 1 January 2003. Statoil's interest in Gassled is 21 per cent. The group is the technical operator and developer for the bulk of the gas infrastructure on behalf of Gassled operator Gassco. This arrangement functions well, and Statoil delivers good results in terms of regularity and costs on the basis of its experience and expertise.

HSE attracts great management attention, and important measures for improving safety have been initiated. Planned efforts are being made to expand capacity and regularity through a number of operation-related measures and minor investments. A programme has been established to achieve a lasting reduction of 20 per cent in normal operating costs within four-five years. Other measures include the implementation of approved plans for improving operational efficiency and workforce downsizing at the Kårstø processing complex.

The group is pursuing two major capacity expansions for gas processing at Kollsnes and Kårstø in 2004-06. These developments will allow it to process increased deliveries from the Statoil-operated Kristin and Kvitebjørn fields.

LNG for the USA

Access to the US gas market for Snøhvit output has been secured by Statoil through the LNG receiving terminal at Cove Point in Maryland. During 2004, the group signed a 20-year agreement relating to a planned expansion of this facility. That will allow it to supply 10.1 billion cubic metres of gas per year to America, compared with a present level of 2.4 billion. Statoil will work to establish the supply chain required to take advantage of the increased access, and to secure approval from the US authorities. Until LNG deliveries begin from Snøhvit, the existing market access is being exploited with supplies from Algeria's Sonatrach and Belgium's Tractebel.

Statoil and ConocoPhillips have created a joint venture to run the receiving terminals for Norwegian gas in Germany. This company became operational on 1 January 2005. The terminals receive gas arriving through the Norpipe and Europipe I and II pipelines.

Manufacturing & Marketing

Statoil is one of the world's leading net sellers of crude oil. In 2004, approximately 2.2 million barrels of crude were sold per day. This is equivalent to more than ten times Norway's own needs. There was a very steep increase in demand in the international crude oil market in 2004, in China in particular. This resulted in record oil prices. At the end of October, the price of Brent Blend reference crude was as high as USD 52.0 per barrel.

Key figures (NOK million)	2004	2003	2002
Total revenues	267,177	218,642	211,152
Income before financial items, other items, taxes and minority interest	3,921	3,555	1,637
Gross investments	4,162	1,546	1,771

The growth in demand has put pressure on global production capacity for crude oil, as well as on refinery and shipping capacity. For a period, production by the member states of the Organisation of Oil Exporting Countries (Opec) was close to full capacity. Fears of a production shortfall led to prices rising until they reached record levels in October. Prices tailed off towards the end of the year. Outside Opec, crude oil production increased in Russia and west Africa, but declined in the North Sea.

Refining margins were considerably stronger in north western Europe in 2004 than in 2003. High demand resulted in general pressure on global refining capacity. In 2004, Statoil refined 13 per cent of its entitlement oil and produced 13 million tonnes of refined products. In addition, Statoil sold a somewhat larger volume of third-party products. Its main markets were the Nordic countries, north western Europe and North America, with some sales to the Mediterranean countries and Asia. About two-thirds of the refined products were sold through Statoil's marketing organisation.

At Mongstad, Vestprosess (see text box) has expanded capacity by 90 per cent in order to handle natural gas liquids from a new plant at Kollsnes. The plant receives rich gas from the Kvitebjørn field. The pure natural gas is sent via export pipelines from Kollsnes to continental Europe, while the natural gas liquids are sent to Mongstad, where they are processed into propane, butane and naphtha.

A new transhipment quay is in use at Mongstad. The quay, which is the biggest of its kind in Norway, can deal with tankers of up to 440,000 deadweight tonnes. This development strengthens the crude oil terminal's capacity and further improves Statoil's logistics in connection with exports to different markets.

Further development of the industrial sites

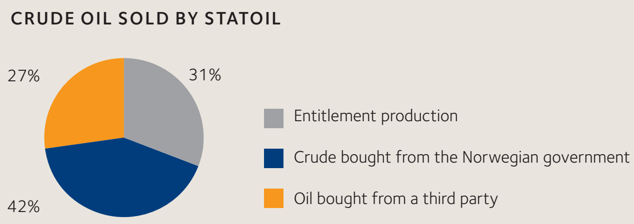
Work is being done on plans for a possible combined heat and power

Vestprosess

A plant and transport network that receives and processes natural gas liquids and condensate (light oil) into propane, butane and naphtha. The volumes are transported from several fields in the North Sea to the gas terminal at Kollsnes, the oil terminal at Sture and the Mongstad refinery.

www.statoil.no

Oil prices hit a record high in 2004. A barrel of Brent Blend reference crude was trading at USD 52 in October.



Myntevik skipper Jan Henning Hestnes has berthed in Egersund south of Stavanger, where Solveig Dyrnes in Statoil's coastal service helps to fill the fishing boat's fuel tanks. The group has 46 per cent of the Norwegian market for fishing vessels and coastal shipping.

station at Mongstad with a minimum efficiency of 70 per cent, which can help improve the refinery's energy efficiency. In 2004, notification was sent to the Norwegian authorities of proposals for a study programme.

Work is also being done on plans to expand production capacity at the methanol factory at Tjeldbergodden by about 35 per cent, and to combine it with the building of a gas-fired power station. A licence application and an application for an emission permit were submitted in June. A larger methanol plant operated in combination with a power station will strengthen Tjeldbergodden's competitive position. It will result in better utilisation of capacity in the Haltenpipe gas pipeline and contribute to a better electrical power balance in the region. A decision on whether to invest in the two projects will probably be made in 2006.

Increased pressure on fuel margins in some countries and rising oil prices affected the retail market in 2004. With effect from 8 July, Statoil acquired all the shares in Statoil Detaljhandel Skandinavia (SDS). That means that Statoil took over almost 1,400 service stations in Norway, Denmark and Sweden. Following this acquisition, measures are now being implemented to realise the gains resulting from greater coordination between the different countries in which Statoil operates service stations. Statoil has acquired 27 service stations from the Haahr Benzin company, thereby becoming the second-biggest player in Denmark with a market share of 17 per cent.

In November 2004, Statoil launched sulphur-free automotive fuels in the Norwegian market. The refineries at Mongstad and Kalundborg both produce sulphur-free petrol and diesel.

Statoil is a leading player in the sale of energy products in Scandinavia with a market share of more than 25 per cent. It sells fuel oils, lubricants and marine fuel, aviation fuel, LPG and natural gas.

Health safety and the environment

Manufacturing & Marketing makes continuous efforts to prevent harm to people and the environment. In the retail business, investments have been made in security equipment at service stations and the training of personnel has been increased, measures which have contributed to a downward trend in the number of robberies. Following the launching of a traffic safety programme in our energy business in Sweden, we have succeeded in reducing the number of injuries to personnel and material damage by 48 per cent.

There was a major fire at the Mongstad refinery in July 2004. No one was seriously injured. The financial loss amounted to approximately NOK 100 million.

In February 2005, a fine of SEK 50 million was imposed on Statoil by the Swedish Market Court for participating in price-fixing in 1999. Four other petrol retailers were fined in the same matter.

The Swedish Competition Commission originally demanded that Statoil be fined SEK 222 million. The price-fixing is said to have taken place in connection with a clear-out of discounts. The ruling is final and cannot be appealed.

Building expertise

The number of employees in the business area rose from 8,400 to more than 12,000 after the acquisition of SDS. Work is being done on systematic, long-term measures aimed at raising expertise among employees. These efforts are carried out in close cooperation with other entities in the group.

In 2004, Statoil Detaljhandel (Retail) Norway received HR Norway's Competence Prize. In its grounds for the award the jury emphasised, among other things, the fact that Statoil has invested in building expertise in the value chain rather than exclusively focusing on traditional marketing. Manufacturing & Marketing carries out planned training and rotation of managers, both within and outside the business area. Cooperation with the unions is good and productive.

The price of oil in 2004:
Lowest: USD 29.1 per barrel
Highest: USD 52.0 per barrel
Average: USD 37.8
Average 2003: USD 28.9

The Borealis petrochemicals group, owned 50 per cent by Statoil, considerably improved its financial performance in 2004. This is due both to an improved market situation which has resulted in increased prices for Borealis's main products, and to the implementation of a comprehensive improvement programme in the company. Production has increased and sales volumes have increased by eight per cent compared with the previous year.

Technology & Projects

The Technology & Projects business area was established in 2004 to strengthen Statoil's expertise within research and technology development. Project responsibility was also assigned to the new area to ensure greater focus on planning and executing major developments.

www.statoil.com/norwegian_fields

Statoil's opportunities to enhance value creation depend heavily on its ability to develop and apply new technology. Four priority areas are particularly important for strengthening the group's competitiveness:

- reservoir management and sub-surface expertise
- offshore technology
- management of large projects
- development of gas value chains from production and transport to sales.

A growing number of projects, both in Norway and internationally, makes it important to achieve more efficient execution of developments. This will be accomplished through greater commitment of resources early in the project, pursuing activities in parallel to save time, increasing cross-project standardisation and reuse, applying new technology and collaborating more closely with contractors and suppliers.

Statoil's solutions for development will be cost-effective, reliable and characterised by high health, safety and environmental standards. The most important commercial challenges within Statoil's technology strategy are to find and develop new oil and gas reserves while simultaneously improving recovery from producing fields.

Increasing production on the NCS

Statoil is a leader in developing new technology for improved oil recovery (IOR). On its best offshore fields, with platform-supported wells, it currently recovers 56 per cent of the stock tank oil originally in place.

The aim is to raise this recovery factor to 70 per cent. On fields with subsea-completed wells, the group has currently achieved a recovery factor of 43 per cent and aims to reach 55 per cent. Purposeful technological development projects have been launched to improve recovery.

With about 250 subsea wells, Statoil ranks as one of the world's largest operators of such facilities. A special technology known as light well intervention (LWI) has become an important IOR tool on fields with subsea-completed wells. This solution has been developed by Statoil in cooperation with Prosafe and FMC Kongsberg. LWI involves

The Gullfaks licence operated by Statoil was awarded the Norwegian Petroleum Directorate's prize for improved oil recovery (IOR) in 2004. According to the NPD, extensive use of innovative drilling technology, new wells and phasing-in of satellites have increased production and extended the field's producing life. Estimated recoverable reserves in the main Gullfaks field have risen from 1.3 billion barrels of oil in 1986 to 2.2 billion today, and the ambition is to exceed 2.5 billion.

Automation technician Gisle Håvard Bedin is one of 80 people associated with the laboratory at Statoil's research centre in Trondheim. A graduate of the Norwegian University of Science and Technology, this multiskilled employee has certifications for automation, electronics and mechanics.

www.statoil.com/ DARTandOSC

www.statoil.com/ geosimulator

www.statoil.com/ CTour-technology

carrying out well workovers via a wireline linking the subsea well with a surface vessel. Statoil carried out four LWIs in 2004, with cost savings of around 50 per cent compared with using a conventional rig. A big expansion in the use of LWI is expected in 2005.

New treatment technology

Major challenges are presented by discharges of produced water to the sea from production platforms. A new treatment technology developed by Statoil in cooperation with Rogaland Research has yielded very good results. The basic principle of this CTour solution is to "wash" produced water with condensate (light oil) taken from the platform processing plant. CTour represents an important contribution to reaching the target of zero harmful discharges to the sea. The first unit of this kind was installed on Statfjord C in 2004, and new plants are due to be placed on the other Statfjord platforms during 2005.

The group responsible for developing CTour won the chief executive's HSE prize in December 2004.

More oil from Norne

A programme is being pursued on the Norne field in the Norwegian Sea to encourage bacteria to multiply in the reservoir. That in turn makes it easier to drain the oil, and thereby substantially improves oil recovery. The process involves stimulating bacterial growth by injecting water mixed with nutrients and oxygen. This action is expected to improve recovery by more than 28 million barrels, or 14 per cent of estimated recoverable oil in the field at the end of 2003.

SBL helped oil discovery

Seabed logging (SBL) is a very promising exploration technology developed by Statoil and based on a simple concept. Electromagnetic waves are transmitted beneath the seabed, and their echoes recorded. The unique feature of SBL is its ability to distinguish between hydrocarbons and water in a reservoir. This cannot be done with traditional seismic surveys based on sound waves.

The Linerle discovery north-east of Norne is one of several prospects on the NCS where SBL was carried out in 2004. After an extensive work programme, the survey results provided good indications that oil was present at the planned drilling site. The well proved an oil column 20 metres thick, confirming the SBL data acquired in advance.

SBL is in the early stages of development. As with all new technology, integrating its findings with other data – such as seismic and information from other relevant wells – is important. Statoil plans to make extensive use of this solution in the future.

Commercialisation of new technology

SBL began as an idea at Statoil's research centre in Trondheim during 1997. In 2002, the group established the Electromagnetic Geoservices company (EMGS) to develop the concept into a commercial product. EMGS was sold by Statoil in 2004. The history of this company provides a good illustration of the group's work on developing new technological solutions into commercial products and services.

Statoil invests NOK 200-300 million annually in company start-ups. Important priority areas in 2004 included water and gas treatment technology and solutions for gas transport and industrial use.

Statoil Innovation

A programme has been developed for commercialising inventions by Statoil's own personnel.

A new subsea template is readied for transport to the Snøhvit field. Statoil operates 250 seabed wells on the NCS, and ranks as a world leader for subsea production.

Through the Statoil Innovation subsidiary, the group helps employees to start up technology companies and continue developing ideas.

Statoil Innovation provides capital and knowledge of business management and economics. The group confines its ownership interest to the early phases of development and commercialisation. As companies grow, the point is reached where it becomes appropriate for Statoil to withdraw and allow other players to continue their development. At 31 December, Statoil Innovation had created six companies providing 80 jobs.

Supplier development programme

The supplier development programme (LUP) was established by Statoil in 1991 to support creative ideas being developed by small and medium-sized companies. A total of 15-20 projects receive annual support from the LUP. Since the programme began, 40 companies providing 300-400 jobs have been started up. Seventeen projects were being pursued at 31 December, with 10 new ventures begun in 2004 and 11 completed.

New energy

Statoil's new energy unit is responsible for commercial opportunities opened up by the increased attention and commitment being devoted to sustainable development. The unit develops business opportunities and makes strategic investments in selected areas relating to the application of electricity and hydrogen, which are becoming increasingly important energy carriers.

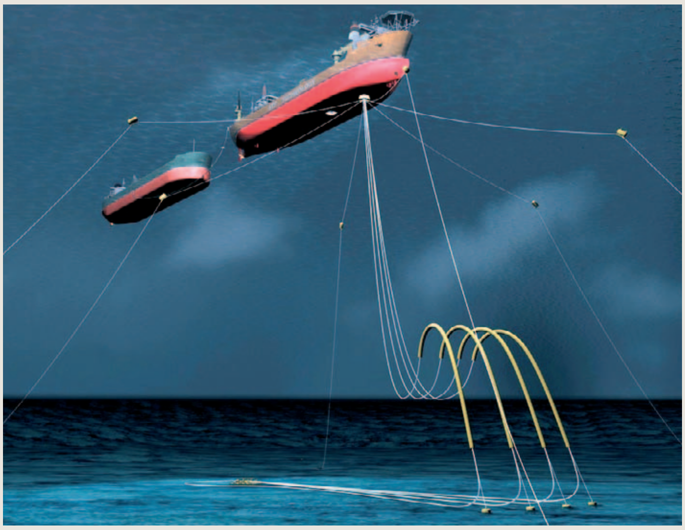
These commercial involvements are of a kind which allows Statoil to apply expertise from oil and gas operations to the new business activity. Key areas are carbon dioxide management, hydrogen as an energy carrier, renewable energy and solutions for improved energy efficiency.

www.statoil.com/lup

www.statoil.com/newenergy

Sold innovation company ALP

The group sold Advanced Production and Loading AS (APL) in 2004. Founded by Statoil in 1993, this company developed into a leading supplier of technology solutions for producing and loading oil at sea. After a decade, APL had 100 employees and an annual turnover of roughly NOK 500 million. Ninety per cent of its revenues derived from international operations.



The Kristin platform ready for tow-out from the Aker Kvaerner yard at Stord, south of Bergen. With extreme pressure and temperature conditions, the Kristin development is a good example of operator Statoil's expertise in reservoir management and subsea technology.

People and society

Statoil revised its values and leadership principles in 2004 with the aim of making its values base clearer. A company cannot decide whether to have a culture, but can choose to work systematically towards the one it wants. The group's values base specifies the culture it is seeking to create. To achieve good commercial results over time, Statoil depends on competent and motivated employees.

www.statoil.com/we_in_statoil

The values base helps to influence the development of a good working environment and a strong corporate culture with the characteristics described by the values. These are imaginative, hands-on, professional, truthful and caring.

If Statoil is to succeed in developing a strong shared corporate culture, its managers must demonstrate a correlation between words and actions. The group's values base and requirements for unified practice are the cornerstones of its management training programmes.

Roughly 400 managers participated in various development programmes during 2004, and 48 management teams pursued their own arrangements for collective development. A three-day introductory programme was introduced in the first quarter of 2004 for externally-recruited managers and specialists.

Recruitment

Statoil ASA has Norway's largest apprenticeship scheme, and maintains a high and stable level in training skilled workers. It took on 128 apprentices in 2004, compared with 111 in 2003. Statoil currently has 251 apprentices at 23 different training sites.

A scheme has also been established which allows Statoil employees to secure a skill certification by documenting adequate and relevant practical and theoretical experience approved by the Vocational Training Board. Being certified as a crane operator is proving popular, with more than 100 employees having indicated their interest.

Statoil established a corporate trainee programme in 2001. By providing structured career paths, this scheme will meet part of the group's long-term requirements for expertise in selected disciplines. Since its launch, about 20-25 trainees have taken the programme every year. Most are graduate engineers and economists, and the trend is for several of them to have been educated outside Norway. The 2004 intake was evenly split between men and women. Statoil's trainee programme has been rated as the most popular among Norwegian students. The group has also been assessed as the most attractive employer for eight years in a row by technology undergraduates and for three years in a row by economics students.

Equal opportunities

Work on equal opportunities forms an important part of Statoil's human resources policy. That applies particularly to recruitment, expertise and career development, and to pay and working conditions. Women currently account for 27 per cent of the parent company's

Statoil's values and leadership principles, set out in the *We in Statoil* booklet, were revised in 2004.

Both talented young soccer players and the Norwegian women's A team are sponsored by Statoil. These two girls concentrating fiercely on their game attended the group's soccer academy in the summer of 2004. Staged in Kristiansund on the west Norwegian coast, this programme gave 50 girls and boys aged 14-18 the opportunity to train with well-known footballer Ole Gunnar Solskjær.

workforce. Twenty-six per cent of managers in the Statoil group are female. This proportion varies somewhat between the various business areas, and is higher among younger managers. It is 35 per cent for managers aged 45 or below. Statoil has special development programmes for managers, and the proportion of female participants has been stable at around 30 per cent in recent years.

Women account for 18 per cent of the group's skilled workers, and this share is set to rise. Twenty-nine per cent of such personnel recruited by the parent company in 2004 were female. The average basic pay of skilled women workers was rather lower than for men in equivalent jobs, because the latter have longer experience on average, which has an effect in a pay system based on standard rates.

www.statoil.com/hse

Statoil is a knowledge-based company, where more than half of the workforce have a college or university education. Women are relatively well-represented in technical disciplines. Nineteen per cent of staff engineers are female, and their average pay is 98.5 per cent of the corresponding figure for their male colleagues. This differential primarily reflects length of experience. Women with up to 20 years of experience account for 29 per cent of staff engineers and earn the same as males in equivalent posts.

Employees in Statoil ASA are remunerated in accordance with their position, competence and performance. In the annual pay awards for individual employees, Statoil also applies the principle of equal pay for work of equal value.

As a general rule, all permanent parent company employees are employed on a full-time basis but the company can grant a temporary reduction in working hours. Women account for the majority of applicants for such reductions. The group has arrangements such as flexible working hours and teleworking when the nature of the job makes this possible without causing particular inconvenience for the business. Employees on maternity leave maintain their relative salary grade during their leave. Statoil meets the difference between state maternity benefits and actual pay received from the group.

Women in Statoil 2004:

- 27% of parent company employees
- 26% of managerial positions in the group
- 29% of parent company apprentices
- 31% of new parent company recruits

Occupational health and the working environment

A good working environment is important for the individual employee and crucial if the group is to meet its targets. Statoil believes that high standards for occupational health and the working environment have a positive impact on behaviour and attitudes. That results in greater efficiency and good operational regularity, which has a positive effect on total value creation by society.

What employees think of performance in this area emerges from the annual working environment and organisation survey, which has been conducted since 1986. Results from this poll are anonymous and cannot be traced back to individual respondents. The response rate has been 85 per cent in recent years.

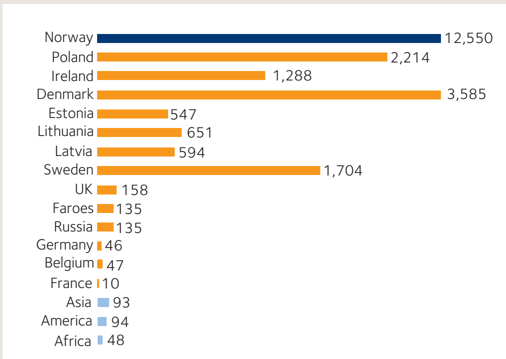
Findings from the 2004 survey show that Statoil has a good working environment, with employees able to apply their expertise and experience in their job.

Inclusive workplace

Statoil concluded an agreement in 2002 with Norway's National Insurance Service on seeking to create a more inclusive workplace. This programme is based on the view that both physical and mental health benefit from being in work, and that the workplace is an important arena for solving health problems and overcoming disability. All entities in the group are required to monitor employees who take sick leave. The group will also facilitate conditions for older personnel and

At 31 December 2004 Statoil had 23,899 employees, an increase of 4,573 from the previous year. This is primarily due to the group's acquisition of ICA's holding in retailer Statoil Detaljhandel Skandinavia. Of Statoil's employees, 47 per cent work outside Norway.

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES IN SELECTED COUNTRIES/CONTINENTS (AT 31 DECEMBER 2004)



employees with disabilities so that as many of them as possible can work until they reach their agreed retirement age.

Sickness absence in Statoil (3.2 per cent in 2004) is lower than Norway's national average. Its Swedish subsidiary reduced such absences by 25 per cent in 2004. This decline reflects systematic follow-up of sick employees. The subsidiary was named Sweden's best workplace for 2004, in competition with 1,300 companies.

Safety

Three people lost their lives during 2004 while working for Statoil. These fatal accidents happened in the phases six-eight of Iran's South Pars development, and the deceased were employed by contractors doing work for the project. Their deaths underline the need for Statoil to cooperate closely with its contractors to improve safety for everyone working for the group. The safe behaviour programme was initiated in 2003 to embrace both our own employees and contractor personnel.

The zero mindset remains central in Statoil's safety efforts, with the aim being to avoid accidents which threaten life, health, the environment and material assets.

The total recordable injury frequency for 2004 was 5.9, while the serious incident frequency was 3.2. These are in line with results in 2003. Statoil is confident that future developments will improve, and that its systematic and thorough safety work will yield results.

Social responsibility

Statoil has worked purposefully over several years to turn its attitude towards social responsibility into specific action, and the group's long-term goal is to entrench such responsibility in the business. Important advances were made in 2004 through the establishment of more formal requirements for conducting impact assessments and for assessing non-technical risks in the group's projects. Statoil also continued its efforts to identify those areas where it faces the biggest challenges and where it has the greatest opportunities to exert influence. These areas are local spin-offs, transparency and human rights. The group will develop local plans in 2005 for specific measures to create positive spin-offs and contribute to transparency and greater respect for human rights.

Human rights

Statoil operates in a number of countries which present human rights challenges. It accordingly works purposefully on ways of taking the best possible care of such rights in its business.

The group pursues an extensive dialogue with other companies and organisations on human rights issues. Through its membership of the UN's Global Compact on the principles for responsible business conduct and the Nordic Global Compact network, Statoil can both learn from and influence other companies. It has also joined the Business Leaders' Initiative on Human Rights as a representative for the energy sector. This embraces 10 international companies from various sectors which have undertaken to share experience on human rights. Statoil has a collaboration agreement with Amnesty International Norway, and is in dialogue with other human rights organisations. Moreover, human rights play a key role in Statoil's agreement with the UN Development Programme (UNDP).

Social investment

As part of Statoil's of its social responsibility, the group supports development projects in countries in which it has operations. USD 6.5 million was devoted to such projects in 2004. Statoil has invested USD 2.5 million in the World Bank's Community Development Carbon Fund, which supports small-scale projects to reduce greenhouse gas emissions in developing countries while providing social benefits for the local community. In connection with the Asian tsunami disaster, Statoil donated NOK 11.5 million to its partner, the Norwegian Red Cross.

Statoil's sustainability report contains more details on the group and its employees, finance and effects, health, safety and the environment and social responsibility.

Statoil used 22,500 suppliers in 80 countries during 2004.

The environment

Statoil's objective is to operate without harm to people or the environment. Its environmental ambition is to be among the front runners in pursuing its business in an acceptable manner. The group works purposefully and continuously to improve its performance.

www.statoil.com/hse

www.statoil.com/snohvit

Emissions to the air are largely regulated by international agreements. The Kyoto protocol on reducing greenhouse gas emissions and the Gothenburg protocol, involving commitments to cut emissions of nitrogen and sulphur oxides as well as volatile organic compounds (VOC), are particularly important for Statoil's business.

Discharges of oil and chemicals in the north-eastern Atlantic are regulated by the Oslo-Paris (Ospar) convention. The oil content in produced water released to the sea must not exceed 30 milligrams per litre from 2006, when the total annual volume of oil discharged must be 15 per cent lower than in 2000.

Stricter standards

Norwegian government regulations require oil and gas installations to have "zero discharges" by 31 December 2005. Defined in White Paper 25 of 2002-03, this concept involves ceasing or significantly cutting the release of defined environmental toxins, and a substantial reduction in the risk of harm from using and discharging chemicals. The European Union's integrated pollution prevention and control (IPPC) directive also applies to operations in Norway, and calls for the use of the best available techniques to reduce emissions/discharges.

Emissions and environmental impact

Producing oil and gas involves emissions and discharges to the natural environment. Their level is influenced by each field's reservoir conditions and age as well as the design, technology and operational regularity of its installations. Emissions relating to oil and gas processing depend on the type of feedstock involved and the products being produced.

Emissions to the air include carbon dioxide, methane, VOC, and sulphur and nitrogen oxides. These contribute to the greenhouse effect, the formation of ground level ozone and acid precipitation. Offshore operations account for the bulk of Statoil's carbon dioxide and nitrogen oxide emissions, while refining is responsible for most of the sulphur dioxide released by the group.

Increased water production

Discharges to the sea embrace oil, organic compounds and chemicals, and derive principally

The Snøhvit project is the first development in the Barents Sea and Finnmark county. This poses special requirements to health, safety and the environment (HSE). Particular emphasis has been put on safety and the environment in designing the technical solutions.

from produced water and drilling. Possible harmful environmental effects relate particularly to compounds which are slow to degrade and are highly toxic or have a potential for bio-accumulation.

Operations on the NCS are the biggest source of Statoil's discharges to the sea. The volume of produced water released is rising because several of the large oil fields are in a late phase. Statoil's offshore and land-based activities generate waste. Emphasis is given to recovering and recycling the latter, with hazardous waste being treated in line with prevailing legislation.

www.statoil.com/hse

Environment-friendlier production

Continuous efforts are being made to reduce emissions to the air and discharges to the sea through research and the development of ever better technology, effective emergency response and good management based on extensive risk assessments. The aim is continuous improvement through enhanced energy efficiency and other focused measures on existing and future installations.

Discharges to the sea are attracting particular attention. Work has been devoted to developing new technological solutions and to phasing out chemicals which represent a possible hazard to the environment. Statoil is well on its way to meeting government requirements for zero harmful discharges from its oil and gas fields by 2005. A key tool in this respect is the development of a new treatment technology called CTour.

Managing chemicals remained an important priority area in 2004. Chemicals released from Statoil's offshore operations declined from 59,500 tonnes in 2003 to 53,600 tonnes. Of chemicals used in 2004, 85 per cent (2003: 86 per cent) posed little or no environmental risk while 15 per cent (2003: 13 per cent) had acceptable environmental properties. Only 0.3 per cent (2003: 0.6 per cent) were potentially harmful to the environment.

Environmental monitoring

The condition of the environment around Statoil's installations is monitored through regular programmes. Environmental monitoring covers both water quality and seabed sediments, and shows a satisfactory trend.

The group is working to reach its goal for reducing annual greenhouse gas emissions from the facilities it operators. This calls for 1.5 million tonnes of carbon dioxide to be trimmed from the annual volume of greenhouse gases released by 2010, compared with the amount which would have been emitted without special measures. At 31 December 2004, 26 per cent of the 2010 target had been met.

Statoil supports the Kyoto protocol as the first step towards a more far-reaching international agreement, and the introduction of emission trading as an instrument for limiting the release of greenhouse gases in a cost-effective manner. The group has made the necessary preparations for utilising the Kyoto mechanisms and is participating in emission trading in order to meet future requirements for lower greenhouse gas emissions. Through investments of USD 10 million and USD 2.5 million respectively in the World Bank's Prototype Carbon Fund and Community Development Carbon Fund, it is involved in roughly 60 projects which will yield substantial emission reductions.

Preserving biological diversity is crucial for sustainable development. Statoil's goal is to protect such diversity by conserving natural ecosystems, avoiding the introduction of alien species and seeking not to affect the level of

Statoil's tanker shipments did not give rise to significant oil or chemical spills in 2004. The group transported more than 100 million tonnes of crude oil and refined products by sea.

plant and animal populations through its operations. Statoil participates in a broad collaboration with other companies and environmental organisations to preserve biodiversity.

Strict transport requirements

More than 100 million tonnes of hydrocarbons were shipped by tanker from fields, terminals and refineries to customers worldwide, with the main activity in northern Europe. Tanker operations in 2004 caused no significant oil or chemical spills.

Road tankers belonging to Statoil or hired by the group covered about 49 million kilometres in 2004 delivering products to service stations and customers. Carbon dioxide emissions relating to these consignments are estimated at some 46,500 tonnes, or roughly 0.5 per cent of the total carbon dioxide released from Statoil operations.

Safety and environmental performance are important in selecting road tankers. Key measures include a high carrying capacity to reduce the number of consignments, modern engine technology with lower fumes, optimal route planning through good navigation systems, and using diesel oils with good environmental properties.

Products better adapted to the environment

Statoil produces and sells a number of products, such as crude oil, natural gas, automotive fuels, heating oils, methanol, wood pellets, chemicals, lubricating oils and electricity. Its objective is that these commodities will rank among the best for technical user qualities and environmental properties.

Burning oil and gas products can have a negative impact on the environment locally, regionally and globally. Emissions per unit of energy produced have been substantially reduced in recent years through cleaner products and improved engine and treatment technologies.

The group has also introduced a more environment-friendly heating oil in Scandinavia, with a reduced sulphur content and additives which keep furnaces clean throughout the year. This cuts consumption and reduces emissions.

Further investment to increase production of sulphur-free diesel oil was made at the Kalundborg refinery during 2004. All petrol and diesel oil now delivered to the Scandinavian market from this facility and the Mongstad refinery are now virtually sulphur-free.

Biofuels reduce emissions

Using automotive biofuels cuts greenhouse gas emissions. Statoil sells petrol containing bioethanol and diesel with rapeseed oil on the Swedish market. The group is steadily increasing deliveries of renewable energy through the production and sale of wood pellets made from forest industry waste. This product provides an alternative to heating oil, natural gas and electricity.

Investments and costs

A provision of NOK 18.6 billion was made at 31 December 2004 to meet the future cost of shutting down and removing oil and gas production facilities. In this respect, NOK 1.6 billion was charged against income in 2004.

Reusing offshore installations and equipment offers financial and environmental gains. In 2004, Statoil earned NOK 48 million from the sale of surplus materials.

Annual carbon dioxide tax paid by Statoil for 2004 on emissions from the NCS totalled about NOK 774 million.

More information about Statoil and the environment can be found in the section about HSE accounting on pages 42-48, and in the section about the environment on pages 32-41 of Statoil's sustainability report.

Statoil produces and sells a wide array of products, and the intention is that these will be in the forefront for technical user qualities and environmental properties.

HSE accounting for 2004

Statoil's objective is to operate with zero harm to people or the environment, in accordance with the principles for sustainable development. The group supports the Kyoto protocol and applies the precautionary principle in the conduct of its business.

www.statoil.com/hse

Statoil's management system for health, safety and the environment (HSE) forms an integrated part of the group's total management system, and is described in its governing documents. Statoil's quality system relating to overall management and control is certified to the international ISO 9001 standard. The majority of the main operational units have now been certified in accordance with this standard and/or the environmental standard ISO 14001, and all such units are expected to be certified in the course of 2005. An overview of certified units can be found at www.statoil.com/certification.

A key element in the HSE management system is registration, reporting and assessment of relevant data. HSE performance indicators have been established to assist this work. The intention is to document quantitative developments over time and strengthen the decision-making basis for systematic and purposeful improvement efforts.

HSE data are compiled by the business units and reported to the corporate executive committee, which evaluates trends and decides whether improvement measures are required. The chief executive submits the HSE results and associated assessments to the board together with the group's quarterly financial results. These results are posted to the group's intranet and its internet site. Reference may be made to www.statoil.com/hse where quarterly HSE statistics are compiled and made easily accessible.

Statoil's three group-wide performance indicators for safety are the total recordable injury frequency, the lost-time injury frequency and the serious incident frequency. These are reported quarterly at corporate level for Statoil employees and contractors, both collectively and separately. Sickness absence is reported annually for Statoil employees.

The group-wide indicators for the environment are reported annually at corporate level, with the exception of oil spills which are reported quarterly. Indicators for the natural environment – oil spills, emissions of carbon dioxide and nitrogen oxides, energy consumption and the waste recovery factor – are reported for Statoil-operated activities. This includes the Gassled facilities at Kårstø and Kollsnes, for which Gassco is operator, while Statoil is responsible for their technical operation.

All of the group's main activities are included in the HSE accounting section. Oil spills are the only data on the natural environment included for the service stations.

Historical data include figures relating to acquired operations from the acquisition date. Correspondingly, figures relating to divested operations are included up to the divestment date.

Results

Statoil suffered three fatal accidents in 2004. One person died on 4 May following an accident on board the *Stanislav Yudin* crane barge, and two people lost their lives as a result of accidents at the Sadaf pipe yard on 3 and 11 September. All three deceased were contractor employees for the South Pars project in Iran.

These accidents have been investigated, their causes recorded and improvement measures initiated.

The HSE accounting shows the development of the performance indicators over the past five years. Use of resources, emissions and waste volumes for Statoil's largest land-based plants and operations on the NCS are shown in separate environmental overviews. See also the information on health, safety and the environment in the review of Statoil's operations (pages 36-41) and the directors' report.

More than 105 million hours worked in 2004 (including contractors) form the basis for the HSE accounting. This is an increase of 13 million hours from 2003, due mainly to increased project activity in the Exploration & Production Norway (Snøhvit), Natural Gas (KEP 2005 and Langeled) and International Exploration & Production (South Pars) business areas. Contractors handle a large proportion of the assignments for which Statoil is responsible as operator or principal enterprise.

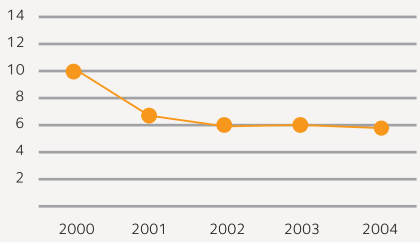
Overall, the total recordable injury frequency (covering Statoil employees and contractors) has decreased from 6.0 in 2003 to 5.9 in 2004, while the lost-time injury frequency (injuries leading to absence from work) declined from 2.6 in 2003 to 2.3 in 2004. The serious incident frequency for 2004 remains unchanged compared with 2003.

In addition to this corporate accounting, the business units prepare more specific statistics and analyses which are used in their improvement efforts.

In 2004 a fine was imposed on Statoil for an HSE-related matter. The group was fined NOK 1 million following a chemical discharge from the Heidrun platform on the Halten Bank in February 2000.

Statoil's performance indicators for HSE

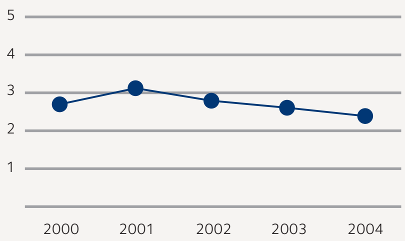
TOTAL RECORDABLE INJURY FREQUENCY



Definition: The number of fatalities, lost-time injuries, cases of alternative work necessitated by an injury and other recordable injuries, excluding first-aid injuries per million working hours.

Developments: The total recordable injury frequency (including both Statoil employees and contractors) was 5.9 in 2004, as against 6.0 in 2003. There has been an improvement for Statoil employees, from 3.7 in 2003 to 2.8 in 2004, while the result for our contractors remains unchanged in 2004 compared with 2003, at 7.9.

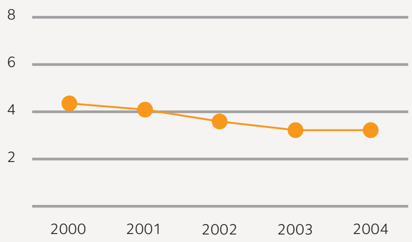
LOST-TIME INJURY FREQUENCY



Definition: The number of lost-time injuries and fatal accidents per million working hours.

Developments: The lost-time injury frequency (including both Statoil employees and contractors) improved from 2.6 in 2003 to 2.3 in 2004. This frequency has been measured since 1987 and it has never been as low as the 2004 level. There has been an improvement for Statoil employees, from 1.8 in 2003 to 1.5 in 2004. The result for our contractors shows a positive trend from 3.3 in 2003 to 2.8 in 2004.

SERIOUS INCIDENT FREQUENCY

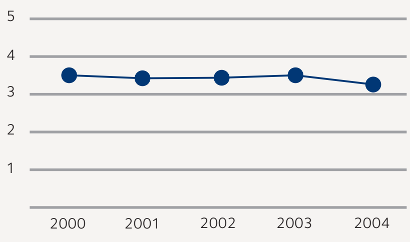


Definition: The number of incidents of a very serious nature per million working hours (1).

Developments: The serious incident frequency (including both Statoil employees and contractors) was 3.2 in 2004, the same as in 2003.

(1) An incident is an event or chain of events which has caused or could have caused injury, illness and/or damage to/loss of property, the environment or a third party. Risk matrices have been established where all undesirable incidents are categorised according to the degree of seriousness, and this forms the basis for follow-up in the form of notification, investigation, reporting, analysis, experience transfer and improvement.

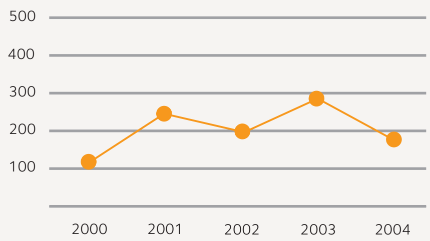
SICKNESS ABSENCE



Definition: The total number of days of sickness absence as a percentage of possible working days (Statoil employees).

Developments: Sickness absence was 3.2 per cent in 2004, as against 3.5 per cent in 2003. Sickness absence has been stable over the entire five-year period. This result is well below the Norwegian average (7.3 per cent per third quarter of 2004 as reported by Statistics Norway).

OIL SPILLS

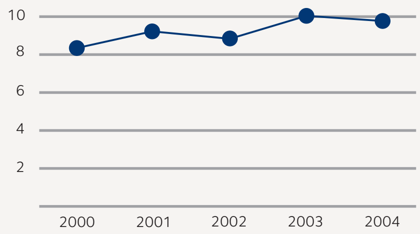


Definition: : Unintentional oil spills to the natural environment from Statoil operations (in cubic metres) (2).

Developments: The number of unintentional oil spills has declined from 542 in 2003 to 487 in 2004. The volume of unintentional spills has also decreased from 288 cubic metres in 2003 to 186 cubic metres in 2004. The figure shows the volume of oil spills in cubic metres.

(2) All unintentional oil spills are included in the figures with the exception of those collected inside a facility (platform/plant) and which accordingly cause no harm to the surrounding environment. However, such spills are included for downstream market operations.

CARBON DIOXIDE EMISSIONS

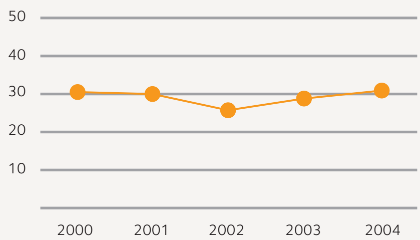


Definition: Total emissions of carbon dioxide in million tonnes from Statoil operations (3).

Developments: Carbon dioxide emissions have decreased from 10.0 million tonnes in 2003 to 9.8 million in 2004. For activities on the NCS, carbon dioxide emissions for 2004 remain unchanged compared with 2003 at 6.2 million tonnes, while there is a reduction from 2.5 million tonnes in 2003 to 2.3 million tonnes in 2004 in the Manufacturing & Marketing business area. There are only minor changes in the other business areas.

(3) Carbon dioxide emissions embrace all sources such as turbines, boilers, furnaces, engines, flares, drilling of exploration and production wells, well testing/workovers and residual emissions from the carbon dioxide separation plant for natural gas on Sleipner T. The distribution of products (by Statoil's road tankers or boats or railway) to customers (private, companies, petrol stations, airports) is included. Support services such as helicopter traffic, supply and standby ships and shuttle tankers are excluded.

NITROGEN OXIDE EMISSIONS

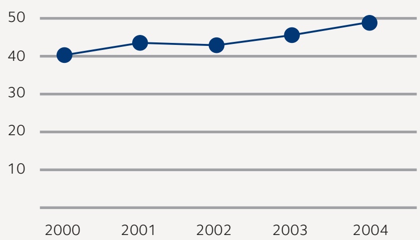


Definition: Total emissions of nitrogen oxides in thousand tonnes from Statoil operations (4).

Developments: Emissions of nitrogen oxides have increased from 29.9 thousand tonnes in 2003 to 31.1 thousand tonnes in 2004. This is mainly due to activities in Exploration & Production Norway where emissions increased from 25.4 thousand tonnes in 2003 to 27.4 thousand tonnes in 2004. There are only minor changes in the other business areas.

(4) Nitrogen oxide emissions embrace all sources such as turbines, boilers, furnaces, engines, flares, drilling of exploration and production wells and well testing/workovers. Support services such as helicopter traffic, supply and standby ships, shuttle tankers and distribution of products are excluded.

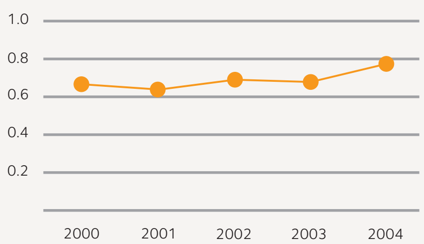
ENERGY CONSUMPTION



Definition: Total energy consumption in terawatt-hours (TWh) for Statoil operations. This includes net purchases of electricity and thermal energy (steam), energy from gas-fired and diesel-fired power generation and energy losses through flaring. Energy consumption based on the use of fossil fuels is calculated as fuel energy content.

Developments: Energy consumption has increased from 47.1 TWh in 2003 to 48.1 TWh in 2004. This is mainly due to activities in Exploration & Production Norway which had an increase of 0.6 TWh from 2003 to 2004 and Natural Gas which had an increase of 0.8 TWh, while Manufacturing & Marketing had a reduction of 0.3 TWh from 2003 to 2004. There are only minor changes in the other business areas.

WASTE RECOVERY FACTOR



Definition: The waste recovery factor comprises industrial waste from Statoil operations and represents the amount of waste for recovery in relation to the total quantity of waste (5). Hazardous waste is not included.

Developments: The recovery factor improved from 0.67 in 2003 to 0.76 in 2004. All the business areas, with the exception of Manufacturing & Marketing, have increased their recovery factor in 2004 compared with 2003.

(5)The quantity of waste for recovery is the total quantity of waste from the plant's operations which has been delivered for reuse, recycling or incineration with energy utilisation. Hazardous waste is defined by national legislation in each individual country.

Environmental data for 2004

NORWEGIAN CONTINENTAL SHELF[1)] >

ENERGY

Diesel[2)]	1,350 GWh
Electricity	18 GWh
Fuel gas	24,100 GWh
Flare gas	3,100 GWh

RAW MATERIALS[3)]

Oil/condensate	82.6 mill scm
Gas[4)]	88.6 bn scm
Water	103 mill scm

UTILITIES

Chemicals process/prodn	43,100 tonnes
Chemicals drilling/well	163,000 tonnes

OTHER

Injection water as pressure support	159 mill scm

PRODUCTS

Oil/condensate	82.6 mill scm
Gas for sale	60.3 bn scm

EMISSIONS TO AIR[5)]

CO_2	6.20 mill tonnes
nmVOC[6)]	100,000 tonnes
Methane[6)]	20,600 tonnes
NO_x	27,400 tonnes
SO_2	273 tonnes

DISCHARGES TO WATER[7)]

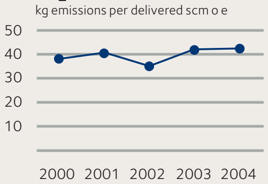
Produced water[8)]	93.3 mill scm
Oil in oily water[9)]	1,610 tonnes
Unintentional oil spills	17 m^3
Chemicals:[10)]	
Process/production	20,300 tonnes
Drilling/well	33,300 tonnes
Unintentional chemical spills	587 m^3

WASTE[11)]

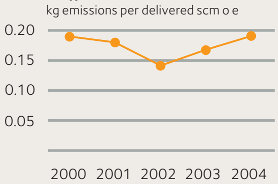
Waste for landfill	2,440 tonnes
Waste for recovery	6,630 tonnes
Recovery factor	0.73
Hazardous waste:	
Oily cuttings/mud	74,600 tonnes
Other	4,000 tonnes

1) Includes UK sector of Statfjord. Excludes the Kollsnes gas treatment plant and Snøhvit land plant
2) Represents 114,000 tonnes (t)
3) Includes 2.57 mill scm o e supplies from third party (Sigyn)
4) Includes fuel gas (2.33 bn scm), flare gas (0.26 bn scm) and injected gas for pressure support, etc (26.0 bn scm)
5) Unintentional gas emissions, calculated at 1,370 t (primarily in connection with the Snorre incident in November) are in addition
6) Includes buoy loading
7) Regulatory requirements have been met for all parameters on an annual basis. Unintentional oil spills are in addition (the goal is zero)
8) In addition, 9.2 mill scm of produced water is reinjected in the ground
9) The volume of produced water has increased, but less oil is discharged due to improved treatment (1,610 t in 2004, 1,770 t in 2003)
10) Includes 45,600 t water and green chemicals
11) Includes waste from base operations on land (1,080 t of industrial waste and 2,250 t hazardous waste)

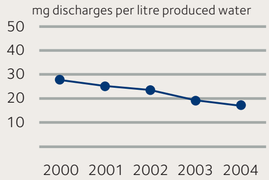
CO_2
kg emissions per delivered scm o e



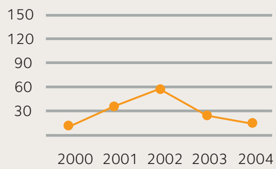
NO_x
kg emissions per delivered scm o e



OIL IN OILY WATER[9)]
mg discharges per litre produced water



OIL SPILLS
m^3



KOLLSNES GAS TREATMENT PLANT* >

ENERGY

Electricity	1,440 GWh
Fuel gas	96 GWh
Flare gas	177 GWh

RAW MATERIALS

Rich gas Troll A	21.6 bn scm
Rich gas Troll B	2.45 bn scm
Rich gas Troll C	2.45 bn scm

UTILITIES

Monoethylene glycol	967 m^3
Caustics	50 m^3
Other chemicals	25 m^3

WATER CONSUMPTION

Fresh water	55,600 m^3

PRODUCTS

Gas	28.6 bn scm
Condensate	0.84 mill scm

EMISSIONS TO AIR[1) 4)]

CO_2	50,900 tonnes
nmVOC	489 tonnes
Methane	936 tonnes
NO_x	19.3 tonnes
CO	31.2 tonnes

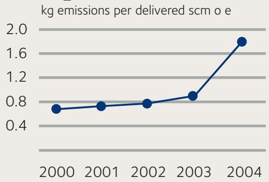
DISCHARGES TO WATER[1) 3)]

Treated water/effluent	142,000 m^3
Total organic carbon (TOC)	3.91 tonnes
Monoethylene glycol	7.66 tonnes
Methanol	1.13 tonnes
Hydrocarbons	0.05 tonnes
Ammonium	0.02 tonnes
Phenol	0.01 tonnes

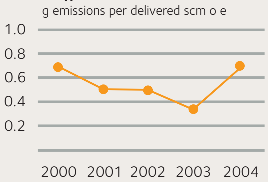
WASTE[2)]

Waste for landfill	383 tonnes
Waste for recovery	413 tonnes
Recovery factor	0.52
Hazardous waste:	
Sludge from treatment plant	85.3 tonnes
Other	1,920 tonnes

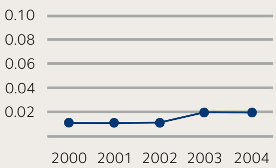
CO_2[4)]
kg emissions per delivered scm o e



NO_x[4)]
g emissions per delivered scm o e



nmVOC
kg emissions per delivered scm o e



* Gassco is operator for the plant, and Statoil is technical service provider
1) Regulatory requirements have been met for all parameters for 2004 except CO
2) Includes waste from project activities at Kollsnes
3) A five-litre diesel spill to ground, no unintentional oil spills to sea
4) Start-up and running-in of the new gas liquefaction plant in 2004 has led, among other things, to more flaring and increased CO_2, CO and NOx emissions

MONGSTAD [1]

ENERGY

Electricity	398 GWh
Fuel gas and steam	5,830 GWh
Flare gas	397 GWh

RAW MATERIALS

Crude oil	7,390,000 tonnes
Other process raw materials	2,085,000 tonnes
Blending components	168,000 tonnes

UTILITIES

Acids	552 tonnes
Caustics	1,180 tonnes
Additives	1,390 tonnes
Process chemicals	3,240 tonnes

WATER CONSUMPTION

Fresh water	3,318,000 m^3

PRODUCTS[2] 9,355,000 tonnes

Propane	Butane
Naphtha	Gas oil
Petrol	Petcoke/sulphur
Jet fuel	

EMISSIONS TO AIR[3]

CO_2	1,448,000 tonnes
nmVOC refinery	9,070 tonnes
nmVOC terminal	4,710 tonnes
Methane	2,100 tonnes
NO_x	1,690 tonnes
SO_2	1,030 tonnes

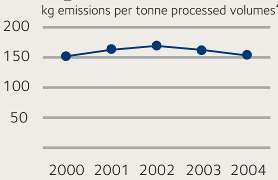
DISCHARGES TO WATER[3]

Oil in oily water	3.6 tonnes
Unintentional oil spills	0.7 m^3
Phenol	1.4 tonnes
Ammonium	34.4 tonnes

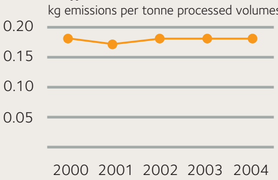
WASTE

Waste for landfill	947 tonnes
Waste for recovery	1,090 tonnes
Recovery factor	0.54
Hazardous waste	1,510 tonnes

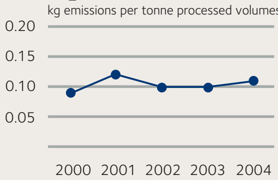
CO_2
kg emissions per tonne processed volumes[4]



NO_x
kg emissions per tonne processed volumes[4]



SO_2
kg emissions per tonne processed volumes[4]



1) Includes data for the refinery, crude oil terminal and Vestprosess facilities
2) Products delivered from the jetties
3) Regulatory requirements have been met for all parameters (including noise)
4) Processed volumes means crude oil and other process raw materials

KALUNDBORG

ENERGY

Electricity	168 GWh
Steam	71 GWh
Fuel gas and oil	2,390 GWh
Flare gas	84 GWh

RAW MATERIALS

Crude oil	4,696,000 tonnes
Other process raw materials	10,500 tonnes
Blending components	214,000 tonnes

UTILITIES

Acids	627 tonnes
Caustics	1,200 tonnes
Additives	10 tonnes
Process chemicals	506 tonnes
Ammonia (liquid)	2,010 tonnes

WATER CONSUMPTION

Fresh water	1,672,000 m^3

PRODUCTS 4,921,000 tonnes

Propane	Butane
Naphtha	Gas oil
Petrol	Fuel oil
Jet fuel	ATS (fertiliser)

EMISSIONS TO AIR[2]

CO_2	492,000 tonnes
nmVOC	2,400 tonnes
Methane	600 tonnes
NO_x	404 tonnes
SO_2	104 tonnes

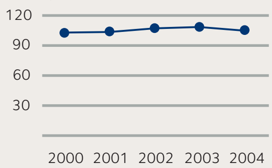
DISCHARGES TO WATER[2]

Oil in oily water	1.9 tonnes
Unintentional oil spills	11.0 m^3
Phenol	0.1 tonnes
Suspended matter	49.8 tonnes
Sulphide	0.03 tonnes
Nitrogen	21.0 tonnes

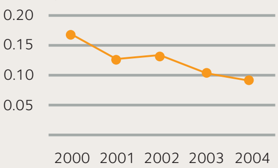
WASTE

Waste for landfill	133 tonnes
Waste for recovery	369 tonnes
Recovery factor	0.74
Hazardous waste	1,250 tonnes

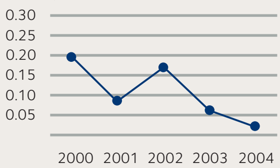
CO_2
kg emissions per tonne processed volumes[1]



NO_x
kg emissions per tonne processed volumes[1]



SO_2
kg emissions per tonne processed volumes[1]



1) Processed volumes means crude oil and other process raw materials
2) Regulatory requirements have been met for all parameters (including noise) except nitrogen

TJELDBERGODDEN

ENERGY

Diesel	1 GWh
Electricity	68 GWh
Fuel gas	1,610 GWh
Flare gas	95 GWh

RAW MATERIALS

Rich gas	456,000 tonnes
Condensate	0 tonnes

UTILITIES

Caustics	238 tonnes
Acids	67 tonnes
Other chemicals	4 tonnes

WATER CONSUMPTION

Fresh water	449,000 m^3

PRODUCTS

Methanol	848,000 tonnes
Oxygen	7,310 tonnes
Nitrogen	4,700 tonnes
Argon	11,500 tonnes
LNG	12,800 tonnes

EMISSIONS TO AIR 1)

CO_2	341,000 tonnes
nmVOC	180 tonnes
Methane	90 tonnes
NO_x	386 tonnes
SO_2	0.2 tonnes

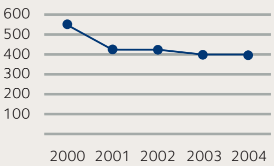
DISCHARGES TO WATER 1) 4)

Cooling water	158 mill m^3
Total organic carbon (TOC)	0.9 tonnes
Suspended matter	0.74 tonnes
Nitrogen	0.36 tonnes

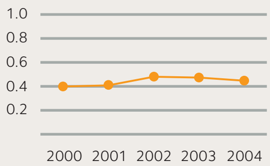
WASTE

Waste for landfill	0 tonnes
Waste for recovery	161 tonnes
Recovery factor	1.00
Hazardous waste:	
Sludge from treatment plant	191 tonnes
Other	22 tonnes

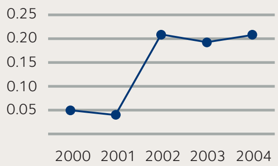
CO_2
kg emissions per tonne product (methanol+LNG) 3)



NO_x
kg emissions per tonne product (methanol+LNG)



nmVOC
kg emissions per tonne product (methanol+LNG) 2)



1) Regulatory requirements have been met for all parameters (including noise) except pH (daily concessions)
2) A new method of measuring methane and nmVOC was adopted in 2002
3) CO_2 emissions have been updated following quality assurance of calculation methods in connection with CO_2 emission permits and quotas
4) Two unintentional discharges (2.44 m^3 methanol and 0.03 m^3 diesel) are in addition

KÅRSTØ GAS PROCESSING PLANT AND TRANSPORT SYSTEMS*

ENERGY 1)

Fuel gas	5,960 GWh
Electricity bought	196 GWh
Diesel	1 GWh
Flare gas	310 GWh

RAW MATERIALS 2)

Rich gas	18.7 mill tonnes
Condensate	4.34 mill tonnes

UTILITIES/WATER CONSUMPTION

Hydrochloric acid	170 tonnes
Sodium hydroxide	126 tonnes
Ammonia	38.3 tonnes
Methanol	30 tonnes
Other chemicals	5.5 tonnes
Fresh water	1 mill m^3

PRODUCTS 6)

Lean gas	14.8 mill tonnes
Propane	2.67 mill tonnes
I-butane	0.55 mill tonnes
N-butane	1.01 mill tonnes
Naphtha	0.61 mill tonnes
Condensate	2.63 mill tonnes
Ethane	0.49 mill tonnes
Electricity sold	35 GWh

EMISSIONS TO AIR 3) 5)

CO_2	1,186,000 tonnes
nmVOC	2,610 tonnes
Methane	1,310 tonnes
NO_x	1,010 tonnes
SO_2	2.68 tonnes

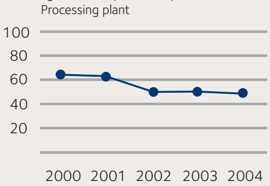
DISCHARGES TO WATER 5)

Cooling water	306 mill m^3
Treated water	0.58 mill m^3
Oil in oily water	154 kg
Unintentional oil spills	0.35 m^3
Total organic carbon (TOC)	2.3 tonnes

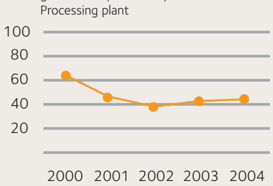
WASTE 4)

Waste for landfill	174 tonnes
Waste for recovery	2,730 tonnes
Recovery factor	0.94
Hazardous waste	337 tonnes

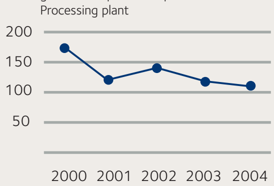
CO_2
kg emissions per tonne product
Processing plant



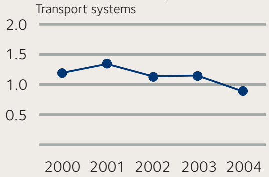
NO_x
g emissions per tonne product
Processing plant



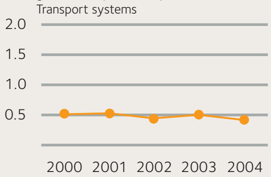
nmVOC
g emissions per tonne product
Processing plant



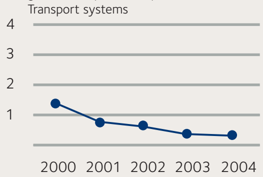
CO_2
kg emissions per tonne product
Transport systems



NO_x
g emissions per tonne product
Transport systems



nmVOC
g emissions per tonne product
Transport systems



* Gassco is operator for the facilities, and Statoil is technical service provider
1) Incl energy consumption for transport systems: 247 GWh fuel gas
2) Excl gas transport by transport systems: 70.7 mill tonnes
3) Incl emissions from transport systems: 61,700 tonnes CO_2, 31 tonnes NOx, 17 tonnes nmVOC, 151 tonnes methane and 60 kg SO_2
4) Incl waste from transport systems: 20 tonnes for landfill, 101 tonnes for recovery and 21.6 tonnes hazardous waste
5) Regulatory requirements have been met for all parameters (incl noise) for 2004
6) Products from the processing plant

Report from Ernst & Young AS

Assurance report with reasonable assurance level

To the stakeholders of Statoil ASA

Scope of engagement
We have been engaged by the corporate executive committee of Statoil to express an independent opinion on the health, safety and environment (HSE) accounting for Statoil ASA in 2004, as presented in the annual report and accounts for 2004 on pages 42-48.

Our work was performed in accordance with the requirements for a reasonable assurance engagement in ISAE 3000 (approved December 2003), "Assurance engagements other than audits or reviews of historical financial information". The objective of the engagement, "to obtain reasonable assurance", relates to the quality and the extent of audit evidence we are required to gather to conclude that the HSE accounting as a whole is free of any material misstatement, and that it is reliable and sufficient.

Statoil's corporate executive committee is responsible for the HSE accounting.

Reporting criteria
In this assurance engagement, we have used Statoil's internal reporting criteria specifically developed for HSE, as described in the text on pages 42-43, together with relevant criteria in the sustainability reporting guidelines of the Global Reporting Initiative (GRI). We consider these reporting criteria to be relevant and sufficient to audit Statoil's HSE data.

Work
Our focus has been to obtain reasonable assurance that the HSE data are reliable, and that HSE performance is presented in an appropriate manner. The objective includes an investigation into:
- the acceptability and consistency of the reporting principles
- the reliability of the historical information presented in the annual report and accounts
- the completeness of the information and the sufficiency of the presentations.

Our work has included:
- discussions with the corporate management for HSE on the content of the HSE accounting
- site visits to 10 reporting entities, selected by Ernst & Young (selection is based on a rotation principle, together with an evaluation of the entity's nature, significance and specific risks). During site visits we have interviewed managers and personnel who assist in collecting the figures for the HSE accounting
- testing a selection of data to verify that figures from the various reporting entities have been correctly incorporated in the HSE accounts, and overall analyses of the figures compared with earlier reporting periods
- testing a selection of data to verify that the HSE figures presented are based on defined and consistent methods for measuring, analysing and quantifying data
- assessment of whether the overall information is presented in an appropriate manner in the HSE accounting.

Conclusions
Based on our work, we can confirm that for the HSE accounting on pages 42-48:
- Statoil has established a well-functioning management system for HSE, and continuous improvement work is actively pursued
- in our opinion, the HSE accounting deals with information on matters relating to HSE which are important from a group perspective
- this information is, in our opinion, appropriately presented in the HSE accounts
- the examined data basis is in general based on defined and consistent methods for measuring, analysing and quantifying data
- the HSE performance indicators and environmental charts are in accordance with information submitted by the various reporting entities, and illustrations of trends are in accordance with historical data.

Stavanger, 9 March 2005
ERNST & YOUNG AS

Jostein Johannessen

Jostein Johannessen
State authorised public accountant

Corporate governance

Statoil's fundamental objective is to create value for its owners through profitable operations and sustainable commercial development. Good management and control will ensure the effective use of the group's resources and the greatest possible value creation. Value created in Statoil will benefit shareholders, employees and society.

Statoil works to maintain a leading position among the world's oil and gas companies by combining good financial results with a responsibility for safety, the environment and the community. This review of Statoil's corporate governance shows how the group is managed and how the business is governed.

Governing bodies

The group's governing bodies comprise the annual general meeting, the corporate assembly and the board of directors. While working to safeguard the owners' interests, the board is also accountable to the employees, authorities, partners, suppliers, customers and the general public.

The governing principles established will ensure good management and control of the business. These principles are continuously adapted to ensure that the group's operations comply with relevant legislation but also to ensure that business is run in accordance with best practice.

Statoil puts great emphasis on exercising good corporate governance and treating shareholders equally. The group has only one class of shares and thereby equal rights for all shareholders.

Annual general meeting

The annual general meeting (AGM) is the company's highest body. All shareholders who are registered with the Norwegian Central Securities Depository (VPS) receive an invitation to the AGM. They have the right to submit proposals and may vote either directly or by proxy at the AGM which is held before the end of June each year.

The AGM approves the annual accounts, allocates the net income and resolves other important matters as stipulated in the articles of association for Statoil ASA.

The corporate assembly

The AGM elects members of the corporate assembly for a period of two years. The corporate assembly has eight shareholder-elected and four employee-elected members. The shareholder-elected members are: Anne Kathrine Slungård (chair), Wenche Meldahl (deputy chair), Kjell Bjørndalen, Kirsti Høegh Bjørneset, Erlend Grimstad, Anne Britt Norø, Asbjørn Rolstadås and Per-Inge Søreng. The employee-elected members are: Arvid Færaas, Hans M Saltveit, Åse Karin Staupe and Per Helge Ødegård.

The corporate assembly is responsible for electing the board of directors based on the recommendation of the election committee, and monitoring the work of the board and the chief executive in managing the company. The corporate assembly makes a statement to the AGM regarding the board's proposal for the accounts and takes decisions in investment matters of considerable size, and in cases of rationalisation or restructuring of the business which would involve major changes or reallocation of the workforce. The corporate assembly met four times in 2004.

Total remuneration for the members of the corporate assembly came to NOK 533,000 in 2004, with the portion received by the chair of the corporate assembly amounting to NOK 85,000.

The election committee

The duties of the election committee are to present a proposal to the AGM regarding the election of shareholder-elected members and deputies to the corporate assembly, and to present a proposal to the corporate assembly regarding the election of shareholder-elected members to the board of directors. The committee's members are elected for a period of two years and comprise the chair of the corporate assembly, a representative elected by the corporate assembly's shareholder-elected members and two representatives elected by the AGM. The election committee comprises Anne Kathrine Slungård (chair), Jens Ulltveit-Moe, Wenche Meldahl and Villa Kulild.

The board

Managing the company is a board responsibility. The board comprises the following representatives elected by the owners: Jannik Lindbæk (chair), Kaci Kullman Five (deputy chair), Finn A Hvistendahl, Grace Reksten Skaugen, Eli Sætersmoen and Knut Åm. The employee-elected directors are Lill-Heidi Bakkerud, Stein Bredal and Morten Svaan.

The board shall ensure that the business is adequately organised and is responsible for establishing control systems and ensuring that the business is run in accordance with the company's values base and ethical guidelines. It sets targets for financial structures and takes decisions on Statoil's plans and budgets. Matters of major strategic or economic significance for the business are dealt with by the board, and it is responsible for Statoil's quarterly accounts. The board determines the company's dividend policy, presents a proposal for allocation of net income to the AGM and sends out invitations to the latter.

The board appoints the chief executive. The working instructions, powers of attorney and salary for the chief executive are also determined by the board.

Statoil's corporate executive committee is not represented on the board which comprises nine members. The members of the board have no business relations with Statoil, nor do the shareholder-elected directors have other ties to the company.

The corporate assembly elects the board members, three of whom are elected among Statoil's employees. They are normally elected for two years at a time.

The board of directors held 16 meetings in 2004.

Total remuneration for the board was NOK 2,068,000 in 2004. The portion received by the chair was NOK 350,000.

The board's audit committee

The board's audit committee, which comprises the three directors Finn A Hvistendahl (chair), Morten Svaan and Eli Sætersmoen, is a sub-committee of the board and its objective is to perform more thorough assessments of specific matters.

The committee prepares cases for the board and supports the board in exercising its management and supervision responsibilities. It ensures that the requirements set in connection with the group's flotation are met. It oversees the implementation of and compliance with the group's ethical rules. The committee also reviews Statoil's external accounting reports and makes sure that the group has an independent and effective internal and external audit system.

Statoil's top management

The chief executive is responsible for the day-to-day operation of the business and submits proposals for budgets and accounts as well as important investments. In addition, the chief executive provides the board with an overview of cash flows, financial position, project progress and risk issues. The chief executive's corporate executive committee comprises chief executive Helge Lund and the executive vice presidents Terje Overvik, Margareth Øvrum, Rune Bjørnson, Peter Mellbye, Jon Arnt Jacobsen, Nina Udnes Tronstad (from 30 March 2005), Eldar Sætre, Jens R Jenssen and Reidar Gjærum (from 1 May 2005).

Remuneration

Salaries and other remuneration for the members of the corporate executive committee in 2004, including premium pension paid, amounted to NOK 25,846,000. In 2004, Statoil had three chief executive officers. Former acting chief executive officer Inge K Hansen received NOK 2,119,000 in salary and other remuneration, including performance pay for 2003, holiday pay and premium pension paid, up to his resignation on 8 March 2004. Former acting chief executive officer Erling Øverland received NOK 2,389,000 in salary and other remuneration, including performance pay for 2003, holiday pay and premium pension paid, from 8 March until his temporary position ended on 16 August.

Chief executive Helge Lund took office on 16 August and received NOK 1,936,000 in salary and other remuneration, including premium pension paid, in 2004. According to his contract, Mr Lund is entitled to severance pay equivalent to two annual salaries, in addition to a six months' period of notice, if he resigns at the request of the board. He is also entitled, on specific terms, to a pension amounting to 66 per cent of his pensionable salary from the age of 62. The full period of service is 15 years and the pension is independent of future changes in National Insurance (*Folketrygden*) payments.

The projected benefit pension obligation for Mr Lund at 31 December 2004 amounts to NOK 984,000. The projected benefit pension obligation for the chief executive and the other members of the corporate executive committee totals NOK 88,395,000.

The board will assess a bonus for the chief executive based on a total evaluation of results achieved. This bonus may amount to a maximum of 30 per cent of his basic salary. The first such assessment for Mr Lund will take place in January 2006, for the year 2005.

A performance pay system has also been established for the other members of the corporate executive committee, senior vice presidents and vice presidents. This entails a variable remuneration based on pre-defined goals. The scheme allows for a bonus of 10 per cent of basic salary on achieving set goals, with a ceiling of 20 per cent for results that clearly exceed these goals.

If resigning at the request of the company, the executive vice presidents are entitled on a general basis to 12 months' severance pay, including pay in their period of notice. Their pension scheme follows the same guidelines that apply to the other employees of Statoil ASA. If resigning at the request of the company, executive vice president Peter Mellbye is entitled to 24 months' severance pay, including pay in his period of notice. Mr Mellbye is entitled, under specific terms, to a pension of 66 per cent of his pensionable salary from the age of 60.

Executive vice presidents Eldar Sætre and Terje Overvik have interest-free loans of NOK 202,000 and NOK 305,000 respectively. These loans have been approved with a repayment period of 10 years.

In 2004, the board established a remuneration committee which will assist the board in its work with terms and conditions of employment for the chief executive, as well as principles and strategy for rewarding key leaders. The committee comprises Jannik Lindbæk (chair), Grace Reksten Skaugen and Knut Åm.

Performance pay

Statoil's 500 top managers are included in a reward system with an individual performance element which allows for a bonus of up to 20 per cent of basic salary. The system was established in 2001 to ensure that remuneration is in keeping with results achieved. The performance contracts are based on the most important corporate goals, with special emphasis on sub-targets which the individual managers are responsible for delivering. Importance is attached to ensuring consistency between the targets throughout the organisation. On the basis of the plans and requirements determined by the board, the chief executive establishes contracts with the executive vice presidents of the business areas. Further down the organisation, contracts are formed so that the targets for the members of a management team underpin their unit's targets.

Statoil has also established a bonus system which applies to all employees of the parent company. This involves an annual bonus of up to five per cent of basic salary, depending on whether the company reaches its financial targets. Separate performance pay schemes have been established for personnel in sales and trading.

Statoil has introduced a share saving plan for its employees. The scheme is described in the section on shares and shareholder matters on pages 56-57.

Social responsibility

Statoil is increasingly being asked to account for how it contributes to positive, sustainable development and the values it creates where it does business. The group issues a separate sustainability report in which social responsibility and sustainable development are treated in detail.

Risk management and internal control

Statoil operates mainly in the global crude oil market and markets for refined products and natural gas. The group is thus exposed to changes in feedstock and product prices, exchange rates and interest rate fluctuations. Statoil has devised a system which identifies, quantifies and handles different risk categories. The system for risk management is reviewed by the board's audit committee.

A committee headed by the chief financial officer is responsible for monitoring financial risk management in Statoil. This committee works throughout the group, recommending measures for exposure and risk management. Operational risk management is a line responsibility in the various business areas.

Auditor

Ernst & Young has been Statoil's external auditor since 1988. The auditor is appointed by the AGM which also determines the auditor's fees. The auditor does no work for the company which could lead to conflicts of integrity, and the board is responsible for ensuring that the auditor's independent role is maintained.

Internal auditor

Statoil's internal corporate audit function is the group's independent controlling body which monitors the business to ensure that it is subject to adequate management and control. It reports to the chief executive and to the board.

The head of corporate audit is secretary for the board's audit committee.

Number of shares at 31 December 2004

Shareholdings of directors and the corporate executive committee	
Directors	
Jannik Lindbæk (chair)	0
Lill-Heidi Bakkerud	165
Stein Bredal	245
Kaci Kullmann Five (deputy chair)	1,000
Finn A Hvistendahl	2,947
Grace Reksten Skaugen	0
Morten Svaan	410
Eli Sætersmoen	0
Knut Åm	14,594
Corporate executive committee	
Helge Lund (chief executive)	1,500
Terje Overvik	825
Margareth Øvrum	2,280
Rune Bjørnson	0
Peter Mellbye	3,250
Jon Arnt Jacobsen	1,219
Nina Udnes Tronstad	882
Eldar Sætre	990
Jens R Jenssen	500
Reidar Gjærum	814
Erling Øverland (up to 15 February 2005)	2,693

Statement on corporate governance

Statement on corporate governance as required by section 303A.11 of the New York Stock Exchange's Listed Company Manual.

Statoil ASA is incorporated under the laws of Norway and its principal trading market is the Oslo Stock Exchange (*Oslo Børs*). Statoil's American Depositary Receipts (ADRs), representing ordinary shares, are listed on the New York Stock Exchange (NYSE).

Although non-US companies like Statoil are exempt from most of the corporate governance rules of the NYSE as a "foreign private issuer", pursuant to Rule 303A.11 of the NYSE Listed Company Manual, we are required to disclose any significant differences between our corporate governance practices and the corporate governance standards applicable to US companies listed on the NYSE.

Independence

Statoil's board of directors consists of members elected by shareholders and employees, none of whom are executive officers of the company. The directors elected among Statoil's employees would not be considered "independent", as defined under NYSE Rule 303A.02, but are independent for the purposes of Rule 10A-3(b)(1) of the US Securities Exchange Act of 1934, which applies to members of the company's audit committee.

The NYSE rules require that the board of directors must affirmatively determine that each "director has no material relationship with the listed company." Statoil's board of directors has determined that, in its judgement, all of the shareholder-elected directors are independent.

Committees

NYSE rules applicable to US companies require that there be certain board committees composed of independent directors with responsibility for certain matters. In accordance with Norwegian law, managing the company is the responsibility of the board of directors. Statoil has an audit committee and a compensation committee (called remuneration committee), which are responsible for preparing certain issues for the board of directors. The committees operate pursuant to charters that are broadly comparable to the form required by the

NYSE rules. The committees report on a regular basis to and are subject to continuous oversight by the board of directors.

The membership of Statoil's audit committee includes one employee-elected director, who meets the requirements for independence under Rule 10A-3(b)(1) of the US Securities Exchange Act of 1934, but would not be considered independent for purposes of the NYSE rules. Among other things, the audit committee evaluates the qualifications and independence of the company's external auditor. However, in accordance with Norwegian law, the auditor is elected by the annual general meeting of the company's shareholders.

Statoil does not have a nominating/corporate governance committee. Instead, the roles prescribed for a nominating/corporate governance committee under the NYSE rules are principally carried out by the corporate assembly and the election committee. Statoil's corporate governance principles are developed by management and the board of directors. Oversight of the board of directors and management is carried out by the corporate assembly.

Shareholder approval of equity compensation plans

The NYSE rules require that all equity compensation plans, with limited exemptions, must be subject to shareholder vote. Although issuance of shares and authority to buy back company shares must be approved by Statoil's annual general meeting of shareholders under Norwegian company law, approval of equity compensation plans is reserved for the board of directors.

Shares and shareholder matters

Statoil aims to give shareholders a competitive return on their invested capital, so that owning shares in Statoil becomes an attractive option. Returns will be realised by a combination of rising share price and dividends.

Dividend

Statoil's objective is to pay out 45-50 per cent of its result to the shareholders, measured as an average over several years, and taking account of the industry's business cycles. In some years, the need to maintain the group's financial flexibility can mean that the level of dividend may vary, depending on the group's cash flows, financing requirements and investment plans. In the group's communication with the market, increasing emphasis has been put on stability of dividends measured in NOK per share.

A dividend of NOK 2.90 per share was paid out for 2002 and NOK 2.95 for 2003. Particularly favourable market conditions and a good financial position mean that an extraordinary dividend of NOK 2.10 per share and an ordinary dividend of NOK 3.20 per share are being proposed for 2004. The payout amounts to 45 per cent of net income in 2004.

Shareholder policy

Statoil puts emphasis on keeping the stock market and the general public well informed about developments in the group's results and future prospects.
Information to the stock market must be characterised by openness and equal treatment, with the objective of ensuring that shareholders get correct, clear, relevant and timely information to provide the basis for a correct valuation of the group. Statoil is listed in Oslo and New York and the company distributes all information relevant to the share price to the Oslo Stock Exchange, the New York Stock Exchange and the US Securities and Exchange Commission.

The share

Trading of the Statoil share increased on average in 2004 to 6.7 million shares per day, from 3.3 million per day in 2003. The investors perceive this as positive and it leads to a more effective valuation and pricing of the company.

Free flow of the Statoil share increased by 30 per cent to 23.7 per cent after the Norwegian government sold 116.8 million shares between 6 and 16 July, thus reducing its shareholding from 81.7 per cent to 76.3 per cent. A further sell-down took place between 16 and 25

The Statoil share achieved a yield of 31.4 per cent on the Oslo Stock Exchange during 2004.

February 2005. After this sell-down, the government owns 70.9 per cent of the shares in Statoil.

In 2004, medium-sized oil companies in general had very good share-price results. At the Oslo exchange the Statoil share had a return of 31.4 per cent overall during 2004, including reinvested dividend. This put us on top, also among our competitors. Investors who have bought shares on the Oslo exchange, based on the USD, have in addition benefited from developments in the exchange rate, and their figures show a high return for 2004 (see graph).

Share saving plan

In November 2004, Statoil launched a share saving plan for employees of the parent company. For 2005, roughly 60 per cent of employees have joined the plan, which involves monthly saving in Statoil shares with an annual amount of up to five per cent of basic salary. After a lock-in period of two years, the group will allocate one bonus share for every two shares bought. Employees in Norway also get a 20 per cent discount, up to a maximum of NOK 1,500.

Investor relations

The group's investor relations function maintains an active dialogue with the Norwegian and international capital markets. Investor relations holds regular presentations for investors and analysts, and is responsible for distributing and registering information to comply with the regulations applicable where Statoil's securities are listed. An internet site for investor relations at www.statoil.com/ir is the group's channel for providing information about results and news. Financial presentations are broadcast live, and reports and presentations are provided along with other relevant information. Investor relations reports to the corporate executive committee. Statoil won the class for best large and mid cap Norwegian company investor relations, and came second among Nordic companies at the IR Magazine Nordic Awards in 2004.

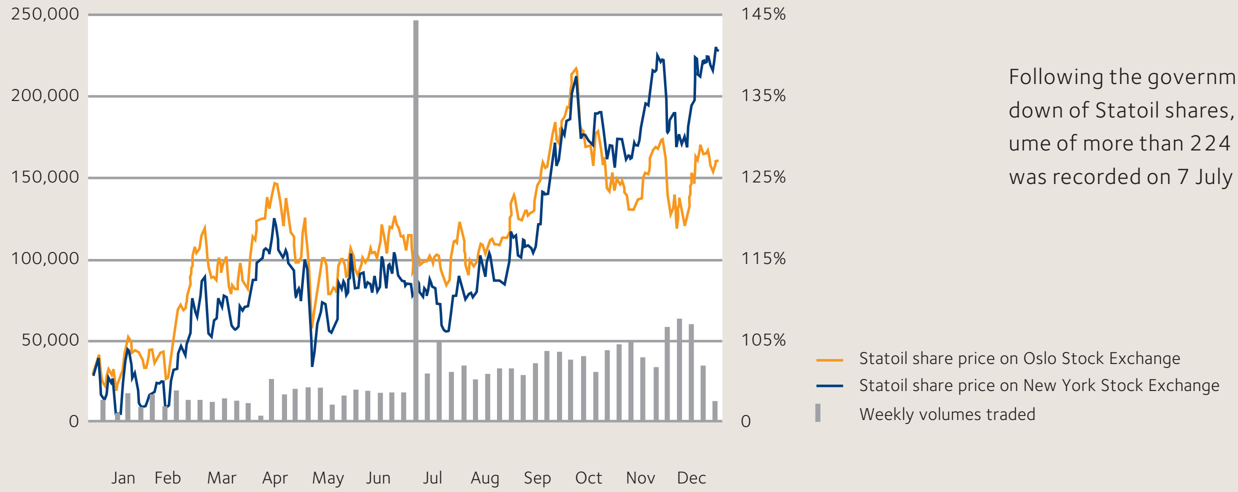
www.statoil.com/ir

Twenty largest shareholders at 31 December 2004		
1	THE NORWEGIAN GOVERNMENT	76.33%
2	STATE STREET BANK & TRUST CO.*	2.16%
3	BANK OF NEW YORK *	1.37%
4	JPMORGAN CHASE BANK *	1.28%
5	MELLON BANK AS AGENT FOR CLIENTS *	0.74%
6	SKANDINAVISKA ENSKILDA BANKEN	0.65%
7	THE NORTHERN TRUST CO.*	0.62%
8	DEUTSCHE BANK AG *	0.53%
9	SKANDINAVISKA ENSKILDA BANKEN *	0.49%
10	FOLKETRYGDFONDET	0.49%
11	INVESTORS BANK & TRUST COMPANY *	0.45%
12	JPMORGAN CHASE BANK *	0.43%
13	EUROCLEAR BANK S.A./N.V. ('BA') *	0.36%
14	MELLON BANK AS AGENT FOR ABN AMRO *	0.35%
15	STATE STREET BANK & TRUST CO.*	0.34%
16	MORGAN STANLEY & CO. INC.*	0.33%
17	VITAL FORSIKRING ASA	0.32%
18	CLEARSTREAM BANKING S.A.*	0.31%
19	THE NORTHERN TRUST CO.*	0.28%
20	GOLDMAN SACHS & CO.*	0.23%

* Nominee accounts or similar

	2004	2003	2002
Highest closing price	103.50	75.25	73.50
Lowest closing price	74.00	51.50	50.00
Closing price at 31 Dec	95.00	74.75	58.50
Number of outstanding shares – weighted average	2,166,142,636	2,166,143,693	2,165,422,239
Market value at 31 Dec (NOK bn)	208	162	127
Daily turnover (million shares)	6.7	3.3	2.9
Provisions for dividend	3.20	2.95	2.90
Extraordinary dividend	2.10	-	-
Adjustment of cost price (RISK)	3.26	2.43	2.77

RISK: Norwegian abbreviation for adjustment of original cost of shares by taxed profits. Applies only to shareholders who pay tax in Norway. Its purpose is to avoid double taxation of dividends when selling shares, in that the retained and taxed profit in a limited company is added proportionately to the original cost of the shares in the form of a RISK amount per share.



Following the government's sell-down of Statoil shares, a daily volume of more than 224 million shares was recorded on 7 July 2004.

The corporate executive committee

Helge Lund
President and CEO
Helge Lund (born 1962) has been chief executive since August 2004. Before joining Statoil, he was chief executive of Aker Kværner. He has been a political adviser to the Conservative party's parliamentary group, a consultant with McKinsey and deputy managing director of Nycomed Pharma.
Mr Lund has an MSc in business economics from the Norwegian School of Economics and Business Administration (NHH) in Bergen, and an MBA from the Insead business school in France.

Terje Overvik
Executive vice president, Exploration & Production Norway
Terje Overvik (born 1951) was previously executive vice president for Statoil's Technology entity, a position he assumed in 2002. From 1983-2002, he held a number of key posts in Exploration & Production Norway, including platform manager for Statfjord A and vice president for Statfjord operations.
Mr Overvik has a PhD in engineering from the Norwegian University of Science and Technology in Trondheim.

Margareth Øvrum
Executive vice president, Technology & Projects
Margareth Øvrum (born 1958) joined the corporate executive committee in the autumn of 2004 as executive vice president for health, safety and the environment. She has held a number of key managerial posts in Statoil and was the group's first female platform manager, on the Gulllfaks field. She has also been operations vice president for Veslefrikk and senior vice president for operations support on the NCS. Ms Øvrum is a director of Elkem and the University of Bergen, and a member of the committee of shareholders' representatives at Storebrand.
She is a graduate in technical physics from the Norwegian University of Science and Technology.

Rune Bjørnson
Executive vice president, Natural Gas
Rune Bjørnson (born 1959) was previously senior vice president for supply and transport in Natural Gas. He was managing director of Statoil's UK subsidiary from 2001-2003. Since joining Statoil in 1985, Mr Bjørnson has worked with gas market analysis and held a number of executive positions in the natural gas area.
Mr Bjørnson has an MSc in economics from the University of Bergen.

Peter Mellbye
Executive vice president, International Exploration & Production
Peter Mellbye (born 1949) was previously executive vice president for Natural Gas and has been a member of Statoil's corporate executive committee since 1992. He worked for the Ministry of Trade and the Norwegian Trade Council before joining Statoil in 1982.
Mr Mellbye is a director of Siemens, the Energy Policy Foundation of Norway and the Institut Français du Pétrole.
He has an MSc in political science from the University of Oslo.

Jon Arnt Jacobsen
Executive vice president, Manufacturing & Marketing
Jon Arnt Jacobsen (born 1957) was senior vice president for group finance in Statoil from 1998 to 2004. He came from the position of bank manager and head of the Singapore branch of Norway's DnB bank. Mr Jacobsen held various positions in the DnB banking organisation for the oil and gas industry and headed the industrial section of the bank's corporate customer division. Mr Jacobsen is a director of Mesta.
He has an MSc in business economics from the Norwegian School of Management and an MBA from the University of Wisconsin.

Nina Udnes Tronstad
Executive vice president, health, safety and the environment
Nina Udnes Tronstad (born 1959) comes from the position of operations vice president for the Kristin field.
She joined Statoil in 1983 and has had a number of managerial positions in the group, including at its Danish and Swedish subsidiaries. Ms Udnes Tronstad has management experience from Statoil's Mongstad refinery and has been vice president for information technology.
She is a chemistry graduate from the Norwegian University of Science and Technology.
Ms Udnes Tronstad is a director of Statoil Innovation.

Eldar Sætre
Chief financial officer
Eldar Sætre (born 1956) was previously acting chief financial officer, responsible for corporate control, planning and accounting, group finance, and investor relations from September 2003 to September 2004. Before this he was senior vice president for corporate control, planning and accounting in Statoil. His earlier positions included controller for Gullfaks, commercial manager for Bergen operations and controller in Exploration & Production. Mr Sætre joined the group in 1980.
He has an MSc in business economics from the Norwegian School of Economics and Business Administration.

Jens R Jenssen
Executive vice president, human resources
Jens R Jenssen (born 1953) came to Statoil in October 2004 from Aker Kværner ASA, where he was senior vice president for human resources. He has held a number of senior positions in human resources with the Aker group, and has also worked in this field in Det Norske Veritas. Mr Jenssen has worked as an independent consultant for major companies in areas such as leadership, organisational development and corporate management.
He has a degree in psychology from the University of Oslo.

Reidar Gjærum
Executive vice president, communication
Reidar Gjærum (born 1960) takes over as executive vice president for communication as of 1 May 2005. He comes from the position of executive vice president for communications and marketing in EDP Business Partner. His background is in journalism and various positions as political adviser. Mr Gjærum has also been communications director in the Confederation of Norwegian Business and Industry, director of external communications at Telenor and managing director of the JKL Woldsdal consultancy.

Directors' report 2004

The Statoil group's net income in 2004 came to NOK 24.9 billion, which is NOK 8.4 billion more than in 2003. Income before financial items, other items, tax and minority interest totalled NOK 65.1 billion, as against NOK 48.9 billion the year before. The return on average capital employed after tax was 23.5 per cent, as against 18.7 per cent in 2003. Normalised for market factors, the return on capital employed was 12.3 per cent in 2004, which exceeds the target of 12 per cent for 2004 that was presented at the time of the flotation in 2001. The board is satisfied that Statoil to a large extent met the targets that were set in 2001 for 2004.

The good result has been driven forward through high oil and gas production, among other things. Average oil and gas production totalled 1,106,000 barrels of oil equivalent (boe) per day, which is 26,000 boe per day more than in 2003. Decreased output from fields which have passed plateau production contributed to a reduction in production on the Norwegian continental shelf (NCS) in 2004. At the same time, new fields made important contributions to the total production.

At the time of the listing in 2001, Statoil presented the demanding goal that average production in 2004 should exceed 1,120,000 boe per day. Of that, 115,000 boe was to be produced internationally. The results from last year show that the group is very close to reaching the production target for 2004. The development throughout 2004 also supports the 2007 production target of 1,400,000 boe per day. This goal means an average annual growth in total oil and gas production of eight per cent in the next three years.

At the end of 2004, remaining proven oil and gas reserves amounted to 4.3 billion boe. The reserve replacement ratio was 106 per cent, compared with 99 per cent in 2003. Over the last three years the average reserve replacement ratio has been 101 per cent, while the goal set at the listing was 100 per cent.

In order to reach the group's goal of a 12 per cent normalised return on capital employed in 2004, an extensive improvement programme was initiated. The aim was to realise cost reductions and improved earnings corresponding to NOK 3.5 billion in 2004. At the end of 2004, the overall effect of the programme was NOK 3.2 billion. Lower production growth than expected in the international activities has resulted in higher unit costs than the goals in the improvement programme. This is an important reason why the target was not reached.

The board proposes that the annual general meeting allocates a dividend of NOK 5.30 per share for 2004, as against NOK 2.95 for 2003.

Statoil's strategy is based on a sound operating philosophy, and

Jannik Lindbæk, chair
Jannik Lindbæk (born 1939) has been chair of the board of directors since November 2003.
From 1976 to 1985 he was president and CEO of Storebrand. He then became chief executive of the Nordic Investment Bank. From 1994 he was executive vice president of the International Finance Corporation, a subsidiary of the World Bank Group. Mr Lindbæk has been chair of the board in Gaz de France Norge, Saga Petroleum and Den norske Bank.
He is currently chair of the board of the Bergen International Festival and Transparency International Norway, and deputy chair of DnB NOR.

the group has ambitious targets within health, safety and the environment (HSE). Unfortunately, three fatal accidents occurred in connection with Statoil's operations in 2004. The board stresses the importance of continuous improvement in the HSE results, and is closely following the group's work in this area.

Norway's National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has completed its investigation into the consultancy agreement Statoil entered into with Horton Investments in 2003, regarding business development in Iran. In June 2004 Økokrim concluded that Statoil was in violation section 276c, first paragraph (b) of the Norwegian general penal code provision relating to illegal influencing of foreign government officials, and issued a NOK 20 million fine against the group. In October 2004 the board resolved to accept the fine. This decision does not imply admission of guilt or denial of culpability. Statoil's board has acknowledged earlier that the consultancy agreement was not compatible with the group's ethical guidelines. The board has adopted extensive measures in order to prevent a similar situation from arising in the future.

The US Securities and Exchange Commission (SEC) is conducting its own inquiry into the consultancy agreement to determine whether any violations of US federal securities laws, including the Foreign Corrupt Practices Act (FCPA), have occurred. The US Department of Justice, together with the US prosecution authorities, is carrying out a criminal investigation of the affair. In September 2004 the SEC informed Statoil that a civil legal action was being considered for violation of US federal securities laws, included the FCPA. Statoil is cooperating with the US authorities in acquiring the necessary information for the investigation.

On 8 March 2004 Helge Lund was appointed as new chief executive. Acting chief executive Inge K Hansen stepped down on the same day. The board appointed executive vice president Erling Øverland as acting chief executive until Mr Lund took up his new position on 16 August 2004.

Changes in Statoil's markets

The global economic growth in 2003 continued in 2004, with important contributions from developments in the USA and China. Low interest rates and stimulation from the international economy also contributed to an increased growth in demand in Norway.

International economic recovery also resulted in a marked increase in the demand for energy. Together with international uncertainty and an increasing shortage of production capacity, this led to very high oil and gas prices in 2004. The average price of North Sea oil (Brent blend) in 2004 was USD 38.3 per barrel, which is an increase of USD 9.4 per barrel compared with the year before. As a result of a weaker dollar, the percentage increase in prices was somewhat less in NOK – from NOK 204 per barrel in 2003, to NOK 258 per barrel in 2004.

Gas prices also increased throughout 2004. The average realised gas price was NOK 1.10 per standard cubic metre (scm) as against NOK 1.02 in 2003. The market prospects for natural gas in Europe and the USA indicate that the gap between demand and domestic production will increase further. It is in Statoil's strategic interest to develop long-term sources to supply these markets. Cost-saving new technology and increasing demand in Europe also create opportunities for new supply chains for liquefied natural gas (LNG) from the Middle East and elsewhere.

The average refining margin (fluid catalytic cracker margin) rose from USD 4.4 per barrel in 2003 to USD 6.4 per barrel in 2004. The average contract price for methanol fell from EUR 226 per tonne in 2003 to EUR 213 in 2004.

Kaci Kullmann Five, deputy chair

Kaci Kullmann Five (born 1951) was elected to the board in August 2002. She was acting chair in the period 29 September-1 November 2003, and has been deputy chair since then. Ms Five is a public affairs consultant. She was a member of the Norwegian parliament from 1981 to 1997, which included a period as minister for trade and shipping from 1989 to 1990. Ms Five was head of the Norwegian Conservative Party from 1991 to 1994. She is also a member of the Norwegian Nobel Committee.

The international economic recovery and high consumer growth also provided the basis for improved market conditions for Borealis in 2004. The average petrochemical margins for Statoil were EUR 153 per tonne in 2004, compared with EUR 119 the year before.

The increase in activity throughout the year led to pressure on capacity and prices in some market segments. This applied especially to rigs and steel. Valuable exploration and production well drilling capacity was also reduced in 2004 as a result of strikes. Norwegian industry otherwise appears to have maintained its competitiveness in the main markets in which Statoil does business.

Exploration & Production Norway

Income before financial items, other items, tax and minority interest totalled NOK 51.0 billion in 2004, as against NOK 37.9 billion in 2003. This improvement primarily reflects higher oil and gas prices.

Statoil's production from the NCS averaged 991,000 boe per day in 2004, which is the same as in 2003. While oil output from mature fields in the North Sea is declining, this is offset by new fields and increased gas production.

Safe and efficient operations are a prerequisite for maintaining production and the level of activity on the NCS in the years ahead. The board will therefore follow up developments in this area.

The further development of mature fields in the North Sea continued in 2004. The Statfjord field celebrated its 25th anniversary in November. The Statfjord late life plans were submitted to the authorities at the beginning of 2005. The Statfjord late life project will provide profitable production of oil and natural gas up to 2020.

Two new Statoil operated fields came on stream on the NCS in 2004. The Alpha North satellite on Sleipner West, which was developed as a subsea field tied back to the Sleipner T platform, began production in October. Production from Kvitebjørn commenced in September. Kvitebjørn is Statoil's first development of a field with extremely high pressure and high temperature. The gas is processed in upgraded facilities and piped to Kollsnes and Mongstad. The board is pleased that both these projects have been executed according to the schedule and budget.

Statoil's reputation as development operator is affected by profitable and efficient project development in accordance with budgets and plans. The board therefore closely follows the development of the most important projects.

Through the Snøhvit LNG project, Statoil is establishing a strategic bridgehead in the Barents Sea and in the international LNG market. New technology is being applied within several areas of this project. The complexity has been underestimated and the project was not sufficiently matured when it was sanctioned in 2001. This has led to increases totalling NOK 11.8 billion in the investment budget, which is now NOK 51.3 billion. Statoil has a 33.53 per cent stake in the project. The development of the Snøhvit LNG project is demanding and will represent uncertainty right up until the field comes on stream. Production start-up is scheduled for the autumn of 2006.

The Kristin project is characterised by extremely high reservoir pressure and high temperature. Unforeseen reservoir challenges and an adjustment to the drainage solution for the project have led to a NOK 3.6 billion increase in investment costs to NOK 20.8 billion. Statoil has a 41.6 per cent share in the Kristin project. Kristin is scheduled to come on stream in October 2005.

Statoil participated in a total of six exploration and appraisal wells on the NCS during 2004, four of which resulted in discoveries. These finds were made close to existing infrastructure. Ambitions and plans for exploration activity

Knut Åm

Knut Åm (born 1944) was elected to the board in April 1999 and re-elected in June 2002. He has a degree in geological and geophysical engineering from the Norwegian University of Science and Technology and is currently an independent technology and business development consultant. Mr Åm was formerly a senior vice president in Phillips Petroleum, with responsibility for exploration and production.

He has previously held positions in the Geological Survey of Norway, the Norwegian Petroleum Directorate and Statoil, and he has been adjunct professor of geophysics at the University of Bergen.

have been adjusted upwards as a result of the awarding of new exploration acreage, among other things. An ongoing high level of exploration activity is a prerequisite in order to fulfil Statoil's long-term ambitions for operations and production on the NCS.

The board also envisages big opportunities on the NCS in a longer perspective. Statoil's activities on the NCS are in an active period which gives cause for an ambition to maintain Statoil's production level of one million boe per day beyond 2010.

International Exploration & Production

Income before financial items, other items, tax and minority interest totalled NOK 4.2 billion in 2004, as against NOK 1.8 billion the year before. This increase primarily reflects higher oil and gas prices, and strong growth in international production.

Average international oil and gas output rose from 89,000 boe per day in 2003 to 115,000 boe per day in 2004.

Development projects in Angola provided important contributions to the positive development of production in Statoil's international exploration and production activities in 2004. Statoil's equity production from Angola rose by 70 per cent throughout the year, to around 60,000 boe per day.

Statoil is operator for the development of phases six-eight of the South Pars gas and condensate field in Iran. The technical progress for the Statoil-operated activities has been good throughout 2004. Profitability in the project has been weakened in relation to the original plans and remaining commercial challenges may have a further impact on the economy of the project.

Important steps were taken with the establishment of a new international growth area in Algeria. The agreement for the acquisition of stakes in the In Salah and In Amenas gas projects in Algeria was concluded, gas deliveries from the In Salah field commenced, Statoil was awarded operatorship for the Hassi Mouina exploration block, and Statoil's office in Algeria was officially inaugurated on 27 September in the presence of the board.

The first phase of the partner-operated Azeri-Chirag-Gunashli oilfield was completed and came on stream at the beginning of 2005. The Shah Deniz gas project in the Caspian Sea is under development, and is expected to come on stream in the second half of 2006.

Statoil's business development in Russia was intensified in 2004, with special focus on the Barents Sea.

The good international results continued in 2004. The group took part in eight exploration and appraisal wells, six of which were completed by the end of the year. Finds were made in four of the wells. Exploration activity will be stepped up further in 2005.

Statoil's international strategy has laid the basis for strong production growth. The board places emphasis on maintaining the ambitions for the group's international exploration and development operations. Commercial development will be pursued with unabated strength and contribute to Statoil's long-term growth.

Natural Gas

Income before financial items, other items, tax and minority interest totalled NOK 6.8 billion in 2004, up NOK 0.8 billion from 2003. The improvement is due to increased sales volumes and higher gas prices.

Statoil's gas sales reached a historic high in 2004, with an increase from 21.1 billion cubic metres in 2003 to 25.0 billion cubic metres last year, which represents an increase of 19 per cent. Of the total gas sales in 2004, 21.0 billion cubic metres was equity gas.

Statoil entered into a five-year contract with the Dutch energy company Essent for new annual deliveries of up to 1.4 billion cubic

Finn A Hvistendahl
Finn A Hvistendahl (born 1942) was elected to the board in April 1999 and re-elected in May 2002. He has a degree in industrial chemistry from the Norwegian University of Science and Technology and is currently a business development consultant. Mr Hvistendahl has previously held senior positions in Norsk Hydro, and he was chief executive of Den norske Bank. He is chair of the board of directors of the Financial Supervisory Authority of Norway (*Kredittilsynet*) and a director of Dyno Nobel.

metres of natural gas. A one-year contract was also entered into with British Gas Trading for the delivery of one billion cubic metres in 2004/2005.

Statoil is implementing two major expansions at the Kårstø processing complex in the period 2004-2006. These projects will provide capacity to process increased gas deliveries from the Statoil operated Kristin and Kvitebjørn fields. Both projects are proceeding according to schedule and budget, but the HSE results are not satisfactory.

In 2004 Statoil established a joint venture with ConocoPhillips for the operation and maintenance of receiving terminals for Norwegian gas in Germany. This measure is part of a broader improvement programme with ambitions of achieving a 20 per cent reduction in normal operating costs by 2009.

The board is also following developments in the US gas market with interest. Last year Statoil entered into a 20-year agreement relating to the expansion of the LNG receiving terminal at Cove Point in the USA. At present there is major focus on receiving the necessary approval from the US authorities, and establishing the underlying supply chain for increased LNG export to the USA. Implementing the agreement will increase Statoil's annual supply capacity from 2.4 billion to over 10 billion cubic metres of gas.

Manufacturing & Marketing

Income before financial items, other items, tax and minority interest totalled NOK 3.9 billion in 2004, as against NOK 3.6 billion the year before. This increase is mainly due to good market conditions and high regularity for the refining area in addition to the good results achieved by the Borealis petrochemicals group. This was partly offset by the fact that Navion was no longer part of Statoil's business in 2004.

Following the acquisition of ICA/Ahold's 50 per cent interest in Statoil Detaljhandel Skandinavia AS in June 2004, Statoil now owns 100 per cent of the company. The retail activities have been consolidated into Statoil's accounts, and extensive measures are now being implemented to realise gains from a more integrated business model.

Income from other marketing activities is not satisfactory. This is chiefly due to the fact that the margins in the retailing operations are under considerable pressure. The board therefore attaches importance to intensifying the improvement work so that Manufacturing & Marketing will achieve 13 per cent normalised return on capital employed by 2007.

Borealis increased its profit considerably in 2004. This is due to improved margins in the industry as a result of consumer growth and price increases, increased volumes and good results from an extensive improvement programme. In October 2004 Borealis announced that an agreement had been entered into regarding the sale of the business in Sines in Portugal to Repsol YPF.

Technology & Projects

In September 2004 a new business area was established in order to bring together the group's technology expertise and ensure increased focus on the planning and execution of large development projects.

Due to an increasing number of development projects in Norway and internationally, the requirements to a more efficient project execution are being tightened. Focus is being specifically aimed at better planning in the early phase, parallel activities, increased standardisation and reuse, application of new technology, and closer collaboration with suppliers. The board attaches importance to this work.

Basic challenges for Statoil's technology activities include providing the conditions for efficient exploration activities, quality-oriented project development, and improved oil and gas recovery.

Statoil's results from reservoir

Grace R Skaugen

Grace R Skaugen (born 1953) was elected to the board in June 2002. She has a PhD in laser physics from the Imperial College of Science and Technology, London University, and an MBA from the Norwegian School of Management. She did postdoctoral research in the field of microelectronics at Columbia University in New York. Ms Skaugen is an independent consultant. She has previously been a director of corporate finance at Enskilda Securities, Oslo. She is a director on the boards of a number of companies, including Storebrand and Atlas Copco (Sweden).

management and improved oil recovery illustrate the potential economic value in the development and application of new technology. The board places emphasis on the importance of linking technology development closely with the group's commercial and strategic challenges.

Financial developments for the group

In 2004 total revenues for Statoil came to NOK 306.2 billion, compared with NOK 249.4 billion the year before.

Income before financial items, other items, tax and minority interest totalled NOK 65.1 billion as against NOK 48.9 billion in 2003. Net income came to NOK 24.9 billion, which is NOK 8.4 billion higher than the previous year.

Earnings per share came to NOK 11.50, as against NOK 7.64 in 2003.

Cash flow provided by operations was NOK 38.8 billion in 2004, compared with NOK 30.8 billion in 2003. This is due chiefly to higher prices and margins. Cash flow to investments in 2004 amounted to NOK 32.0 billion, as against NOK 23.2 billion in 2003.

The group's gross interest-bearing debt at 31 December 2004 was NOK 36.2 billion, as against NOK 37.3 billion in 2003. The group's debt-equity ratio, defined as net interest-bearing debt in relation to capital employed, was 19 per cent at 31 December 2004, compared with 23 per cent in 2003. The reduction is mainly due to a fall in net interest-bearing debt and an increase in capital employed.

The group had NOK 16.6 billion in bank deposits and other liquid assets at 31 December 2004, which is the same as at 31 December 2003.

At 31 December 2004, Statoil managed a portfolio of around NOK 22.5 billion in bonds, certificates and shares. Fund management by the group relates to assets in Statoil Forsikring AS (insurance), the group's liquidity reserves and Statoil's pension funds. The pension funds are not consolidated in the accounts.

Statoil uses derivative instruments to manage risks resulting from fluctuations in underlying interest rates, foreign currency exchange rates and commodity prices. Because Statoil operates in the international oil and gas markets and has significant financing requirements, it is exposed to these risks, which can affect the cost of operating, investing and financing.

The management has used and will continue to use financial and commodity-based derivative contracts to reduce the risks in overall earnings and cash flows. Derivative instruments creating essentially equal and offsetting market exposures are used to help manage some of these risks. The company also uses derivatives to establish certain positions based on market expectations although this activity is immaterial to the consolidated financial statements.

Interest and currency risks constitute significant financial risks for the Statoil group. Total exposure is managed at portfolio level in accordance with the strategies and mandates issued by the group-wide risk management programme and monitored by the corporate market risk committee. Statoil's interest rate exposure is mainly associated with the group's debt obligations and management of the assets in Statoil Forsikring AS. Statoil mainly employs interest rate swap and currency swap agreements to manage interest rate and currency exposure.

The group's financial reporting is in accordance with the US generally accepted accounting principles (USGAAP) as well as the Norwegian generally accepted accounting principles (NGAAP). Note 27 in the NGAAP accounts explains the difference between the two sets of accounts.

As required by section 3-3 of the Norwegian Accounting Act, the board confirms that the going concern assumption has been fulfilled. The accounts for 2004 have been prepared on that basis.

Stein Bredal

Stein Bredal (born 1950) joined the board as an employee-elected director in April 2000, and was re-elected in June 2002. He is a materials coordinator on the Gullfaks field and has worked for Statoil since 1985. Mr Bredal is convenor for the Confederation of Vocational Unions (YS).

Net income for the Statoil ASA parent company according to NGAAP was NOK 24.7 billion in 2004.

Last year was characterised by particularly favourable market conditions and good financial results. The board concludes that this allows for an extraordinary dividend of NOK 2.10 per share. With an ordinary dividend of NOK 3.20 per share, the board proposes that the annual general meeting allocates a total dividend of NOK 5.30 per share.

The board proposes the following allocation of net income in the parent company, Statoil ASA (in NOK million):

Provisions for dividend	11,481
Retained earnings	14,551
Reserve for valuation variances	(1,286)
Total allocated	24,746

The company's distributable equity amounts to NOK 54.1 billion.

Responsible corporate governance

The board puts great emphasis on good business management. On the owner side this is addressed through the company's board of directors, the corporate assembly and the annual general meeting. The board set up a separate audit committee in 2003 and a remuneration committee in 2004.

Two new owners' representatives in Statoil's corporate assembly were elected at the annual general meeting on 5 May 2004. Since then the corporate assembly has comprised the following representatives elected by the owners: Anne Kathrine Slungård (chair), Wenche Meldahl (deputy chair), Kjell Bjørndalen, Kirsti Høegh Bjørneset, Erlend Grimstad, Anne Britt Norø, Asbjørn Rolstadås and Per-Inge Søreng. In 2004 a new representative to the corporate assembly was elected by the employees. The employee representatives in the corporate assembly are now: Arvid Færaas, Hans M Saltveit, Åse Karin Staupe and Per Helge Ødegård.

There were no changes among the owners' representatives on the Statoil board in 2004, and the board of directors still comprises the following shareholder-elected representatives: Jannik Lindbæk (chair), Kaci Kullmann Five (deputy chair), Finn A Hvistendahl, Grace Reksten Skaugen, Eli Sætersmoen and Knut Åm. Two new representatives were elected to the Statoil board by the employees in 2004. The employee-elected directors on the board are now Lill-Heidi Bakkerud, Stein Bredal and Morten Svaan.

The audit committee is a preparatory body for the board in accounting and audit matters. The committee members are Finn A Hvistendahl (chair), Morten Svaan and Eli Sætersmoen. US regulations require that Statoil reports whether one or more of the committee members is an accounting expert as defined by the US Securities and Exchange Commission. The board has concluded that Finn A Hvistendahl has the qualities of an accounting expert as defined by the SEC.

In 2004 the board set up a remuneration committee to assist the board's work in establishing the terms and conditions of employment for Statoil's chief executive, and with principles and strategy for remunerating key leaders in Statoil. The members of the remuneration committee are: Jannik Lindbæk (chair), Grace Reksten Skaugen and Knut Åm.

A new Norwegian standard for corporate governance has been published and the board will carry out a thorough assessment of these recommendations.

A sound operating philosophy

Purposeful efforts to avoid harm to people and the environment are at the heart of Statoil's management model. Unfortunately, three people were killed in connection with the group's operations in 2004 when carrying out work for suppliers in phases six-eight of the South Pars development project in Iran. In 2003 there were two fatal accidents.

Eli Sætersmoen

Eli Sætersmoen (born 1964) was elected to the board in June 2002. She has a degree in petroleum technology from the Norwegian University of Science and Technology. Ms Sætersmoen is an independent business development and strategy consultant. She was previously chief financial officer and executive vice president in the Selvaag Group in Oslo, and has held positions in Cell Network, Orkla Securities, GE-Capital in London, McKinsey and Norsk Hydro.

On 12 July a fire broke out in the crude oil facility at Statoil's Mongstad refinery. The blaze was extinguished after two hours. Two operatives suffered minor injuries. The potential for more extensive harm was, however, considerable.

On 28 November a gas leak occurred in a well during a workover operation and led to an uncontrolled well incident on the Snorre A platform. The incident was serious, with major potential to cause harm. The gas leak did not cause a fire or explosion, and no personnel were injured. The gas flow was halted within 24 hours, but as a result of securing the well and subsequent work, production was not resumed until the end of January 2005. Measures have been initiated to prevent similar situations in the future.

Calculated per million working hours, the total recordable injury frequency (including both Statoil employees and contractors) was 5.9 in 2004, compared with 6.0 in 2003. The frequency for Statoil's own employees was reduced from 3.7 in 2003 to 2.8 in 2004, and has never been lower.

The number of lost-time injuries per million working hours has improved from 2.6 to 2.3. The number of serious incidents per million working hours in 2004 remains unchanged at 3.2. The board attaches importance to continuing unabated the ongoing work to improve safety.

A number of measures have been prepared to improve behaviour and attitudes throughout the organisation. Among the most important is the continuation of the safe behaviour programme, which covers Statoil employees and contractor personnel. The safe behaviour programme has now been extended to include the entire group, and 25,000 people are now to complete the programme.

Sickness absence fell from 3.5 per cent in 2003 to 3.2 per cent in 2004. The board takes a positive view of Statoil's successful inclusive workplace (IA) work and stresses the importance of continuing it.

Statoil works continuously to reduce the rise in greenhouse gas emissions. Total carbon dioxide emissions from Statoil-operated facilities fell from 10 million tonnes in 2003 to 9.8 million tonnes in 2004. Carbon dioxide emissions of 2.4 kilograms per boe from the Kvitebjørn field make Statoil a world-leader for carbon dioxide emissions per produced unit. At the same time, the group has worked purposefully for future reductions of greenhouse gases through emission trading.

In accordance with the authorities' requirements, the group is pursuing its plan to achieve zero harmful discharges to the sea by the end of 2005. The Barents Sea has been reopened, with even stricter environmental requirements in the area. Statoil will meet these requirements, while at the same time ensuring compliance with the group's principles of zero harm to the environment and co-existence with the fishing industry.

Social commitment

The board attaches importance to the management of Statoil's operations according to the triple bottom line – economic performance, environmental impact and effect on society. Giving consideration to sustainable development and social responsibility is an important element in Statoil's management model.

In order to increase the internal awareness of sustainable development, Statoil implemented two group-wide programmes with focus on ethics and social responsibility, and safety. In the wake of the so-called Horton affair, Statoil has developed an improvement programme with special emphasis on strengthening vigilance regarding ethical and corruption-related matters. This programme includes the establishing of ethical committees in the business areas, sharpened focus on training, and more transparency in the group's procurement and decision-making processes.

Lill-Heidi Bakkerud
Lill-Heidi Bakkerud (born 1963) joined the board as an employee-elected director in June 2004. She has also served in this position in an earlier period. Ms Bakkerud is a full-time union official for the Norwegian Oil and Petrochemical Workers Union (Nopef). She is a qualified process/chemistry technician and has previously worked at the petrochemical complex in Bamble, south of Oslo, and on the Gullfaks field.

In February 2005 Statoil was found guilty of violating competition regulations in Sweden in 1999 and was fined SEK 50 million. The board is satisfied that the necessary measures have been put in place to prevent similar occurrences in future.

In 2004 the group also continued the work to improve the understanding of the impact of the operations on society and the environment. Progress was made in reducing discharges to the sea, and the chief executive's HSE prize for 2004 was awarded to an interdisciplinary team comprising Statoil and contractor personnel for a project within this area. In line with Statoil's international growth, more resources were allocated to contribute to a sustainable development in the group's host communities.

The board is pleased with the recognition Statoil has received from the Dow Jones sustainability index for its work in this area. The board is convinced that good results in the triple bottom line can help to increase access to new resources in demanding areas.

Statoil is a knowledge-based company in which over half of the employees have a college or university education, and further development of expertise is important.

Twenty-seven per cent of Statoil employees are women, and equal opportunities work has an important place in the group. Of the group's managers, 26 per cent are women. The proportion of managers under the age of 45 is 35 per cent. Statoil has separate development programmes for managers, and the proportion of female participants in recent years has remained stable at around 30 per cent.

Statoil has long prioritised the recruitment of female skilled workers. Women represent 18 per cent of our skilled workers. Among the newly-recruited skilled workers in 2004, 29 per cent were women. On average, the female skilled workers have a slightly lower basic salary than their male counterparts. This is due to the fact that on average the men have a longer length of service than the women.

Employees of Statoil ASA are remunerated in accordance with their position, skills and results. In the annual individual pay awards, Statoil also applies the principle of equal pay for work of equal value.

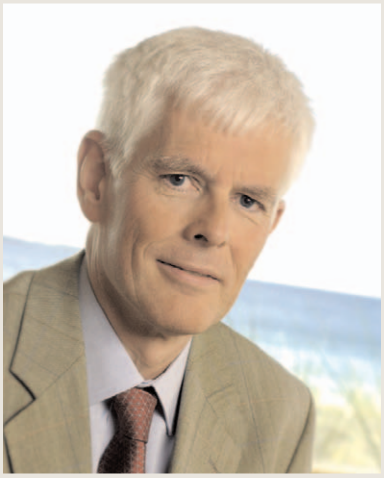
Further development of the group

Strong market positions, a focused strategy and a robust performance have played an important role in Statoil's positive development in recent years. Together with skilled employees, unambiguous values and a strong industrial and technological platform, this forms a solid basis for the further development of the group. At the same time, it is important to stress that the group's operations and strategies are adapted to the community at large and prospects that reflect considerable uncertainty.

In 2004 Statoil revised its values and leadership principles in order to make its values base clearer. The values and principles stated in the document *We in Statoil* will provide guidance for dealing with challenges and development of customer relations. Overall, this will help to strengthen Statoil's competitive position.

A dynamic environment and tougher international competition highlight the importance of a solid foundation for leadership and control. The board attaches importance to ensuring that results and performance in the short and medium term remain high on the management's agenda at all times. Purposeful development of the organisation and leadership are also important in order to meet the group's long-term objectives. At the same time, Statoil's reputation must be maintained through good relations between the group and the rest of society.

A review of the business plan and strategy in the autumn of 2004 concluded in adjusting operational and financial targets for



Morten Svaan
Morten Svaan (born 1956) joined the board as an employee-elected director in June 2004. He has been convenor for the Norwegian Society of Chartered Technical and Scientific Professionals (Nif/Tekna) from 2000 to 2004. Mr Svaan has a PhD from the Norwegian University of Science and Technology and a bachelor degree in business from the Norwegian School of Management. He has worked for Statoil since 1985 and is currently a project manager within health, safety and the environment in the Technology & Projects business area.

2007. Statoil's oil and gas output will be increased to 1.4 million boe per day. This means an average annual production growth of eight per cent in the next three-year period. The 2007 goal for normalised return on capital employed is 13 per cent. The board emphasises that this represents a competitive combination of growth and return on capital employed in the short and medium term.

Statoil's strategy aims to achieve long-term profitable growth. The production profile is being actively adapted in order to ensure a long-term development of the group. It is necessary to revitalise the NCS in order to secure the current level of production for as long as possible. It will also be important to develop existing and new positions in order to continue the growth in international production beyond 2007.

Organic growth will remain central to the further development of the group. At the same time, Statoil is facing considerable changes in the industrial arena, with tougher competition for limited oil and gas resources. The board will therefore continuously assess non-organic measures. A prerequisite for such initiatives is that they underpin the group's strategy, while contributing to value creation for the group's owners.

The board emphasises that the results achieved in 2004 provide a good point of departure for the further development of the group. The ambitions have been stepped up, the objectives have been raised and a new improvement programme has been initiated. Experiences with performance management in Statoil are good, and the system will be continued. Statoil is therefore in a good position to assert itself amid intensified international competition.

Oslo, 9 March 2005

THE BOARD OF DIRECTORS OF STATOIL ASA

JANNIK LINDBÆK
CHAIR

STEIN BREDAL

LILL-HEIDI BAKKERUD

MORTEN SVAAN

KACI KULLMANN FIVE
DEPUTY CHAIR

FINN A HVISTENDAHL

GRACE R SKAUGEN

ELI SÆTERSMOEN

KNUT ÅM

HELGE LUND
PRESIDENT AND CEO

Operating and financial review and prospects

You should read the following discussion of our financial condition and results of operations in connection with our audited financial statements and relevant notes and the other information contained elsewhere in this annual report.

Overview of our results of operations

In the year ended 31 December 2004, we had total revenues of NOK 306.2 billion and net income of NOK 24.9 billion. In the year ended 31 December 2004, we produced 263 million barrels of oil and 22.1 bcm (781 bcf) of natural gas, resulting in a total production of 402 million boe. Our proven reserves as of 31 December 2004, consisted of 1.7 billion barrels of crude oil and natural gas liquids (NGL) and 408 bcm (14.4 tcf) of natural gas, resulting in a total of 4.3 billion boe.

We divide our operations into the following four principal business areas (called segments in this operating and financial review):

- Exploration & Production Norway (E&P Norway), which includes our exploration, development and production operations relating to crude oil and natural gas on the Norwegian continental shelf (NCS)
- International Exploration & Production (International E&P), which includes all of our exploration, development and production operations relating to crude oil and natural gas outside of Norway
- Natural Gas, which is responsible for the processing, transport and sales of natural gas from our upstream operations on the NCS, from our upstream operations in the UK, as well as third-party natural gas and sales of natural gas on behalf of the Norwegian state's direct financial interest (SDFI). From 1 January 2004 Natural Gas is responsible for certain of our international mid- and downstream activities
- Manufacturing & Marketing, which comprises downstream activities including sales and trading of crude oil, NGL and refined products, refining, methanol production and sales, retail and industrial marketing and petrochemical operations through our 50 per cent interest in Borealis. Manufacturing & Marketing sells Statoil equity oil volumes, third-party oil volumes and SDFI oil volumes.

Portfolio changes

We engage in portfolio management in order to optimise the value of our asset portfolio. This has resulted in the restructuring of our asset portfolio both in Norway and internationally. The list below summarises important acquisitions and dispositions that have taken place in the past years.

- **Several ownership interest adjustments, primarily on the NCS**
- **Acquisition of ownership interests in the two Algerian fields In Salah and In Amenas**
- **Sale of our E&P operations off Denmark, including the Siri field**
- **Sale of our shares in the German natural gas merchant company Verbundnetz Gas AG (VNG)**
- **Entering into an LNG regasification capacity contract at Cove Point and in the planned Cove Point expansion project**
- **Acquisition of the 50 per cent share of Statoil Detaljhandel Skandinavia (SDS) from ICA/Ahold**
- **Sale of the shipping activity in Navion, and the subsequent sales of our 50 per cent share in the shipowning company Partsrederiet West Navigator DA and the multipurpose vessel *MST Odin*.**

Factors affecting our results of operations

Our results of operations substantially depend on:

- the level of crude oil and natural gas contract prices
- trends in the exchange rate between the USD, in which the trading price of crude oil is generally stated and to which natural gas prices are frequently related, and NOK, in which our accounts are reported and a substantial portion of our costs are incurred
- our oil and natural gas production volumes, which in turn depend on available petroleum reserves, and our own as well as our partners' expertise and cooperation in recovering oil and natural gas from those reserves.

Our results will also be affected by trends in the international oil industry, including:

- possible actions by the Norwegian government, or possible or continued actions by members of the Organisation of Petroleum Exporting Countries (Opec) affecting price levels and volumes
- increasing competition for exploration opportunities and operatorships
- deregulation of the natural gas markets, which may cause substantial changes to the existing market structures and to the overall level and volatility of prices.

The following table shows the yearly average crude oil trading prices, natural gas contract prices and the NOK/USD exchange rates for 2002, 2003 and 2004.

	2002	2003	2004
Crude oil (USD/bbl Brent blend)	25.0	28.8	38.3
Natural gas(1) (NOK per scm)	0.95	1.02	1.10
NOK/USD average daily exchange rate	7.97	7.08	6.74

(1) From the Norwegian continental shelf.

The table below illustrates how certain changes in the crude oil price, natural gas contract prices, refining margins and the NOK/USD exchange rate may impact our income before financial items, other items, income taxes and minority interest and our net income assuming activity at levels achieved in 2004.

Sensitivities on 2004 results

The sensitivities on our financial results shown in the table would differ from those that would actually appear in our consolidated financial statements because our consolidated financial statements would also reflect the effect on proven reserves, and consequently on depreciation, depletion and amortisation, trading margins in the Natural Gas and Manufacturing & Marketing business segments, our exploration expenditures, development and exploration success rate, inflation, potential tax system changes, and the effect of any hedging programmes in place.

Our oil and gas price hedging activities are designed to assist our long-term strategic development and attainment of targets by protecting financial flexibility and cash flow, allowing the corporation to be able to undertake profitable projects and acquisitions and avoiding forced divestments during periods of adverse market conditions. For the oil price, we entered into a downside protection structure for some of our production, reducing price risk below USD 18 per barrel for 2002 and below USD 16 per barrel for 2003. No such protection was entered into for 2004, but we have entered into downside protection for prices below USD 18 per barrel for some of our production for the last three quarters of 2005. For 2005, approximately 20 per cent of the refining margin was hedged to reflect our view of the markets.

Fluctuating foreign exchange rates can have a significant impact on our operating results. Our revenues and cash flows are mainly denominated in or driven by USD, while our operating expenses and income taxes payable accrue to a large extent in NOK. We seek to manage this currency mismatch by issuing or swapping long-term debt into USD. This debt policy is an integrated part of our total risk management programme. We are also engaging in foreign currency hedging to cover our non-USD needs, which are primarily in NOK. We manage the risk arising from our interest rate exposures through the use of interest rate derivatives, primarily interest rate swaps, based on a benchmark for the interest reset profile of our total loan portfolio. See —Liquidity and capital resources—Risk management. In general, an increase in the value of the USD against the NOK can be expected to increase our reported earnings. However, because currently our debt outstanding is in USD, the benefit to Statoil would be offset in the near term by an increase in the value of our debt, which would be recorded in net income. A decrease in the exchange rate would have an opposite effect, and hence cause decreased earnings, which would be offset by financial income in the near term. See —Liquidity and capital resources—Risk management.

Statoil markets and sells the Norwegian state's share of oil and natural gas production from the NCS. Amounts payable to the Norwegian state for these purchases are included as Accounts payable - related parties in the consolidated balance sheets. Pricing of the crude oil is based on market reflective prices. NGL prices are based on either achieved prices, market value or market reflective prices.

Statoil is, in its own name, but for the Norwegian state's account and risk, selling the state's natural gas production. This sale, as well as related expenses refunded by the state, are shown net in Statoil's financial statements. Refunds include expenses incurred related to activities and investments necessary to obtain market access and to optimise the profit from sale of natural gas. For sales of the Norwegian state's natural gas, both to us and to third parties, the payment to the Norwegian state is based on either achieved prices, a net back formula or market value. However, Statoil purchases a small share of the Norwegian state's gas.

Total purchases of oil and NGL from the Norwegian state by Statoil amounted to NOK 81,487 million (319 mmboe), NOK 68,479 million (336 mmboe), and NOK 72,298 million (374 mmboe), in 2004, 2003 and 2002, respectively. Purchases of natural gas from the Norwegian state amounted to NOK 237 million, NOK 255 million and NOK 119 million in 2004, 2003 and 2002, respectively.

Like all producers on the NCS, we pay a royalty to the Norwegian state for NCS oil produced from fields approved for development prior to 1 January 1986. Oil fields in our portfolio that paid royalty in 2004 are Gullfaks and Oseberg. Statfjord paid royalty until the end of 2002. The fields from which royalty was paid together represented approximately 24 per cent, 16 per cent and 13 per cent of our total NCS production in 2002, 2003 and 2004 respectively. The royalty is paid in kind by delivery of petroleum or purchased at a calculated market price, and varied in 2004 from two per cent to three per cent of the total oil production from the fields. We include the costs of purchase and the proceeds from the sale of the royalty oil, which we resell or refine, in our Cost of goods sold and Sales revenue, respectively. No royalty is paid from fields approved for development on or after 1 January 1986. Royalty obligations from Gullfaks and Oseberg will be abolished by the end of 2005.

Historically, our revenues have largely been generated from the production of oil and natural gas from the NCS. Norway imposes a 78 per cent marginal tax rate on income from offshore oil and natural gas activities. Our earnings volatility is moderated as a result of the significant amount of our Norwegian offshore income that is subject to a 78 per cent tax rate in profitable periods and the significant tax assets generated by our Norwegian offshore operations in any loss-making periods. A prevailing part of the taxes we pay are paid to the Norwegian state. In June 2001, the Storting (the Norwegian parliament) enacted certain changes in the taxation of petroleum operations. From 1 January 2004, dividends received are not subject to tax in Norway. Exemptions

(in NOK billion)	Change in income before financial items, other items, income taxes and minority interest	Change in net income
Oil price (+/- USD 1/bbl)	1.8	0.5
Gas price (+/- NOK 0.1/scm)	2.1	0.5
Refining margins (+/- USD 1/bbl)	0.7	0.4
US dollar exchange rate impact on revenues and costs (+/- NOK 0.50)	4.7	1.4
US dollar exchange rate impact on financial debt (+/- NOK 0.50)(1)	n/a	1.5

(1) The USD exchange rate impact on financial debt has an opposite effect on net income than the USD exchange rate impact on revenues and costs.

exist for dividends from low-tax countries or portfolio investments outside the EEA.

Combined results of operations

The table below shows certain income statement data, expressed in each case as a percentage of total revenues.

Years ended 31 December 2004, 2003 and 2002

Sales. Statoil markets and sells the Norwegian state's share of oil and natural gas production from the NCS. All purchases and sales of SDFI oil production are recorded as Cost of goods sold and Sales, respectively.

All oil received by the Norwegian state as royalty in kind from fields on the NCS is purchased by Statoil. Statoil includes the costs of purchase and proceeds from the sale of this royalty oil in its Cost of goods sold and Sales respectively.

Our sales revenue totalled NOK 303.8 billion in 2004, compared to NOK 248.5 billion in 2003 and NOK 242.2 billion in 2002.

The 22 per cent increase in sales revenues from 2003 to 2004 was mainly due to 25 per cent increase in the average oil price measured in NOK and eight per cent increased realised prices of our natural gas sold to the European markets measured in NOK, as well as increased sales of equity natural gas. The oil price of the group is a volume-weighted average of the segment prices of oil and NGL, including a margin for oil trading and sales of NOK 0.70 per boe. The increase in our ownership of SDS to 100 per cent contributed approximately NOK 5 billion in increased sales revenues. Increased prices and higher volumes in the downstream activity also contributed to the increased sales revenues in 2004 compared to 2003. The increase in sales revenues is partly offset by the reduction of oil volumes sold, reducing revenues by NOK 6.4 billion, mainly related to volumes sold on behalf of the SDFI.

Our average daily oil production (lifting) decreased from 737,500 barrels in 2003 to 712,600 barrels in 2004. The three per cent decrease in average daily oil production from 2003 to 2004 was primarily due to lower production from declining fields including Statfjord, Norne and Lufeng. Some operational difficulties and the well incident at Snorre reduced regularity of production somewhat in 2004 compared to 2003. This reduction was partly offset by production from the Kizomba A field coming on stream in the fourth quarter of 2004. At the end of 2004, we were in an underlift position of approximately 12,000 boe per day compared to an underlift position of approximately 9,000 boe per day in 2003.

Our average daily oil production (lifting) decreased from 748,200 barrels in 2002 to 737,500 barrels in 2003. The one per cent decrease in average daily oil production from 2002 to 2003 was primarily due to lower production from declining fields including Statfjord, Sleipner East, Norne and Lufeng. Some operational difficulties at Snorre, Gullfaks, Visund and Åsgard reduced regularity of production somewhat in 2003 compared to 2002. This reduction was partly offset by production from new fields Xikomba, Jasmim and Fram West coming on stream in the fourth quarter of 2003, as well as increased production from the fields Sincor in Venezuela and Girassol in Angola and Sigyn coming on stream in the fourth quarter of 2002. At the end of 2003, we were in an underlift position of approximately 9,000 boe per day compared to a minor underlift position in 2002.

Our natural gas volumes sold of Statoil produced natural gas were 22.1 bcm (782 bcf) in 2004, 19.3 bcm (683 bcf) in 2003 and 18.8 bcm (666 bcf) in 2002. Natural gas volumes increased primarily due to an increase in long-term contracted natural gas volumes to continental Europe as well as an increase in short-term sales, mainly to the UK. Natural gas volumes in 2004 also include natural gas from the International E&P business segment, mainly from the Algerian field, In Salah, which commenced production in July 2004.

We record revenues from sales of production based on lifted volumes. The term "production" as used in this section means lifted volumes. Overlifting and underlifting positions are a result of Statoil lifting either a higher or a lower volume of oil within the period than that represented by our total production of entitlement volumes in that period.

		Year ended 31 December	
	2004	2003	2002
Consolidated statements of income			
Revenues:			
Sales	99.3%	99.7%	99.2%
Equity in net income of affiliates	0.2%	0.2%	0.4%
Other income	0.5%	0.1%	0.4%
Total revenues	100%	100%	100%
Expenses:			
Cost of goods sold	60.7%	60.0%	61.5%
Operating expenses	11.6%	10.7%	8.9%
Selling, general and administrative expenses	2.2%	2.2%	2.1%
Depreciation, depletion and amortisation	6.9%	6.5%	5.7%
Exploration expenses	0.9%	1.0%	0.6%
Total expenses before financial items	82.3%	80.4%	78.7%
Income before financial items, other items, income taxes and minority interest	17.7%	19.6%	21.3%

Equity in net income (loss) of affiliates. Equity in net income (loss) of affiliates principally includes our 50 per cent equity interest in Borealis, our 50 per cent equity interest in Statoil Detaljhandel Skandinavia (SDS), which was increased to 100 per cent in July 2004, our 50 per cent equity interest in the drill ship *West Navigator*, which was sold in 2004 and miscellaneous other affiliates. Our share of Equity in net income of affiliates was NOK 1.2 billion in 2004, NOK 0.6 billion in 2003 and NOK 0.4 billion in 2002. The increase from 2003 to 2004 was primarily due to an increased contribution from Borealis, as a result of increased margins and volumes. The increase from 2002 to 2003 was mainly a result of the increased contribution from Borealis and miscellaneous interests related to the natural gas business.

Other income. Other income was NOK 1.3 billion in 2004, NOK 0.2 billion in 2003 and NOK 1.3 billion in 2002. The NOK 1.3 billion income in 2004 is mainly related to the sale of our shares in Verbundnetz Gas (VNG), sales of our shares in the technology companies Electro Magnetic Geo Services AS (EMGS) and Advanced Production and Loading AS (APL) and sales of a portion of our ownership interest in the Kristin and Mikkel fields on the NCS. The NOK 0.2 billion income in 2003 is mainly related to the sale of Navion. The NOK 1.3 billion income in 2002 is primarily related to the gain on the sale of the E&P operations off Denmark, including the Siri and Lulita fields.

Cost of goods sold. Our cost of goods sold includes the cost of the SDFI oil and NGL production that we purchase from the Norwegian state pursuant to the owner's instruction. See —Factors affecting our results of operations above for more information.

Cost of goods sold increased to NOK 188.2 billion in 2004 from NOK 149.6 billion in 2003 and NOK 147.9 billion in 2002.

The 26 per cent increase in 2004 compared to 2003 was mainly due to increased oil prices measured in NOK. This was partly offset by reduced oil volumes purchased from the SDFI.

The one per cent increase in 2003 compared to 2002 was mainly due to increased oil prices measured in NOK. This was partly offset by the 11 per cent weakening of the NOK/USD exchange rate, as well as reduced volumes purchased from the SDFI.

Operating expenses. Our operating expenses include production costs in fields and transport systems related to our share of oil and natural gas production. Operating expenses in 2004 were NOK 27.4 billion, compared to NOK 26.7 billion in 2003 and NOK 28.3 billion in 2002. The increase from 2003 to 2004 was primarily due to the consolidation of SDS into Statoil's accounts, which affects comparisons between years. The six per cent decrease from 2002 to 2003 was mainly related to the absence of Navion shipping activities, which were sold in 2003, as well as reduced processing costs.

Selling, general and administrative expenses. Our selling, general and administrative expenses include costs related to the selling and marketing of our products, including business development costs, payroll and employee benefits. Our selling, general and administrative expenses were NOK 6.3 billion in 2004, compared to NOK 5.5 billion in 2003 and NOK 5.3 billion in 2002.

The increase from 2003 to 2004 was mainly due to SDS being consolidated into the group's accounts, which affects comparisons between years. Insurance premiums increased in 2004 compared to 2003, but were partly offset by reduced rig accruals.

The increase from 2002 to 2003 was primarily due to increased spending in the Manufacturing & Marketing businesses as compared to 2002, mainly due to expansion of the retail network into Poland and the Baltic states. This was partly offset by a reduction in business development spending in International E&P. The rig provisions increased by NOK 0.4 billion during 2003, most of which affected selling, general and administrative expenses. This is NOK 0.2 billion higher than the provisions made for such losses in 2002.

Over the period 1998-2004 we provided approximately NOK 1.4 billion for the anticipated reduction in market value of company exposed fixed-price mobile drilling rig contracts. At 31 December 2004, the remaining provision for these losses was approximately NOK 0.4 billion based on our assumptions regarding our own utilisation of the rigs and the rate and duration at which we could sublet these rigs in the Norwegian market to third parties and the development of the NOK/USD exchange rate. These assumptions reflect management judgement and were reassessed based on the most current information as of the end of the year 2004. The provision for future losses has been reduced by NOK 1.0 billion, of which NOK 0.3 billion was a realised loss.

Depreciation, depletion and amortisation expenses. Our depreciation, depletion and amortisation expenses include depreciation of production installations and transport systems, depletion of fields in production, amortisation of intangible assets and depreciation of capitalised exploration expenditures as well as write-down of impaired long-lived assets. Depreciation, depletion and amortisation expenses were NOK 17.5 billion in 2004, compared to NOK 16.3 billion in 2003 and NOK 16.8 billion in 2002.

The increase from 2003 to 2004 was mainly related to new fields coming on stream both on the NCS and internationally, write-downs of NOK 0.3 billion on some fields, and increases due to changes in the depreciation related to retirement obligations and changes due to the repeal of the Removal Grants Act as described under Other items below.

The decrease from 2002 to 2003 was mainly related to the write-down of the LL652 field in Venezuela of NOK 0.8 billion in 2002, while the 2003 figure includes the NOK 0.2 billion write-down of the Dunlin field in the UK.

Exploration (in NOK million)	2004	Year ended 31 December 2003	2002
Exploration expenditure (activity)	2,507	2,445	2,466
Expensed, previously capitalised exploration costs	554	256	110
Capitalised share of current period's exploration activity	(651)	(331)	(748)
Exploration expenses	2,410	2,370	1,828

Exploration expenditures. Our exploration expenditure is capitalised to the extent our exploration efforts are deemed successful, or awaiting such determination, and is otherwise expensed. Our exploration expenses consist of the expensed portion of our current-period exploration expenditures and write-offs of exploration expenditures capitalised in prior periods. Exploration expenses were NOK 1.8 billion in 2004, NOK 2.4 billion in 2003 and NOK 2.4 billion in 2002.

The reduction of 23 per cent in exploration expense from 2003 to 2004 was mainly due to a NOK 0.4 billion increase in capitalisation of the exploration activity. Exploration expenditure capitalised in previous years but written off in 2004 was NOK 0.1 billion lower than in 2003. A total of 12 exploration and appraisal wells were completed in 2004, of which nine resulted in discoveries.

The two per cent reduction in exploration expense from 2002 to 2003 was mainly due to a lower level of exploration activity within E&P Norway, partly offset by higher exploration activity within International E&P. Exploration expenditure capitalised in previous years but written off in 2003 was NOK 0.3 billion lower than in 2002. A total of 23 exploration and appraisal wells were completed in 2003, of which 17 resulted in discoveries.

Income before financial items, other items, income taxes and minority interest. Income before financial items, other items, income taxes and minority interest totalled NOK 65.1 billion in 2004, NOK 48.9 billion in 2003, and NOK 43.1 billion in 2002.

The 33 per cent increase from 2003 to 2004 was mainly due to a 25 per cent increase in oil prices measured in NOK, increased natural gas prices measured in NOK of eight per cent, NOK 1.2 billion due to changes in the provisions relating to fixed price drilling rig contracts, as well as a two per cent increase in combined lifting of oil and natural gas. The gain from the sale of the shares in Verbundnetz Gas AG (VNG) in the first quarter of 2004 also contributed to an increase of NOK 0.6 billion in the results. Exploration costs were reduced by NOK 0.5 billion in 2004 compared to 2003, mainly because of increased capitalisation of this year's exploration activity compared to last year. Among other factors, high refinery and petrochemical margins contributed with NOK 1.3 billion in increased results in 2004 compared to 2003.

The increase in Income before financial items, other items, income taxes and minority interest in 2004 was partly offset by NOK 1.2 billion in increased depreciation and write-downs, mainly due to increased liftings, new fields coming on stream, and increased depreciation related to future removal expenditures. Accruals for increased insurance premium commitments related to damages occurred in the two mutual insurance companies in which Statoil participates and reduced results by NOK 0.4 billion. The increased contribution from downstream activities was somewhat reduced due to the loss of Navion income which amounted to NOK 0.5 billion in 2003, as well as NOK 0.3 billion in reduced contribution from the oil sales, trading and supply (O&S) business cluster in 2004 compared to 2003, which was mainly due to currency effects. Statoil Detaljhandel Skandinavia AS (SDS) was consolidated into Statoil's accounts as of July 2004 and will therefore affect comparisons between periods.

The 13 per cent increase from 2002 to 2003 was mainly related to increased oil and natural gas prices measured in NOK and higher margins in the downstream segment. Oil prices in 2003 measured in USD increased by 18 per cent compared to 2002. Measured in NOK, however, the oil price increased by five per cent, and the natural gas prices measured in NOK increased by seven per cent compared to 2002. Refining and petrochemical margins were also higher in 2003 compared to 2002, which contributed to increased contribution from downstream activities totalling NOK 1.9 billion.

Income before financial items, other items, income taxes and minority interest for 2002 included a gain of NOK 1.0 billion before tax related to the sale of the upstream activity in Denmark, partly offset by a write-down related to the LL652 field in Venezuela in 2002 of NOK 0.8 billion before tax.

In 2004, 2003 and 2002, our income before financial items, other items, income taxes and minority interest, measured as a percentage of revenues, was approximately 21 per cent, 20 per cent and 18 per cent, respectively, and was impacted by the various factors described above.

Net financial items. In 2004 we reported net financial items of NOK 5.7 billion, compared to NOK 1.4 billion in 2003 and NOK 8.2 billion in 2002. The changes from year to year resulted principally from changes in currency gains and losses on the USD portions of our long-term debt outstanding due to changes in the NOK/USD exchange rate. During 2003, the NOK strengthened by NOK 0.29, and by NOK 0.64 during 2004.

The increase in net financial items from 2003 to 2004 is mainly related to fluctuations in the NOK/USD exchange rate on both the long-term debt and short-term NOK/US dollar balances. The debt portfolio including the effect of swaps was as at year-end 2004 nearly 100 per cent held in USD.

Interest income and other financial income amounted to NOK 1.0 billion in 2004, compared to NOK 1.2 billion in 2003 and NOK 1.8 billion in 2002. The reduction is mainly due to lower interest income following the general reduction in interest rates in 2004 compared to the two previous years.

Interest costs and other financial costs amounted to NOK 0.3 billion in 2004, compared to NOK 0.9 billion in 2003. The reduced costs are mainly due to lower USD interest rates, which reduced the interest charge on the group's long-term debt, as well as shorter interest reset profiles and a reduced average NOK/USD exchange rate in 2004 compared to 2003. In 2002 Interest costs and other financial costs amounted to NOK 2.0 billion.

The result from management of the portfolio of security investments, mainly in equity securities and held by our insurance captive Statoil Forsikring AS, provided a gain in 2004 of NOK 0.5 billion in 2004, compared to a gain of NOK 0.9 billion in 2003 and a loss in 2002 of NOK 0.6 billion.

The Central Bank of Norway's closing rate for NOK/USD was 6.97 on 31 December 2002, 6.68 on 31 December 2003 and 6.04 on 31 December 2004. These exchange rates have been applied in Statoil's financial statements.

Other items. There are no Other items in 2004. The Norwegian parliament decided in June 2003 to replace grants for costs related to the removal of installations on the NCS with an equivalent tax deduction for such costs. Previously, removal costs were refunded by the Norwegian state based on a percentage of the taxes paid over the productive life of the removed installation. As a consequence of the changes in legislation, we charged the receivable of NOK 6.0 billion from the Norwegian state related to the refund of removal costs to income under Other items in the second quarter of 2003. Furthermore, the resulting deferred tax benefit of NOK 6.7 billion was recognised. As a result, the net effect on income in 2003 was NOK 0.7 billion.

Income taxes. Our effective tax rates were 64.1 per cent, 62.0 per cent and 66.9 per cent in 2004, 2003 and 2002, respectively. The tax rate in 2004 was strongly influenced by the positive tax effects due to the change in Norwegian tax legislation relating to dividends received by companies (the exemption method) of NOK 1.4 billion and the acceptance of our method of allocating office costs to be deductible under the offshore tax regime of NOK 0.4 billion. Adjusted for these non-recurring tax effects, the tax rate in 2004 would have been 66.7 per cent. In 2003, the repeal of the Removal Grants Act entailed NOK 6.7 billion being recorded as income tax and reduced deferred taxes, whereas NOK 6.0 billion was recorded as an expense under other items. Adjusted to exclude the effect of the repeal of the Removal Grants Act, the tax rate in 2003 was 67.9 per cent.

Our effective tax rate is calculated as income taxes divided by income before income taxes and minority interest. Fluctuations in the effective tax rates from year to year are principally a result of non-taxable items (permanent differences), changes in the components of income between Norwegian oil and gas production, taxed at a marginal rate of 78 per cent, other Norwegian income, including onshore portion of net financial items, taxed at 28 per cent, and income in other countries taxed at the applicable income tax rates.

Minority interest. Minority interest in net profit in 2004 was NOK 0.5 billion, compared to NOK 0.3 billion and NOK 0.2 billion in 2002. Minority interest consists primarily of Shell's 21 per cent interest in the Mongstad crude oil refinery.

Net income. Net income in 2004 was NOK 24.9 billion compared to NOK 16.6 billion in 2003 and NOK 16.8 billion in 2002 for the reasons discussed above.

Improvement programme. In 2001 Statoil specified a set of improvement efforts which at the time were deemed necessary to reach its target of return on average capital employed in 2004 of 12 per cent, based on normalised assumptions. To meet this target, Statoil determined that, among other improvements, it would need to reduce certain costs and increase revenue items by a total of NOK 3.5 billion in 2004, compared to 2001.

A number of small improvements were targeted in a large number of areas. The more significant of these improvements are outlined by business segment below. In some cases the improvements were compared against the 2001 reported levels – for example, lifted volumes or production unit cost. In other areas where improvements were targeted, it was necessary to make

assumptions about what the result may have been in 2004 if no actions had been taken - for instance, expected increase in water production by 2004. Efforts were then made to improve the performance against these base assumptions. In all cases the effect of the Algerian transaction in 2003, which was completed in 2004, has been excluded.

At the end of 2004, Statoil is satisfied that it has identified annual, sustainable improvements in both costs and revenues, which it estimates will contribute NOK 3.2 billion of improvements compared to a target of NOK 3.5 billion for 2004, and this has contributed to reaching the target of 12 per cent return on average capital employed. The main reason for not meeting the corporate target of NOK 3.5 billion relates to the fact that the International E&P segment did not achieve its targeted improvement, as described under International E&P below.

Business segments

The following table details certain financial information for our four principal business segments. In combining segment results, we eliminate inter-company sales. These include transactions recorded in connection with our oil and natural gas production in the E&P Norway or International E&P segments and also in connection with the sale, transport or refining of our oil and natural gas production in the Manufacturing & Marketing or Natural Gas segments. Our E&P Norway business segment produces oil, which it sells internally to the oil sales, trading and supply (O&S) business cluster in the Manufacturing & Marketing business segment, which then sells the oil in the market. E&P Norway also produces natural gas, which it sells internally to our Natural Gas business segment, also to be sold in the market. As a result, we have established a market price-based transfer pricing policy whereby we set an internal price at which our E&P Norway business area sells oil and natural gas to the Manufacturing & Marketing and the Natural Gas business segments.

For sales of oil from E&P Norway to Manufacturing & Marketing, the transfer price of oil is the applicable market reflective price less a margin of NOK 0.70 per barrel. The transfer price of sales of natural gas from E&P Norway to Natural Gas is NOK 0.32 per scm, adjusted quarterly by the average USD oil price over the last six months in proportion to USD 15 per barrel. The average transfer price for natural gas per standard cubic metre amounted to NOK 0.71 in 2004, NOK 0.59 in 2003 and to NOK 0.50 in 2002.

The table below sets forth certain financial information for our business segments, including inter-company eliminations for each of the years in the three-year period ending 31 December 2004.

(in million)	2002 NOK	2003 NOK	2004 NOK	2004 USD
	Year ended 31 December			
E&P Norway				
Total revenues	58,780	62,494	74,050	12,180
Income before financial items, other items, income taxes and minority interest	34,204	37,855	51,029	8,394
Long-term assets	72,931	76,468	81,629	13,427
International E&P				
Total revenues	6,769	6,615	9,765	1,606
Income before financial items, other items, income taxes and minority interest	1,129	1,781	4,188	689
Long-term assets	19,594	31,875	37,956	6,281
Natural Gas				
Revenues	24,536	25,452	33,326	5,482
Income before financial items, other items, income taxes and minority interest	6,134	6,005	6,784	1,116
Long-term assets	15,156	15,772	17,535	2,884
Manufacturing & Marketing				
Total revenues	211,152	218,642	267,177	43,948
Income before financial items, other items, income taxes and minority interest	1,637	3,555	3,921	645
Long-term assets	27,843	23,226	30,055	5,016
Other and eliminations				
Total revenues	(57,423)	(63,828)	(78,100)	(12,847)
Income before financial items, other items, income taxes and minority interest	(2)	(280)	(815)	(134)
Long-term assets	11,709	15,090	15,999	2,632
Total income before financial items, other items, income taxes and minority interest	43,102	48,916	65,107	10,709

E&P Norway

The table below sets forth certain financial and operating data regarding our E&P Norway business segment and percentage change for each of the years in the three-year period ending 31 December 2004.

Years ended 31 December 2004, 2003 and 2002

E&P Norway generated **total revenues** of NOK 74.1 billion in 2004, compared to NOK 62.5 billion in 2003 and NOK 58.8 billion in 2002.

The 18 per cent increase in revenues from 2003 to 2004 resulted primarily from a 32 per cent increase in the average oil price in USD of oil sold from E&P Norway to Manufacturing & Marketing, a 20 per cent increase in the transfer price in NOK of natural gas sold from E&P Norway to Natural Gas, and an increase in lifted volumes of natural gas. This was partly offset by a five per cent decrease in the NOK/USD exchange rate and a six per cent reduction in lifted volumes of oil.

The six per cent increase in revenues from 2002 to 2003 resulted primarily from an 18 per cent increase in the average realised crude oil price in USD and a 19 per cent increase in the transfer price in NOK of natural gas sold from E&P Norway to Natural Gas. This was partly offset by a 13 per cent decrease in the NOK/USD exchange rate and a two per cent reduction in lifted volumes of oil.

Average daily oil production (lifting) in E&P Norway decreased to 612,800 barrels in 2004 from 651,900 barrels in 2003 and from 666,700 barrels in 2002.

The six per cent decrease in average daily oil production from 2003 to 2004 was primarily due to decline on Statfjord, Norne and Troll, technical problems at Glitne throughout the year, the rig strike and lockout, and an incident at Snorre which caused a shutdown in production from late November 2004 to late January 2005. The new fields Kvitebjørn and Sleipner West Alpha North, which started production in the fourth quarter of 2004, could not fully replace the production decline from mature fields.

The two per cent decrease in average daily oil production from 2002 to 2003 was primarily due to decline from large fields like Statfjord, Sleipner East and Norne being past production plateau. The new fields Mikkel, Fram West and Vigdis Extension, which started production in the fourth quarter of 2003, could not fully replace the production decline from the mature fields.

Average daily gas production was 58.1 mmcm (2,051 mmcf) in 2004, as compared to 52.6 mmcm (1,857 mmcf) in 2003, and 50.7 mmcm (1,784 mmcf) in 2002.

The 11 per cent increase between 2003 and 2004 was primarily due to an increase in long-term contracted gas volumes and high offtake from existing contracts.

The four per cent increase between 2002 and 2003 was primarily due to an increase in long-term contracted gas volumes to continental Europe and an increase in short-term sales, mainly to the UK.

Unit production cost was USD 2.84 per boe in 2002, USD 3.10 per boe in 2003 and USD 3.34 per boe in 2004. The increase from 2003 to 2004 is due primarily to the effect of the weaker USD against the NOK since costs are primarily incurred in NOK, increased pension cost and increased cost of goods sold due to higher oil price. Production costs measured in NOK decreased from NOK 22.53 per boe in 2002 to NOK 21.93 per boe in 2003 with a slight increase to NOK 22.45 per boe in 2004.

As a part of the **improvement programme**, E&P Norway realised cost reductions and revenue improvements of NOK 1.1 billion in 2004 compared to 2001 against a target of NOK 1.2 billion. Planned measures included

	Year ended 31 December				
Income statement data (in NOK million)	**2002**	**2003**	**Change**	**2004**	**Change**
Total revenues	58,780	62,494	6%	74,050	18%
Operating, general and administrative expenses (1)	11,431	11,305	(1%)	9,863	(13%)
Depreciation, depletion and amortisation(1)	11,725	11,969	2%	12,381	3%
Exploration expense	1,420	1,365	(4%)	777	(43%)
Income before financial items, other items, income taxes and minority interest(1)	34,204	37,855	11%	51,029	35%
Oil price (USD/bbbl) (2)	24.7	29.1	18%	38.4	32%
Production (lifting):					
Oil (mbbl/day)	666.7	651.9	(2%)	612.8	(6%)
Natural gas (mmcf/day)	1,784	1,857	4%	2,051	11%)
Total production (lifting) (mboe/day)	985.5	982.4	0%	978.3	0%
Unit production (lifting) cost (USD per boe)(3)	2.84	3.10	9%	3.34	8%
Unit production (lifting) cost (NOK per boe)(3)	22.53	21.93	(3%)	22.45	2%

(1) Figures for 2002 and 2003 have been restated for the transfer of Kollsnes to Natural Gas.

(2) In 2004 the oil price of the E&P Norway business segment is a volume-weighted average of the prices of oil and NGL received by the segment. For the years 2002 and 2003 the price does not include NGL.

(3) Our unit production (lifting) cost is calculated by dividing operating costs relating to the production of oil and natural gas by total production (lifting) of petroleum in a given year.

improvements of operations and regularity on the NCS, as well as improving efficiency in logistics and onshore support. Over the same period operating costs have also been reduced by NOK 600 million and total platform throughput (oil, water and gas) has increased significantly since 2001. Handling this volume increase at the achieved production costs has added another NOK 500 million to the improvement programme.

Operating, general and administrative expenses were NOK 9.9 billion in 2004, NOK 11.3 billion in 2003 and NOK 11.4 billion in 2002. The 13 per cent decrease from 2003 to 2004 was mainly due to the reversal of rig accruals of NOK 1.0 billion in 2004 while these increased by NOK 0.4 billion in 2003, which was partly offset by a realised loss on rig accruals of NOK 0.3 billion. In addition, the platform costs were reduced by NOK 0.2 million in 2004.

Depreciation, depletion and amortisation expenses were NOK 12.4 billion in 2004, NOK 12.0 billion in 2003 and NOK 11.7 billion in 2002. The increase from 2003 to 2004 was mainly due to write-down on Murchison, depreciation of assets related to retirement obligations pursuant to the new accounting principle for removal costs, and commencement of production from the new fields Kvitebjørn and Tune in late 2004 and Fram West, Mikkel and Vigdis Extension in late 2003. This was partly offset by increased reserves, which reduce the rate of depreciation, and lower lifted oil volumes. The increase from 2002 to 2003 is mainly due to depreciation of assets related to retirement obligations pursuant to the new removal accounting principle, which increased the depreciation base, and start of production from new fields in late 2002 and 2003, namely Sigyn, Mikkel, Fram West and Vigdis Extension. This was partly offset by increased reserves and lower lifted oil volumes.

Exploration expenditure (activity) decreased both from 2003 to 2004 and from 2002 to 2003. Exploration expenditure was NOK 1.1 billion in 2004, compared to NOK 1.2 billion in 2003 and NOK 1.4 billion in 2002. The eight per cent decrease from 2003 to 2004 is mainly due to fewer wells drilled due to a lack of available rigs on the NCS. The decrease from 2002 to 2003 was mainly due to fewer identified drilling opportunities which we believed would be successful in some of the areas where we have interests in acreage, and lack of support for drilling of wells suggested by Statoil in the licences. This resulted in fewer wells being drilled in 2003 than in 2002. Exploration expenditure is expected to increase in 2005.

Exploration expense in 2004 was NOK 0.8 billion, compared to NOK 1.4 billion in both 2003 and 2002. The reduced exploration expense from 2003 to 2004 is mainly due to higher capitalised exploration in 2004 than in 2003 and lower expenditure capitalised in previous years, but written off in 2004 compared to 2003. Exploration expense in 2004 included NOK 0.1 billion written off in 2004 relating to expenditures capitalised in previous years, compared to NOK 0.3 billion of expenditure written off in 2003 and NOK 0.5 billion in 2002.

The difference in activity in 2003 and 2002 was offset by lower expenditure capitalised in previous years, but written off in 2003, compared to 2002. In

2004, six exploration and appraisal wells were completed, four of which resulted in discoveries. In addition, four extensions on production wells were completed in 2004, all of which resulted in discoveries. However these extensions were not funded by exploration expenditure. In comparison, nine exploration and appraisal wells were completed in 2003, of which six resulted in discoveries. In 2002, 15 exploration and appraisal wells were completed, of which 10 resulted in discoveries. In addition, five extensions on production wells were completed in 2002, of which four resulted in discoveries. A reconciliation of exploration expenditure to exploration expenses is shown in the table below.

Income before financial items, other items, income taxes, and minority interest for E&P Norway was NOK 51.0 billion in 2004, compared to NOK 37.9 billion in 2003 and NOK 34.2 billion in 2002. The 35 per cent increase in income from 2003 to 2004 was primarily the result of an increase in revenues due to the 26 per cent increase in the average oil price measured in NOK and a 20 per cent increase in the transfer price in NOK of natural gas. Operating expenses were reduced by 13 per cent and exploration expenses by 43 per cent, but these reductions were partly offset by a three per cent increase in depreciation, depletion and amortisation expenses.

The 11 per cent increase in income before financial items, other items, income taxes and minority interest from 2002 to 2003 was primarily the result of an increase in revenues due to the five per cent increase in the average realised oil price measured in NOK and the 19 per cent increase in the transfer price of natural gas sold from E&P Norway to Natural Gas. Operating expenses were educed by two per cent, but the reduction was offset by a two per cent increase in depreciation, depletion and amortisation expenses.

Exploration (in NOK million)	2002	2003	2004
Exploration expenditure (activity)	1,350	1,215	1,092
Expensed, previously capitalised exploration expenditure	551	256	61
Capitalised share of current period's exploration activity	(481)	(106)	(376)
Exploration expenses	**1,420**	**1,365**	**777**

International E&P

The table below sets forth certain financial and operating data regarding our International E&P business segment and percentage change for each of the years in the three-year period ending 31 December 2004.

Years ended 31 December 2004, 2003 and 2002

International E&P generated **total revenues** of NOK 9.8 billion in 2004 compared to NOK 6.6 billion in 2003 and NOK 6.8 billion in 2002.

The 48 per cent increase from 2003 to 2004 was mainly due to higher liftings contributing to an increase of NOK 1.9 billion and higher prices in USD for crude oil contributing to an increase of NOK 1.9 billion. The price effect was partly offset by an adverse currency effect of NOK 0.5 billion caused by the weakening of the USD measured against the NOK . The increase in oil prices in the International E&P segment was lower than for the group as a whole, due to negative quality price differentials compared to Brent Blend for some qualities of crude with high fuel content from International E&P assets such as Alba and Kizomba A.

The two per cent decrease from 2002 to 2003 was mainly due to the inclusion of proceeds of the NOK 1.0 billion divestment of the Denmark assets in 2002 revenues, substantially offset by higher prices for crude oil in 2003.

Average daily oil production (lifting) was 99,800 barrels per day in 2004, compared to 85,600 barrels per day in 2003 and 81,500 barrels per day in 2002. The 17 per cent increase in average daily production of oil from 2003 to 2004 came primarily from Angola, where the Kizomba A field started production in late 2004, while the Xikomba and Jasmim fields had the first full year of production during 2004. These increases were partly offset by the declining production of 4,000 boe per day from the Alba field and 1,600 boe per day from the Schiehallion field in the UK, and 1,900 boe per day from the Girassol field in Angola, due to the tie-back of Jasmim to Girassol. The Lufeng field was temporarily closed down in June 2004 but will start up again during the second quarter of 2005.

The five per cent increase in average daily production of oil from 2002 to 2003 resulted primarily from increased production of 6,500 boe per day from the Sincor field in Venezuela, 3,600 boe per day from the Girassol field in Angola and 3,000 boe per day from the Alba field in the UK. New fields coming into production in 2003 included the Caledonia field in the UK, and the Jasmim field and Xikomba field in Angola. These increases in production were partly offset by the declining production of 1,400 boe per day from the Lufeng field in China and the sales of the Siri field and Lulita field in Denmark, which contributed production of 6,600 boe per day in 2002.

Average daily natural gas production in 2004 was 2.4 mmcm per day (84 mmcf per day) compared to 0.4 mmcm per day (14 mmcf per day) in 2003 and 0.9 mmcm per day (33 mmcf per day) in 2002. The large increase from 2003 to 2004 was due to the In Salah field in Algeria coming on stream in July 2004. The 58 per cent decrease from 2002 to 2003 resulted from the Jupiter natural gas field in the UK being in decline.

Unit production cost on a 12-month average increased by 21 per cent from 2003 to 2004, primarily due to the increased operating costs on Lufeng, where the floating production vessel lease rate is linked to the oil price, and on Sincor due to a planned maintenance shutdown that takes place every third year. This compares to an increase of two per cent from 2002 to 2003, mainly due to cost increases on the UK fields measured in USD due to the changes in the GBP/USD exchange rate.

As a part of the **improvement programme**, International E&P realised NOK 0.4 billion in improvements by the end of 2004 compared to the target set in 2001

			Year ended 31 December		
Income statement data (in NOK million)	**2002(1)**	**2003(1)**	**Change**	**2004**	**Change**
Total revenues	6,769	6,615	(2%)	9,765	48%
Depreciation, depletion and amortisation	2,355	1,784	(24%)	2,215	24%
Operating, general and administrative expenses	2,294	2,045	(11%)	2,311	13%
Exploration expense	990	1,005	2%	1,051	5%
Income before financial items, other items, income taxes and minority interest	**1,129**	**1,781**	**58%**	**4,188**	**135%**
Oil price (USD/bbl) (2)	23.7	27.6	16%	35.7	29%
Operational data:					
Oil (mbbl/day)	81.5	85.6	5%	99.8	17%
Natural gas (mmcf/day)	33	14	(58%)	84	500%
Total production (lifting) (mboe/day)	87.4	88.2	1%	114.8	30%
Unit production (lifting) cost (USD per boe)(3)	3.86	3.88	2%	4.74	21%

(1) Figures for 2002 and 2003 have been restated to exclude both revenues and costs from Cove Point and other international mid- and downstream natural gas activities, which were transferred from International E&P to Natural Gas as of 1 January 2004.

(2) In 2004 the oil price for the International E&P business segment is a volume-weighted average of the prices of oil and NGL received by the segment. For the years 2002 and 2003 the price does not include NGL.

(3) Our unit production (lifting) cost is calculated by dividing operating costs relating to the production of oil and natural gas by total production (lifting) of petroleum in a given year.

Exploration (in NOK million)	2002	2003	2004
Exploration expenditure (activity)	1,156	1,230	1,374
Expensed, previously capitalised exploration expenditure	3	0	49
Capitalised share of current period's exploration activity	(169)	(225)	(372)
Exploration expenses	990	1,005	1,051

of NOK 0.85 billion. The improvement programme was based on an improved portfolio, the main elements of which were higher production and lower unit cost of production. The increased production accounts for approximately half of the realised improvement. The unit cost of production is only marginally improved from 2001. However, in our calculations, we have excluded the cost for the Lufeng field. The Lufeng unit cost is linked to the oil price, and the field was not expected to be in production in 2004 at the time the targets were set in 2001. Statoil will continue to target production cost as an area for further improvement.

Depreciation, depletion and amortisation expenses were NOK 2.2 billion in 2004, compared to NOK 1.8 billion in 2003 and NOK 2.4 billion in 2002. The 24 per cent increase in 2004 as compared to 2003 was due to increased liftings. The 24 per cent decrease in 2003 as compared to 2002 was primarily related to the NOK 0.8 billion impairment charge for writing down the LL652 field in Venezuela in 2002, partly offset by a NOK 0.2 billion write-down of the Dunlin field in the UK in 2003.

Operating, general and administrative expenses. Due to the higher lifting and higher average operating cost, operating costs increased by NOK 0.4 billion from 2003 to 2004. A NOK 0.3 billion decrease in operating cost from 2002 to 2003 was mainly due to lower administration costs and business development activities.

Exploration expenditure (activity) was NOK 1.4 billion in 2004, compared to NOK 1.2 billion in 2003 and NOK 1.2 billion in 2002. Exploration expenditure is expected to increase in 2005.

Exploration expense was NOK 1.1 billion in 2004 compared to NOK 1.0 billion in 2003 and NOK 1.0 billion in 2002. In total, six exploration and appraisal wells were completed in 2004, and as of year-end five were considered discoveries. In total, 14 exploration and appraisal wells were completed in 2003, of which 11 resulted in discoveries and remained capitalised. In total, eight exploration and appraisal wells were completed in 2002, of which seven resulted in discoveries and six remained capitalised at year-end 2003. A reconciliation of exploration expenditure to exploration expenses is shown in the table above.

Income before financial items, other items, income taxes and minority interest for International E&P in 2004 was NOK 4.2 billion compared to NOK 1.8 billion in 2003 and NOK 1.1 billion in 2002. Increased revenues were caused by higher lifting and higher prices. Decreased business development costs in 2004 compared to 2003 and a NOK 0.2 billion write-down of the Dunlin oil field in the UK in 2003 contributed on the cost side. Operating costs in total increased and depreciation, depletion and amortisation increased in 2004 compared to 2003 due to higher activity.

The oil and natural gas price development measured in USD contributed NOK 1.3 billion and decreased business development costs contributed NOK 0.1 billion in 2003 compared to 2002. In addition, there was a NOK 0.8 billion write-down of the LL652 oil field in Venezuela in 2002. The positive effects were partly offset by the net effect of asset divestments in 2002 of NOK 1.0 billion and the write-down of the Dunlin field in the UK in 2003 of NOK 0.2 billion.

Natural Gas

The table on the following page sets forth certain financial and operating data for our Natural Gas business segment and percentage change for each of the years in the three-year period ending 31 December 2004.

Years ended 31 December 2004, 2003 and 2002

Total revenues in the Natural Gas business consist mainly of gas sales derived from long-term gas sales contracts and tariff revenues from transportation and processing facilities. Natural Gas generated revenues of NOK 33.3 billion in 2004, compared to NOK 25.5 billion in 2003 and NOK 24.5 billion in 2002. The 31 per cent increase in 2004 over 2003 was mainly due to increased gas sales and higher natural gas prices measured in NOK, sale of shares in VNG, higher revenues from sales of ethane, and higher revenues from processing and transportation. The four per cent increase in 2003 over 2002 was mainly caused by an 18 per cent increase in processing and transportation revenues.

Natural gas sales were 25.0 bcm (881 bcf) in 2004, 21.1 bcm (744 bcf) in 2003 and 19.6 bcm (691 bcf) in 2002. The 18 per cent increase in gas volumes sold from 2003 to 2004 was mainly due to high customer offtake, an increase in the contracted gas sales portfolio and increased third-party gas

sales in the USA. The eight per cent increase in gas volumes sold from 2002 to 2003 was mainly caused by an increase in the gas sales contract portfolio, partially due to the start-up of delivery under the gas sales contract with the UK company Centrica. Of the total natural gas sales in 2004, Statoil produced 21.0 bcm (743 bcf). Average gas prices for our European gas sales were NOK 1.10 per scm in 2004 compared to NOK 1.02 per scm in 2003, an increase of eight per cent. The increased price is mainly due to increased prices on oil products and other competing energy sources, higher gas prices on the National Balancing Point (NBP) in the UK, and the increase in the NOK/EUR exchange rate. Natural gas from In Salah is not sold by the Natural Gas business segment, and hence Statoil's sales volumes from this field are not included in the sales reported by Natural Gas.

Some of the UK trading volumes, which in 2004 and 2003 were accounted net, meaning that the sale of such volumes is accounted for by crediting natural gas sales with the margin or spread associated with the sale, were accounted gross in 2002, meaning that the costs of such volumes were included in costs of goods sold and the total revenue generated by selling such volumes were included in natural gas sales as if the volumes had been taken into inventory. The change has no effect on income before financial items, other items, income taxes and minority interest, but affects comparisons on revenues and costs between the years.

As a part of the **improvement programme,** Natural Gas has realised cost reductions and revenue improvements of NOK 0.5 billion by the end of 2004 compared to 2001, in line with the targeted figure. The measures were related to additional gas sales, optimisation and arbitration gains as well as improved efficiency in the transportation system. All of the improvements were based on comparisons with the expected 2004 level in 2001.

Cost of goods sold increased by 50 per cent from 2003 to 2004, mainly due to a higher transfer price to E&P Norway for natural gas, as well as higher volumes of both Statoil produced volumes and third-party volumes, including third-party volumes in the USA. The nine per cent increase in 2003 over 2002 was mainly caused by higher transfer price and higher Statoil produced volumes.

Operating, selling and administrative expenses increased by 11 per cent, in 2004 as compared to 2003, mainly due to higher transportation costs caused by increased natural gas sales volumes.

Income before financial items, other items, income taxes and minority interest for the Natural Gas segment in 2004 was 6.8 billion, compared to NOK 6.0 billion in 2003 and NOK 6.1 billion in 2002. The 13 per cent increase from 2003 to 2004 was primarily a result of the sale of shares in VNG. Increased sales and an eight per cent increased external gas sales price were offset by an increase in cost of goods sold due to a higher transfer price for gas and higher gas volumes.

The two per cent decrease in income before financial items, other items, income taxes and minority interest for Natural Gas from 2002 to 2003 was due to an increase in the cost of goods sold, primarily as a result of a higher transfer price of natural gas.

			Year ended 31 December		
Income statement data (in NOK million)	**2002(1)**	**2003(1)**	**Change**	**2004**	**Change**
Total revenues	24,536	25,452	4%	33,326	31%
Natural gas sales(3)	21,781	22,041	1%	29,703	35%
Processing and transportation	2,756	3,411	24%	3,623	6%
Cost of goods sold	11,859	12,932	9%	19,350	50%
Operating, selling and administrative expenses	5,816	5,896	1%	6,540	11%
Depreciation, depletion and amortisation	728	619	(15%)	652	5%
Income before financial items, other items, income taxes and minority interest	6,134	6,005	(2%)	6,784	13%
Prices:					
Natural gas price (NOK/scm))(2)	0.95	1.02	7%	1.10	8%
Transfer price natural gas (NOK/scm)	0.50	0.59	18%	0.71	20%
Volumes marketed: (4)					
For our own account (bcf)	691	744	8%	881	18%
For the account of the SDFI (bcf)	829	915	10%	1069	15%
For our own account (bcm)	19.6	21.1	8%	25.0	18%
For the account of the SDFI (bcm)	23.5	25.9	10%	30.3	15%

(1) The 2002 and 2003 income statement has been restated to include revenues and costs from Cove Point and other international mid- and downstream gas activities, which were transferred from International E&P to Natural Gas as of 1 January 2004, and costs from Kollsnes, which was transferred from E&P Norway as of 1 January 2004.

(2) Price excludes revenues from third-party sales in the USA.

(3) Revenue from sale of VNG shares of NOK 0.6 billion is included in natural gas sales for 2004.

(4) Natural gas volumes for 2003 have been changed in order to include third-party LNG volumes. Natural gas volumes are given at a gross calorific value (GCV) of 40 MJ/scm.

Manufacturing & Marketing

Income statement data (in NOK million)	2002	2003	Year ended 31 December Change	2004	Change
Total revenues	211,152	218,642	4%	267,177	22%
Cost of goods sold	193,353	200,453	4%	246,971	23%
Operating, selling and administrative expenses	14,476	13,215	(9%)	14,566	10%
Depreciation, depletion and amortisation	1,686	1,419	(16%)	1,719	21%
Total expenses	209,515	215,087	3%	263,256	22%
Income before financial items, other items, income taxes and minority interest	1,637	3,555	117%	3,921	10%
Operational data:					
FCC margin (USD/bbl)	2.2	4.4	100%	6,4	45%
Contract price methanol (EUR/tonne)	172	226	31%	213	(6)%
Petrochemical margin (EUR/tonne)	107	119	11%	153	29%

Years ended 31 December 2004, 2003 and 2002

Manufacturing & Marketing generated **total revenues** of NOK 267.2 billion in 2004 compared to NOK 218.6 billion in 2003 and NOK 211.2 billion in 2002. The 22 per cent increase from 2003 to 2004 resulted mainly from higher prices in USD for crude oil, which includes revenues from the sales of equity, third-party and SDFI volumes, which Manufacturing & Marketing sells on behalf of the group, but was partly offset by the strengthening of the NOK versus the USD and a decrease in total volumes of crude oil sold of four per cent. The four per cent increase in revenue in 2003 over 2002 resulted primarily from higher prices in USD for crude oil, but was partly offset by the strengthening of the NOK versus the USD and a decrease in total volumes of crude oil sold of six per cent.

On 8 July 2004 Statoil acquired the remaining 50 per cent of Statoil Detaljhandel Skandinavia AS (SDS) held by ICA/Ahold and the company is now 100 per cent owned by Statoil. The estimated increase in revenues due to the consolidation of SDS in the accounts is approximately NOK 5 billion.

As a part of the **improvement programme,** Manufacturing & Marketing has realised cost reductions and revenue improvements of NOK 1.2 billion by the end of 2004 compared to 2001, exceeding the targeted 0.95 billion. The reduction of costs from the 2001 level through restructuring of sites and increased efficiency in logistics have been the major areas of improvement, delivering approximately 65 per cent of the realised improvements. The balance of the improvements in the Manufacturing & Marketing business area was achieved through additional sales, assuming 2001 margins, in the retail area and new NGL volume sales to the USA.

Cost of goods sold increased from NOK 193.4 billion in 2002 to NOK 200.5 billion in 2003 and NOK 247.0 billion in 2004. The increase from 2003 to 2004 resulted primarily from higher prices in USD for crude oil, and the consolidation of SDS into the group's accounts contributed an increase in cost of goods sold of six per cent.

Operating, selling and administrative expenses increased by 10 per cent in 2004 compared to 2003, mainly due to the consolidation of SDS into the group's accounts. The decrease from 2002 to 2003 is mainly due to the sale of Navion.

Depreciation, depletion and amortisation totalled NOK 1.7 billion in 2004, compared to NOK 1.4 billion in 2003, and NOK 1.7 billion in 2002.

Income before financial items, income taxes and minority interest for Manufacturing & Marketing was NOK 3.9 billion in 2004, compared to NOK 3.6 billion in 2003 and NOK 1.6 billion in 2002. The contribution from Borealis and higher refining margins from the manufacturing activity were the main reasons for the increase in income. Navion was sold in 2003, and contributed NOK 0.5 billion to income in 2003, compared with NOK 0.4 billion for 2002.

Higher refining margins contributed to increased results in Manufacturing & Marketing of NOK 0.6 billion from 2003 to 2004. The average refining margin (FCC margin) was 45 per cent higher, equivalent to USD 2.0 per barrel, in 2004 compared to 2003. The average contract price on methanol was about six per cent lower, measured in NOK, in 2004 than in 2003.

In the oil sales, trading and supply (O&S) business cluster, profits decreased by NOK 0.3 billion in 2004 compared with 2003, mainly due to currency effects and changes in the market value of economic hedge positions related to inventories. This was partially offset by the recording of a contingent compensation from the sale of the Melaka refinery, effective from the first quarter of 2001. The compensation is recorded as a derivative in the financial statements, and the income is contingent upon 12 months' average market prices of certain crude and product qualities, and may change in future periods up until the first quarter of 2006.

The marketing profit decreased by NOK 0.2 billion in 2004 compared with 2003. The decrease was due to lower margins, in particular in Ireland, Poland and Denmark.

The contribution from Borealis to Manufacturing & Marketing's income before financial items, other items, income taxes and minority interest was an income of NOK 844 million in 2004, an income of NOK 106 million in 2003, and an income of NOK 53 million in 2002. The contribution from Borealis increased from 2003 to 2004 due to very high margins, increased volumes and improved operational performance, and is included in total revenues.

Other operations

Years ended 31 December 2004, 2003 and 2002

Our other operations consist of the activities of corporate services, the corporate centre, group finance and the corporate technical service provider Technology & Projects (T&P). In connection with our other operations, we recorded a loss before financial items, other items, income taxes and minority interest of NOK 815 million in 2004, compared to a loss before financial items, other items, income taxes and minority interest of NOK 280 million in 2003 and NOK 2 million in 2002.

Liquidity and capital resources

Cash flows provided by operating activities

Our primary source of cash flow is funds generated from operations. Net funds generated from operations for 2004 were NOK 38.8 billion, as compared to NOK 30.8 billion in 2003, and NOK 24.0 billion in 2002.

The increase of NOK 8.0 billion from 2003 to 2004 was primarily due to an increase of NOK 17.6 billion in cash flow due to higher prices and margins, which was partly offset by increased taxes paid of NOK 4.7 billion, as well as NOK 4.9 billion reduced cash flow due to changes in working capital items and long-term items (excluding taxes payable, short-term interest-bearing debt, short-term investments and cash) in 2004 as compared to 2003.

The increase of NOK 6.8 billion from 2002 to 2003 was primarily due to an increase of NOK 8.9 billion in cash flow before tax, mainly due to higher prices and margins, as well as increased working capital items of NOK 0.2 billion (excluding taxes payable, short-term debt and cash). Changes in working capital items resulting from the disposal of the subsidiary Navion in the second quarter of 2003 are excluded from cash flows provided by operating activities and classified as proceeds from sales of assets. This was partly offset by a NOK 2.3 billion increase in taxes payable. In 2003 a NOK 6.2 billion increase in deferred tax assets was recorded as income, of which the repeal of the Removal Grants Act represented NOK 6.7 billion. Deferred tax income was NOK 0.6 billion in 2002. As a result of the changes in legislation, Statoil's claim against the Norwegian state totalled NOK 6.0 billion. The amount recorded in income relating to the repeal of the Removal Grants Act in the second quarter of 2003 amounted to NOK 0.7 billion, which had no cash effect in the period.

Cash flows used in investing activities

Net cash flows used in investing activities amounted to NOK 32.0 billion in 2004, as compared to NOK 23.2 billion in 2003, and NOK 16.8 billion in 2002.

Gross investments, defined as additions to property, plant and equipment and capitalised exploration expenditures, increased to NOK 42.8 billion in 2004 from NOK 24.1 billion in 2003 and NOK 20.1 billion in 2002. Gross investments also include investments in intangible assets and investments in affiliates. The increase from 2003 to 2004 was mainly related to increased investments in the E&P Norway and International E&P business segments as a result of an increased number of development projects.

The difference between cash flows used in investment activities and gross investments in 2004 is mainly related to the prepayment made in 2003 of USD 1.0 billion for the two assets in Algeria, In Salah and In Amenas, which is included in gross investments as of 2004. Additionally, cash flow used in investing activities was reduced by NOK 3.2 billion resulting from the sale of assets, which did not impact gross investments.

The 38 per cent increase in net cash flows used in investment activities from 2003 to 2004 was primarily related to higher investment levels in E&P Norway, International E&P and Manufacturing & Marketing.

Cash flows used in financing activities

Net cash flows used in financing activities amounted to NOK 9.1 billion for 2004, as compared to NOK 7.9 billion for 2003 and NOK 4.6 billion in 2002. New long-term borrowing in 2004 increased by NOK 1.4 billion compared to 2003, while repayment of long-term debt increased by NOK 3.8 billion. The NOK 1.2 billion increase in cash flows used in financing activities from 2003 to 2004 is mainly due to changes in cash flows related to net short-term borrowings and bank overdrafts, as well as the net amount of new long-term borrowings and repayment of borrowings on long-term debt.

The amount reported in 2004 includes a dividend paid to shareholders of NOK 6.4 billion, while the dividend paid to shareholders in 2003 was NOK 6.3 billion and NOK 6.2 billion in 2002.

Working capital

Working capital (total current assets less current liabilities) increased by NOK 2.3 billion from 2003 to 2004, from a positive working capital of NOK 1.7 billion as of 31 December 2003 to a positive working capital of NOK 3.9 billion as of 31 December 2004. Working capital as of 31 December 2002 was negative by NOK 1.3 billion. We believe that, taking into consideration Statoil's established liquidity reserves (including committed credit facilities), credit rating and access to capital markets, we have sufficient liquidity and working capital to meet our present and future requirements. Our sources of liquidity are described below.

Liquidity

Our cash flow from operations is highly dependent on oil and gas prices and our levels of production, and is only to a small degree influenced by seasonality. Fluctuations in oil and gas prices, which are outside our control, will cause changes in our cash flows. We will use available liquidity to finance Norwegian petroleum tax payments (due 1 April and 1 October each year) and any dividend payment. Our investment programme is spread across the year. The level of investments in the coming years is expected to remain approximately at its current level. There may be a gap between funds from operations and funds necessary to fund investments, depending on the level of oil and gas prices as well as levels of production. As a result, in 2005, Statoil anticipates that it will access funding from external sources. However, it is our intention to keep the ratio of net debt to capital employed at levels consistent with our objective of maintaining our long-term credit rating within the A category (for current rating levels, see below). The absolute level of debt issued will depend highly on the oil and gas prices throughout the year, and their effect on available cash.

As of 31 December 2004, we had liquid assets of NOK 16.6 billion, including approximately NOK 11.6 billion of domestic and international capital market investments, and NOK 5.0 billion in cash and cash equivalents. As of 31 December 2004, approximately 25 per cent of our cash and cash equivalents were held in NOK-denominated assets, 70 per cent in USD and five per cent in other currencies, before the effect of currency swaps and forward contracts. As part of our diversification into new investment alternatives like international commercial paper markets, the share of USD-denominated assets (swapped from NOK) has increased since 2003. Capital market investments increased by NOK 2.3 billion during 2004, as compared to year-end 2003. Cash and cash equivalents decreased by NOK 2.3 billion during 2004, as compared to year-end 2003.

As of 31 December 2003, we had liquid assets of NOK 16.6 billion, including approximately NOK 9.3 billion of domestic and international capital market investments, and NOK 7.3 billion in cash and cash equivalents. As of 31 December 2003, approximately 70 per cent of our cash and cash equivalents were held in NOK, 10 per cent in USD, 15 per cent in EUR and five per cent in other currencies, before the effect of currency swaps and forward contracts.

As of 31 December 2002, we had liquid assets of NOK 12.0 billion, including approximately NOK 5.3 billion of domestic and international capital market investments, primarily government bonds, but also other investment grade short- and long-term debt securities, and NOK 6.7 billion in cash and cash equivalents. As of 31 December 2002, approximately 75 per cent of our cash and cash equivalents were held in NOK, 15 per cent in USD, five per cent in EUR and five per cent in other currencies, before the effect of currency swaps and forward contracts.

Our general policy is to maintain a liquidity reserve in the form of cash and cash equivalents on our balance sheet, and committed, unused credit facilities and credit lines to ensure that we have sufficient financial resources to meet our short-term requirements. Long-term funding is raised when we identify a need for such financing based on our business activities and cash flows as well as when market conditions are considered favourable.

As of 31 December 2004, the group had available USD 2.0 billion in a committed revolving credit facility from international banks, including a USD 500 million swing-line facility. The facility was entered into by us in 2004, and is available for draw-downs until December 2009. At year-end 2004 no amounts had been drawn under the facility. In addition, a EUR 200 million line of credit has been established in our favour on a bilateral basis by an international financial institution. This line of credit, which we may only utilise with at least 15 days' notice, allows us to draw down amounts in tranches and repay them in time periods ranging from three to seven years. Our short- and long-term ratings from Moody's and Standard & Poor's, respectively, are P-1/A1 and A-1/A. In April 2004 Standard & Poor's revised their outlook on Statoil from negative to stable.

Interest-bearing debt. Gross interest-bearing debt was NOK 36.2 billion at the end of 2004 compared to NOK 37.3 billion at the end of 2003. Despite high investments, interest-bearing debt was reduced, mainly due to increased cash flow from operations, debt repayments exceeding the borrowing need and reduced NOK/USD exchange rate. At 31 December 2002 gross interest-bearing debt was NOK 37.1 billion.

Net interest-bearing debt is calculated as interest-bearing debt excluding cash, cash equivalents and short-term investments. Net interest-bearing debt was NOK 20.3 billion as of 31 December 2004 compared to NOK 20.9 billion as of 31 December 2003. Net interest-bearing debt was reduced, mainly due to increased cash flow from operations, debt repayments exceeding the borrowing need and the reduced NOK/USD exchange rate. At 31 December 2002 net interest-bearing debt was NOK 23.6 billion. For a reconciliation of net interest-bearing debt to gross debt, see Use of non-GAAP financial measures - Net debt to capital employed ratio below.

Net debt to capital employed ratio, defined as net interest-bearing debt to capital employed, was 19.0 per cent as of 31 December 2004, compared to 22.6 per cent as of 31 December 2003 and 28.7 per cent as of 31 December 2002. The decrease in the net debt to capital employed ratio is mainly due to increased shareholders' equity. Our methodology of calculating the net debt to capital employed ratio makes certain adjustments outlined below and may therefore be considered to be a non-GAAP financial measure. Net debt to capital employed ratio without adjustments was 18.4 per cent in 2004, compared to 22.4 per cent in 2003 and 30.2 per cent in 2002. See- Use of non-GAAP financial measures - Net debt to capital employed ratio below.

The group's borrowing needs are mainly covered through short-term and long-term securities issues, including utilisation of a US Commercial Paper Programme and a Euro Medium Term Note (EMTN) Programme, and through draw-downs under committed credit facilities and credit lines. In 2004, a USD 500 million of ten-year bond was issued in the US 144A-market, equivalent to NOK 3.5 billion.

In February 2004, Statoil signed a project loan agreement amounting to USD

225 million, which includes a sponsor loan of USD 193 million from Statoil ASA, for the purposes of financing part of Statoil's obligations in respect of its participating share in the Baku-Tbilisi-Ceyhan (BTC) pipeline project in Azerbaijan, Georgia and Turkey. This project loan is fully guaranteed by Statoil up to the time construction of the pipeline is complete and certain operational conditions have been fulfilled. The proceeds of the loan are made available to our wholly-owned subsidiary Statoil BTC Finance from the lender group through BTC Finance BV. Approximately USD 167 million was disbursed under this agreement in 2004. The project loan will be fully repaid by 2015.

After the effect of currency swaps, our borrowings are 100 per cent in USD. As of 31 December 2004, our long-term debt portfolio totalled NOK 31.5 billion, with a weighted average maturity of approximately 11 years and a weighted average interest rate of approximately 5 per cent per annum. As of 31 December 2003, our long-term debt portfolio totalled NOK 33.0 billion with a weighted average maturity of approximately 11 years and a weighted average interest rate of approximately 4.8 per cent per annum.

Our financing strategy considers funding sources, maturity profile, currency mix, interest rate risk management instruments and the liquidity reserve, and we use a multicurrency liability model (MLM) to manage debt-related risks. Accordingly, in general, we select the currencies of our debt obligations, either directly when borrowing or through currency swap agreements, in order to help hedge our foreign currency exposures with the objective of optimising our debt portfolio based on underlying cash flow. Our borrowings are denominated in, or have been swapped into, USD, because the most significant part of our net cash flow is denominated in that currency. In addition, we hedge our interest rate exposures through the use of interest rate derivatives, primarily interest rate swaps, based on an approved range for the interest reset profile of our total loan portfolio.

New long-term borrowings totalled NOK 4.6 billion in 2004, NOK 3.2 billion in 2003 and NOK 5.4 billion in 2002. We repaid approximately NOK 6.6 billion in 2004, approximately NOK 2.8 billion in 2003 and approximately NOK 4.8 billion in 2002. At 31 December 2004, NOK 3.0 billion of our borrowings was due for repayment within one year, NOK 8.9 billion was due for repayment between two and five years and NOK 22.5 billion was due for repayment after five years. This compares to NOK 3.2 billion, NOK 9.3 billion and NOK 23.7 billion, respectively, as of 31 December 2003, and NOK 2.0 billion, NOK 8.5 billion and NOK 24.3 billion, respectively, as of 31 December 2002.

The treasury function provides a centralised service for overall funding activities, foreign exchange and interest rate management. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed regularly by our board of directors. Our debt portfolio is managed in cooperation with our corporate risk management department, and we use a number of derivative instruments. The internal control is reviewed regularly for risk assessment by our internal auditors. Further details regarding our risk management is provided in —Risk management below.

Principal contractual obligations and other commercial commitments

The table below summarises our principal contractual obligations and other commercial commitments as at 31 December 2004. The table below includes contractual obligations, but excludes derivatives and other hedging instruments (see Risk management). Obligations payable by Statoil to unconsolidated equity affiliates are included gross in the table below. Where Statoil, however, has both an ownership interest and transport capacity cost for a pipeline in the consolidated accounts, the amounts in the table include the transport commitments that exceed Statoil's ownership share.

Contractual obligations in respect of capital expenditure amount to NOK 20.8 billion of which payments of NOK 13.2 billion are due within one year.

The projected pension benefit obligation of the group is NOK 19 billion and the fair value of plan assets amount to NOK 17.3 billion and total prepaid pensions net of unrealised losses and unrealised prior service cost amounts to NOK 1.3 billion as at 31 December 2004.

Impact of inflation

Our results in recent years have not been substantially affected by inflation. Inflation in Norway as measured by the general consumer price index during the years ended 31 December 2004, 2003 and 2002 was 1.1 per cent, 0.5 per cent and 2.8 per cent, respectively.

Critical accounting policies and estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the USA, which require Statoil to make estimates and assumptions. Statoil believes that of its significant accounting policies (see Note 2 to the consolidated financial statements), the following may involve a higher degree of judgement and complexity, which in turn could materially affect the net income if various assumptions were changed significantly.

Proven oil and gas reserves. Statoil's oil and gas reserves have been estimated by our experts in accordance with industry standards under the requirements of the US Securities and Exchange Commission (SEC). An independent third party has evaluated Statoil's proven reserves estimates and the results of such evaluation do not differ materially from Statoil's estimates. Proven oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements but not on escalations based upon future conditions.

		Payment due by period			
Contractual obligations (in NOK milllion)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-term debt	34,430	2,971	3,443	5,481	22,535
Finance lease obligations	121	44	58	10	9
Operating leases	11,380	3,381	2,679	1,427	3,893
Transport capacity and similar obligations	48,195	4,222	8,355	8,062	27,556
Total contractual obligations	94,126	10,618	14,535	14,980	53,993

Proven reserves are used when calculating the unit of production rates used for depreciation, depletion, and amortisation. Reserve estimates are also used when testing upstream assets for impairment. Future changes in proven oil and gas reserves, for instance as a result of changes in prices, could have a material impact on unit of production rates used for depreciation, depletion and amortisation and for decommissioning and removal provisions, as well as for the impairment testing of upstream assets, which could have a material adverse effect on operating income as a result of increased deprecation, depletion and amortisation or impairment charges.

Exploration and leasehold acquisition costs. In accordance with Statement of Financial Accounting Standards (FAS) No. 19, Statoil temporarily capitalises the costs of drilling exploratory wells pending determination of whether the wells have found proven oil and gas reserves. Statoil also capitalises leasehold acquisition costs and signature bonuses paid to obtain access to undeveloped oil and gas acreage. Judgements on whether these expenditures should remain capitalised or expensed in the period may materially affect the operating income for the period.

Unproven oil and gas properties are assessed quarterly and unsuccessful wells are expensed. Exploratory wells that have found reserves, but where classification of those reserves as proven depends on whether a major capital expenditure can be justified, may remain capitalised for more than one year. The main conditions for determining whether a well remains capitalised are the existence of firm plans for future drilling in the licence, or a planned development decision in the near future.

To illustrate the size of the applicable balance sheet items based on the criteria described above and the effects of our judgement on amounts capitalised in prior years, see the table below which provides a summary of capitalised exploration costs on assets in the exploration phase and the amount of previously capitalised exploration costs on assets in the exploration phase that have been expensed during the year.

Impairment. Statoil has significant investments in long-lived assets such as property, plant and equipment and intangible assets, and changes in our expectations of future value from individual assets may result in some assets being impaired, and the book value written down to estimated fair value. Making judgements of whether an asset is impaired or not is a complex decision that rests on a high degree of judgement and a large extent of key assumptions.

Complexity is related to the modelling of relevant undiscounted future cash flows, to the determination of the extent of the asset for which impairment is to be measured, to consistent application throughout the group of relevant assumptions, and, in cases where the first test of undiscounted cash flows exceeding book value is not met, to establishing a fair value of the asset in question.

Impairment testing also requires long-term assumptions to be made concerning a number of often volatile economic factors such as future market prices, currency exchange rates, future output, etc, in order to establish relevant future cash flows. Long-term assumptions for major factors are made at group level, and there is a high degree of reasoned judgement involved in establishing these assumptions, in determining other relevant factors such as forward price curves or in estimating production outputs, and in determining the ultimate termination value of an asset. Likewise, establishing a fair value of the asset, when required, will require a high degree of judgement in many cases where there is no ready third-party market in which to obtain the fair value of the asset in question.

Capitalised exploratory drilling expenditures that are pending the determination of proven reserves:

(in NOK million)	**2002**	**2003**	**2004**
Capitalised expenditures at 1 January	3,916	3,482	3,792
Additions	820	699	944
Reclassified to production plants oil and gas, including pipelines based on the booking of proven reserves (1)	(321)	(89)	(1,581)
Expensed, previously capitalised exploration expenditures	(554)	(256)	(110)
Foreign currency translation	(379)	(44)	(159)
Capitalised expenditures at 31 December (2)	3,482	3,792	2,886

1) In addition, NOK 238 million in capitalised exploration expenditures related to unproven reserves was reclassified to Construction in progress due to the fact that the development activity commenced prior to the expected booking of proven reserves in 2005.
2) Capitalised exploration expenditures in suspense include signature bonuses and other acquired exploration rights of NOK 609 million, NOK 1,045 million and NOK 940 million as at the end of 2004, 2003 and 2002, respectively.

The following is a summary of certain long-lived assets in Statoil's balance sheet at year-end and the cost of impairments recorded during the years 2002, 2003 and 2004 respectively:

(in NOK million)	**2002**	**2003**	**2004**
Net book value of property, plant and equipment	122,379	126,528	152,916
Net book value of intangible assets	1,385	2,156	2,374
Impairment charged to profit and loss in the period	766	182	315

Decommissioning and removal liabilities. Statoil has significant legal obligations to decommission and remove offshore installations at the end of the production period. Legal obligations associated with the retirement of long-lived assets are to be recognised at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost is capitalised as part of the related long-lived asset and allocated to expense over the useful life of the asset.

It is difficult to estimate the costs of these decommissioning and removal activities, which are based on current regulations and technology. Most of the removal activities are many years into the future and the removal technology and costs are constantly changing. As a result, the initial recognition of the liability and the capitalised cost associated with decommissioning and removal obligations, and the subsequent adjustment of these balance sheet items, involve the application of significant judgement. As at year-end 2004, Statoil had recognised NOK 3.4 billion in increased assets, and liabilities related to asset retirement obligations amounting to NOK 18.6 billion.

Employee retirement plans. When estimating the present value of defined pension benefit obligations that represent a gross long-term liability in the consolidated balance sheet, and indirectly, the period's net pension expense in the consolidated statement of profit and loss, Statoil makes a number of critical assumptions affecting these estimates. Most notably, assumptions made on the discount rate to be applied to future benefit payments, the expected return on plan assets and the annual rate of compensation increase have a direct and material impact on the amounts presented, and significant changes in these assumptions between periods can likewise have a material effect on the accounts.

Accumulated gains and losses in excess of 10 per cent of the greater of the projected benefit obligation (PBO) or the fair value of assets are amortised over the remaining service period of active plan participants. The implication of this is that although changes in balance sheet items may be significant due to changes in the assumptions described above, changes to the amounts amortised in the period are therefore not as significant.

Below is a specification of net losses not yet amortised, the annual amortisations of net losses due to assumptions made, and the key assumptions made for each year.

Derivative financial instruments and hedging activities. Statoil recognises all derivatives on the balance sheet at fair value. Changes in fair value of derivatives that do not qualify as hedges are included in income.

The application of relevant rules requires extensive judgement and the choice of designation of individual contracts as qualifying hedges can impact the timing of recognition of gains and losses associated with the derivative

contracts, which may or may not correspond to changes in the fair value of our corresponding physical positions, contracts and anticipated transactions, which are not required to be recorded at market value in accordance with Statement No. 133. Establishment of non-functional currency swaps in our debt portfolio to match expected underlying cash flows may result in gains or losses in the profit and loss statement as hedge accounting is not allowed, even if the associated economical risk of the transactions is considered.

When not directly observable in the market or available through broker quotes, the fair value of derivative contracts must be computed internally based on internal assumptions as well as directly observable market information, including forward and yield curves for commodities, currencies and interest. Although the use of models and assumptions are according to prevailing guidelines provided by the Financial Accounting Standards Board (FASB) and best estimates, changes in internal assumptions and forward curves could have material effects on the internally computed fair value of derivative contracts, particularly long-term contracts, resulting in corresponding income or loss in the statement of profit and loss.

See —Risk management section below for details on the sensitivities of recognised assets and liabilities to market risks and the extent to which we assess market values of derivatives on sources other than quoted market prices.

Corporate income taxes. Statoil annually incurs significant amounts of corporate taxes payable to various jurisdictions around the world, and also recognises significant changes to deferred tax assets and deferred tax

(in NOK million)	**2002**	**2003**	**2004**
Unrecognised net loss (an asset in the balance sheet)	1,868	4,248	2,685
Amortisation of loss (an expense in the period)	34	54	175
Key assumptions for PBO and fair value of assets in per cent			
Weighted average discount rate	6.0	5.5	5.5
Weighted average expected return on assets	6.5	6.0	6.5
Weighted average rate of compensation increase	3.0	3.5	3.5

(in NOK million)	2002	2003	2004
Taxes payable in the balance sheet	18,358	17,676	19,117
Short-term deferred tax assets	415	0	0
Long-term deferred tax assets	486	620	205
Long-term deferred tax liabilities	43,153	37,849	44,270
Tax expense in the year	34,336	27,447	45,425

liabilities, all according to our current interpretations of applicable laws, regulations and relevant court decisions. The quality of these estimates is highly dependent upon our ability to properly apply at times very complex sets of rules, to recognise changes in applicable rules and, in the case of certain valuation allowances, our ability to project future earnings from activities that may apply loss carry-forward positions against future income taxes.

Above is a summary of income tax assets and liabilities recognised in our balance sheet, as well as the annual tax expense recorded in the statement of profit and loss.

Off-balance sheet arrangements

As a condition for being awarded oil and gas exploration and production licences, participants may be committed to drilling a certain number of wells. At the end of 2004, Statoil was committed to participating in 13 wells off Norway and 10 wells abroad, with an average ownership interest of approximately 50 per cent. Statoil's share of estimated expenditures to drill these wells amounts to approximately NOK 2.3 billion. Additional wells that Statoil may become committed to participating in, depending on future discoveries in certain licences, are not included in these numbers.

Statoil has entered into agreements for pipeline transportation for most of its prospective gas sale contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to pay for booked capacity. In addition, the group has entered into certain obligations for entry capacity fees and terminal, processing, storage and vessel transport capacity commitments. The corresponding expense for 2004 was NOK 3,701 million.

In 2004, Statoil signed an agreement with the US-based energy company Dominion regarding additional capacity at the Cove Point liquefied natural gas (LNG) terminal in the USA. The agreement involves annual terminal capacity of approximately 7.7 billion cubic metres of gas for a 20-year period with planned start-up in 2008, and is subject to approval from US authorities. Pending such approval, no obligations related to the additional Cove Point capacity have been included in Liquidity and capital resources– Principal contractual obligations and other commercial commitments at year-end 2004.

Transport capacity and other minimum nominal obligations at 31 December 2004 are included in the above-mentioned table.

Risk management

Overview. We are exposed to a number of different market risks arising from our normal business activities. Market risk is the possibility that changes in currency exchange rates, interest rates, refining margins, petrochemical margins and oil and natural gas prices will affect the value of our assets, liabilities or expected future cash flows. We are also exposed to operational risk, which is the possibility that we may experience, for instance, a loss in oil and gas production or an offshore catastrophe. Accordingly, we use a "top-down" approach to risk management, which highlights our most important market and operational risks, and then a sophisticated risk optimisation model to manage these risks.

We have developed a comprehensive model, which encompasses our most significant market and operational risks and takes into account correlation, different tax regimes, capital allocation on various levels and value at risk, or VaR, figures on different levels, with the goal of optimising risk exposure and return. Our model also utilises Sharpe ratios, which provide a risk-adjusted return measure in the context of a specific risk taken, rather than an absolute rate of return, to measure the potential risks of various business activities. See details of our financing strategy above concerning the objective of our debt portfolio to mitigate currency exchange risks. Our corporate risk committee, which is headed by our chief financial officer and which includes, among others, representatives from our principal business segments, is responsible for reviewing, defining and developing our strategic market risk policies. The corporate risk committee meets monthly to determine our risk management strategies, including hedging and trading strategies and valuation methodologies.

We divide risk management into insurable risks which are managed by our captive insurance company operating in the Norwegian and international insurance markets, tactical risks, which are short-term trading risks based on underlying exposures and which are managed by line management, and strategic risks, which are long-term fundamental risks and are monitored by our corporate risk committee, which advises and recommends specific actions to our corporate executive committee. To address our tactical and strategic risks, we have developed policies aimed at managing the volatility inherent in certain of these natural business exposures and in accordance with these policies we enter into various transactions using derivative financial and commodity instruments (derivatives). Derivatives are contracts whose value is derived from one or more underlying financial instruments, indices or prices, which are defined in the contract.

Strategic market risks. We are exposed to strategic risks, which we define as long-term risks fundamental to the operation of our business. Strategic market risks are reviewed by our corporate risk committee with the objective of avoiding sub-optimisation, reducing the likelihood of experiencing financial distress and supporting the group's ability to finance future growth even under adverse market conditions. Based on these objectives, we have implemented policies and procedures designed to reduce our overall exposure to strategic risks. For example, our multicurrency liability management model discussed under —Liquidity above seeks to optimise our debt portfolio based on expected future corporate cash flow and thereby serves as a significant strategic risk management tool. In addition, our downside protection programme for crude oil price risk is intended to ensure that our business will remain robust even in the case of a drop in the price of crude oil.

Tactical market risks. All tactical risk management activities occur within and are continuously monitored against established mandates.

Commodity price risk. Commodity price risk constitutes our most important tactical risk. To minimise the commodities price volatility and match costs with revenues, we enter into commodity-based derivative contracts, which consist of futures, options, over-the-counter (OTC) forward contracts, market swaps and contracts for differences related to crude oil, petroleum products, natural gas and electricity.

Derivatives associated with crude oil and petroleum products are traded mainly on the International Petroleum Exchange (IPE) in London, the New York Mercantile Exchange (NYMEX), in the OTC Brent market, and in crude and refined products swaps markets. Derivatives associated with natural gas and electricity are mainly OTC physical forwards and options, Nordpool forwards, and futures traded on the NYMEX and IPE.

Foreign exchange and interest rate risk. We are also subject to interest rate risk and foreign exchange risk. Interest rate risk and currency risk are assessed against mandates based on a pre-defined scenario. In market risk management and in trading, we use only well-understood, conventional derivative instruments. These include futures and options traded on regulated exchanges, and OTC swaps, options and forward contracts.

Foreign exchange risk. Fluctuations in exchange rates can have significant effects on our results. Our cash flows are largely in currencies other than NOK, primarily USD. Cash receipts in connection with oil and gas sales are mainly in foreign currencies, while cash disbursements are to a large extent in NOK. Accordingly, our exposure to foreign currency rates exists primarily with USD versus NOK, EUR, DKK, SEK and GBP. We enter into various types of foreign exchange contracts in managing our foreign exchange risk. We use forward foreign exchange contracts primarily to risk manage existing receivables and payables, including deposits and borrowing denominated in foreign currencies.

Interest rate risk. The existence of assets and liabilities earning or paying variable rates of interest expose us to the risk of interest rate fluctuations. We enter into various types of interest rate contracts in managing our interest rate risk. We enter into interest rate derivatives, particularly interest rate swaps, to alter interest rate exposures, to lower funding costs and to diversify sources of funding. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between interest amounts calculated by reference to an agreed notional principal amount and agreed fixed or floating interest rates.

Fair market values of financial and commodity derivatives. Fair market values of commodity-based futures and exchange-traded option contracts are based on quoted market prices obtained from the New York Mercantile Exchange or the International Petroleum Exchange. The fair values of swaps and other commodity over-the-counter arrangements are established based on quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques. Where Statoil records elements of long-term physical delivery commodity contracts at fair market value under the requirements of FAS 133, such fair market value estimates are based on quoted forward prices in the market, underlying indexes in the contracts, and assumptions of forward prices and margins where market prices are not available. Fair market values of interest and currency swaps and other instruments are estimated based on quoted market prices, estimates obtained from brokers, prices of comparable instruments, and other appropriate valuation techniques. The fair value estimates approximate the gain or loss that would have been realised if the contracts had been closed out at year-end, although actual results could vary due to assumptions used.

The table below contains the net fair market value of non-exchange-traded (i.e., over-the-counter) commodity and financial derivatives as so accounted for under FAS 133, as at 31 December 2004, based on maturity of contracts and the source of determining the fair market value of contracts, respectively.

In this table, other external sources for commodities mainly relate to broker quotes. The fair market values of interest and currency swaps and other financial derivatives are computed internally by means of standard financial system models and based consistently on quoted market yield and currency curves.

The table on the following page contains a reconciliation of changes in the fair market values of all commodity and financial derivatives, including exchange-traded derivatives in the books at either 31 December 2004, or 31 December 2003, net of margin calls. Derivatives entered into and subsequently terminated during the course of the year 2004 have not been included in the table.

Source of fair market value	**Net fair market value**				
(in NOK million)	**Maturity less than 1 year**	**Maturity 1-3 years**	**Maturity 4-5 years**	**Maturity in excess of 5 years**	**Total net fair value**
Commodity-based derivatives:					
Prices actively quoted	54	4	0	0	58
Prices provided by other external sources	291	43	6	2	342
Prices based on models or other valuation techniques	0	0	0	0	0
Total commodity-based derivatives	345	47	6	2	400
Financial derivatives:					
Prices actively quoted	2,405	1,026	401	3,146	6,978
Prices provided by other external sources	0	0	0	0	0
Prices based on models or other valuation techniques	0	0	0	0	0
Total financial derivatives	2,405	1,026	401	3,146	6,978

(in NOK million)	Commodity derivatives	Financial derivatives
Net fair value of derivative contracts outstanding as at 31 December 2003	126	4,551
Contracts realised or settled during the year	(91)	(783)
Fair value of new contracts entered into during the year	607	2,000
Changes in fair value attributable to changes in valuation techniques or assumptions	0	1,210
Other changes in fair values	(19)	0
Net fair value of derivative contracts outstanding as at 31 December 2004	623	6,978

Derivatives and credit risk. Futures contracts have little credit risk because organised exchanges are the counterparties. The credit risk from Statoil's OTC commodity-based derivative contracts derives from the counterparty to the transaction. Brent forwards, other forwards, swaps and all other OTC instruments are traded subject to internal assessment of creditworthiness of counterparties, which are primarily oil and gas companies and trading companies. Credit risk related to derivative instruments is managed by maintaining, reviewing and updating lists of authorised counterparties by assessing their financial position, by monitoring credit exposure for counterparties, by establishing internal credit lines for counter-parties, and by requiring collateral or guarantees when appropriate under contracts and required by internal policies. Collateral will typically be in the form of cash or bank guarantees from first-class international banks. As at year-end 2004, we had called and received a total of NOK 3 billion in cash as collateral for unrealised gains on OTC derivatives.

Credit risk from interest rate swaps and currency swaps, which are OTC transactions, derive from the counter-parties to these transactions. Counterparties are highly-rated financial institutions. The credit ratings are, at a minimum, reviewed annually and counterparty risk is monitored to ensure exposure does not exceed credit lines and complies with internal policies. Non-debt-related foreign currency swaps usually have terms of less than one year, and the terms of debt related interest swaps and currency swaps are up to 25 years, in line with that of corresponding hedged or risk managed long-term loans.

The table below contains the fair market value of OTC commodity and financial derivative assets, net of netting agreements and collateral as at 31 December 2004, split by our assessment of the counterparty's credit risk.

Credit rating categories in the table above are based on the Statoil group's internal credit rating policies, and do not correspond directly with ratings issued by the major credit rating agencies. Internal ratings are harmonised with external ratings where available, but could occasionally vary somewhat due to internal assessments. Consistent with Statoil policies, commodity derivative counter-parties have been assigned credit ratings corresponding to those of their respective parent companies, while there will not necessarily be a parent company guarantee from such parent companies if highly rated.

Operational risks. We are also exposed to operational risks, including reservoir risk, risk of loss of oil and gas production and offshore catastrophe risk. All of our installations are insured, which means that replacement cost will be covered by our captive insurance company, which also has a reinsurance programme. Under this reinsurance programme, as of 31 December 2004, approximately 69 per cent of the approximately NOK 193 billion total insured amount was reinsured in the international reinsurance markets. Our captive insurance company also works with our corporate risk management department to manage other insurable operational risks. Like any other licensee, Statoil has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. Statoil has taken out insurance to cover this liability up to approximately USD 0.8 billion (NOK 4.8 billion) 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 a major part of the risk in the international insurance market. Approximately 29 per cent of the risk is retained.

Statoil Forsikring a.s is a member of two mutual insurance companies, Oil Insurance Ltd and sEnergy Insurance Ltd. Membership of these companies means that Statoil Forsikring is liable for its proportionate share of any losses which might arise in connection with the business operations of the companies. Members of the mutual insurance companies have joint and several liability for any losses that arise in connection with the insured operations of the member companies.

Research and development

In addition to the technology developed through field development projects, a substantial amount of our research is carried out at our research and technology development centre in Trondheim, Norway. Our internal research and development is done in close cooperation with Norwegian universities, research institutions, other operators and the supplier industry.

Research expenditures were NOK 1,027 million, NOK 1,004 million and NOK 736 million in 2004, 2003 and 2002, respectively.

(in NOK million)	Fair market value
Counterparty-rated:	
Investment grade, rated A or above	4,724
Other investment grade	167
Non-investment grade or not rated	250

Corporate targets

This section contains a discussion of our corporate targets. We use these targets in order to measure our progress in enhancing production, utilising capital efficiently and enhancing operational efficiency. We have announced targets for the fiscal year 2004 for the measures normalised return on average capital employed (normalised ROACE), production, finding and development cost, normalised production cost and reserve replacement rate. In late 2004 the corporate executive committee set forth new targets for the fiscal year 2007 for the measures normalised return on average capital employed (normalised ROACE), production and normalised production cost. This section contains a discussion of those target measures and reports the results of those measures for the current period. For a discussion of historical and projected gross investments, see —Trend information below.

The following discussion of corporate targets uses several measures, which are "non-GAAP financial measures" as defined by the US Securities and Exchange Commission. These are return on average capital employed (ROACE), normalised return on average capital employed (normalised ROACE), normalised production cost per barrel and net debt to capital ratio. For more information on these measures and for a reconciliation of these measures to measures calculated in accordance with US GAAP, see —Use of non-GAAP financial measures below.

Summary of targets – 2004

We have been targeting:

- a ROACE of 12 per cent on a normalised basis for the year 2004, assuming an average realised oil price of USD 16 per barrel, natural gas price of NOK 0.70 per scm, refining margin of USD 3.0 per barrel, Borealis margin of EUR 150 per tonne, and a NOK/USD exchange rate of 8.20, as described below (all prices and margins adjusted for inflation)
- oil and natural gas production of 1,120 mboe per day through 2004.

Further, we had committed ourselves to pursuing the following objectives to enhance operational efficiency through 2004:

- reducing unit production costs to lower than USD 2.7 per boe in 2004, normalised at a NOK/USD exchange rate of 8.20
- maintaining finding and development costs (three-year average) below USD 6.0 per boe for the three year period to 31 December 2004
- achieving a reserve replacement ratio in 2004 above 1.0 measured as a three-year average.

The 2004 targets (other than the reserve replacement rate target) were based on a continued organic development of Statoil and excluded possible effects related to major acquisitions and dispositions. For a discussion of performance against the targets, see below.

Summary of targets –2007

We are targeting:

- a ROACE of 13.0 per cent on a normalised basis for the year 2007, assuming an average realised oil price of USD 22 per barrel, natural gas price of NOK 0.90 per scm, refining margin (FCC) of USD 5.0 per barrel, Borealis margin of EUR 140 per tonne and a NOK/USD exchange rate of 6.75, as described below
- oil and natural gas production of 1,400 mboe per day in 2007.

Further, we are committed to enhancing operational efficiency through 2007 by:

- reducing unit production costs to lower than NOK 22 per boe, normalised at a NOK/USD exchange rate of 6.75 for the international portfolio.

The 2007 targets represent Statoil's assets as at the end of 2004. However, on a going-forward basis, the 2007 targets are based on a continued organic development of Statoil and exclude possible effects related to any additional, but not known, major acquisitions or dispositions. Such major transactions may affect our targets materially and cause us to revise our targets as a result of the impact of such acquisitions or dispositions.

For the sake of comparability, the real figures for 2004 shown in the second column in the table below have been normalised based on the new set of assumptions.

The forecasted production growth to 2007 is based on the current understanding of our reservoirs, our planned investments and development projects. There are a number of factors that could cause actual results and developments to differ materially from the targets included here, including levels of industry product supply, demand and pricing; currency exchange rates; political and economic policies of Norway and other oil-producing countries; general economic conditions; political stability and economic growth in relevant areas of the world; global political events and actions, including war, terrorism and sanctions; the timing of bringing new fields on stream; material differences from reserves estimates; inability to find and develop reserves; adverse changes in tax regimes; development and use of new technology; geological or technical difficulties; the actions of competitors; the actions of field partners; natural disasters and other changes to business conditions. One of the main factors which could cause results to differ from our expectations would be possible delays in sanctioned development projects.

Corporate targets	Actual 2004 (new normalisation)	2007
ROACE(1)	12.4%	13%
Production (1,000 boe per day)	1,106	1,400
Production cost* (NOK/boe)	23.50	<22

(1) Normalised

Return on average capital employed
Our business is capital-intensive. Furthermore, our capital expenditures include several significant projects that are characterised by lead times of several years and expenditures that individually may involve large amounts. Given this capital intensity, we use return on average capital employed, or ROACE, as a key performance indicator to measure our success in utilising capital. We define

ROACE as follows:

Return on average capital employed =

$$\frac{\text{Net Income + Minority Interest - After Tax Net Financial items}}{\text{Net Financial Debt + Shareholders' Equity + Minority Interest}}$$

Average capital employed reflects an average of capital employed at the beginning and the end of the financial period. In the calculation of average capital employed, Statoil makes certain adjustments to net interest-bearing debt, which makes the figure a non-GAAP financial measure. For a reconciliation of the adjusted net interest-bearing debt to the most comparable GAAP measure, see Use of non –GAAP financial measures. Using average capital employed without these adjustments to net interest-bearing debt, our ROACE for 2004 was 23.6 per cent. Our historic ROACE using average capital employed with these adjustments for 2004, 2003 and 2002 was 14.9 per cent, 18.7 per cent and 23.5 per cent respectively.

ROACE and normalised ROACE are non-GAAP financial measures. See –Use of non-GAAP financial measures.

For purposes of measuring our performance against our 2004 ROACE target, we have been assuming an average realised oil price of USD 16 per barrel, natural gas price of NOK 0.70 per scm, refining margin of USD 3.0 per barrel, Borealis margin of EUR 150 per tonne, and a NOK/USD exchange rate of 8.20. All prices and margins are adjusted for inflation from 2000. In the calculation of the normalised return, adjustments are made to exclude items of a non-frequent nature. These items are viewed as activities or events which management considers as being of such a nature that their inclusion into the ROACE calculation will not provide a meaningful indication of the company's underlying performance. The 2004 target is based on organic development and therefore the effects of the acquisition of the Algerian assets In Salah and In Amenas as well as the acquisition of 50 per cent of SDS from ICA/Ahold are excluded. Normalisation is done in order to exclude factors that Statoil cannot influence from its performance targets. For reconciliation of the ROACE and normalised ROACE figures to items calculated in accordance with GAAP, see the table "ROACE calculation" in –Use and reconciliation of non-GAAP financial measures below. We were targeting a 12 per cent ROACE on a normalised basis.

Normalised ROACE was 10.8 per cent in 2002, 12.4 per cent in 2003 and 12.3 per cent in 2004.

In order to achieve our set of targets for 2007, including ROACE, and support our longer term ambitions, we continue to aim to allocate capital only to those projects that meet our financial return criteria.

Our ROACE in any financial period and our ability to meet our target ROACE will be affected by our ability to generate net income. Our level of net income is subject to numerous risks and uncertainties as described above. These risks include, among others, fluctuation in demand, retail margin, changes in our oil and gas production volumes and trends in the international oil industry.

As described above, Statoil introduced new targets for 2007, including a normalised ROACE of 13 per cent. When normalising the reported ROACE we are now assuming an oil price of USD 22 per barrel, natural gas price of NOK 0.90 per scm, refining margin (FCC) of USD 5.0 per barrel, Borealis margin of EUR 140/tonne and a NOK/USD exchange rate of 6.75. All prices and margins are adjusted for inflation from 2004. These changed assumptions for purposes of our 2007 targets reflect changes in the underlying prices and margins from the assumptions made when we set our targets for 2004. These assumptions do not reflect actual prices and margins at the time the assumptions were set or at any specific point in time and do not comprise our expectations with respect to the future movements of such prices and margins, but are based on movements over a broader time frame and function to allow comparability across periods.

Improvement programme. In 2001, Statoil specified a set of improvement measures that at the time were deemed necessary to reach the target of return on average capital employed in 2004 of 12 per cent, based on normalised assumptions. To meet this target, Statoil determined that, among other improvements, it would need to reduce certain costs and increase revenue items by a total of NOK 3.5 billion in 2004, compared to 2001.

A number of small improvements were targeted in a large number of areas. In some cases the improvements were compared against the 2001 reported levels – for example, lifted volumes or production unit cost. In other areas where improvements were targeted, it was necessary to make assumptions about what the result may have been in 2004 if no actions had been taken – for instance, assumptions regarding increased production unit costs due to expected increase in water production in 2004. Efforts were then made to improve the performance against these base assumptions. In any case, the effect of the Algerian transaction in 2003, completed in 2004, has been excluded.

At the end of 2004, Statoil is satisfied that it has identified annual, sustainable improvements in both costs and revenues, which it estimates will contribute NOK 3.2 billion of improvements compared to a target of NOK 3.5 billion for 2004, and this has contributed to reaching the target of a normalised return on capital employed of 12 per cent for 2004. The main reason for not meeting the corporate target of NOK 3.5 billion relates to the fact that the International E&P business area did not achieve its targeted improvement, as described in the business segment section of International E&P.

Production cost per boe was USD 3.49 per boe for the year 2004, USD 3.17 per boe for the year 2003 and USD 2.9 per boe for the year 2002. Correspondingly, the production costs in NOK were NOK 23.5 per boe for the year 2004, NOK 22.4 per boe for the year 2003, and NOK 23.2 per boe in 2002. Normalised to a NOK/USD exchange rate of 8.20, in order to exclude currency effects, the production cost for 2004 was USD 2.96 per boe, compared to USD 2.77 per boe for 2003 and USD 2.84 per boe for 2002. Normalised production cost is a non-GAAP financial measure as a result of its normalisation at a set NOK/USD exchange rate. See —Use of non-GAAP financial measures.

The corporate target for normalised production cost was USD 2.7 per boe for 2004. Both the target and the reported production cost exclude all effects from production from the In Salah field in Algeria. The reason for not reaching the target for unit of production cost is partly due to the extension of the production from the Lufeng field, as well as lower total lifting for the group than assumed when the target was set in 2001.

Finding and development costs (USD/boe) (1)	2002	2003	2004
Corporate	6.16	5.84	8.47
E&P Norway	5.81	5.18	7.03
International E&P	7.15	7.88	13.80

(1)Three-year average

Finding and development cost. Statoil's finding and development costs in 2004 were 13.7 per boe in 2004, compared to USD 7.7 per boe in 2003, and USD 5.3 per boe in 2002. The average finding and development cost for the last three years was USD 8.5 per boe in 2004, compared to USD 5.9 per boe in 2003 and USD 6.2 in 2002.

The target for 2004 was a finding and development cost below USD 6.0. The higher finding and development cost compared to the target is related, among other factors, to the effects on reserves booking under some profit-sharing agreement (PSA) contracts, due to the increased oil prices in 2004. Under PSA contracts, the volumes of entitlement oil are reduced when oil prices rise, which in turn reduces the booking of reserves. Furthermore, the reduction in the NOK/USD exchange rate resulted in higher finding and development costs in USD for the upstream investments on the NCS than was assumed when the targets were set in 2001.

The finding and development cost per barrel is calculated using costs of exploration and development divided by new proven reserves, according to the SEC definition, excluding major reserves purchases and sales. A description of reserves booking and the limitations of financial measures that include reserves estimates, is provided under "Reserve replacement ratio" below.

Reserve replacement ratio. Proven oil and gas reserves were estimated to be 4,289 million boe at the end of 2004, compared to 4,264 million boe at the end of 2003 and 4,267 million boe at the end of 2002.

Proven reserves and changes to proven reserves are estimated in accordance with SEC definitions. The reserve replacement ratio is defined as the sum of additions and revisions to proven reserves, divided by produced volumes in any given period.

Changes in proven reserves estimates most commonly originate from revisions of estimates due to improved production performance, extensions of proven areas through drilling activities, or inclusion of proven reserves in new discoveries through sanctioning of development projects. These are sources of proven reserves additions that result from continuous business processes, and could be expected to continue to add reserves at some level in the future.

Proven reserves may also be added or subtracted through acquisition or disposition of assets.

Changes in reserves may also originate from factors outside management control, such as changes in oil and gas prices. While higher oil and gas prices normally allow more oil and gas to be recovered from the accumulations, Statoil's proven oil and gas reserves under PSAs and similar contracts will generally decrease as a result. This reflects the fact that we will receive smaller quantities of oil and gas under the cost recovery and profit-sharing arrangements of these contracts as a result of the increased oil and gas prices. These changes are included in the revisions category in the table below.

Reserves in new discoveries are normally booked only when regulatory approval has been received, or when such approval is imminent. Most of the reserve additions are expected to be produced over the next five to 10 years, with some projects having time spans of up to 20-25 years.

The table below shows the reserves additions in each change category relating to the reserve replacement ratio for the period 2002-2004.

A total of 428 mmboe proven reserves was added during 2004, of which 305 mmboe were proven developed reserves. The remaining 123 mmboe were proven undeveloped reserves.

The reserve replacement rate was 106 per cent in 2004, compared to 99 per cent in 2003 and 98 per cent in 2002. The average replacement rate for the last three years was 101 per cent, including purchases and sales. The target for reserve replacement was an average of 100 per cent for the three years from 2002 to 2004.

Management has historically used the reserve replacement ratio and finding and development cost as target measures against which the company's progress is measured on an annual basis. These measures are no longer viewed by management as providing useful information to investors regarding Statoil's progress in enhancing operational efficiency, and are therefore not included in the set of targets for 2007. The usefulness of these measures is limited by the volatility of oil prices, the influence of oil and gas prices on PSA reserve

Line item (mmboe)	2002	2003	2004
Revisions and improved recovery	125	206	165
Extensions and discoveries	272	186	46
Purchase of reserves-in-place	10	0	246
Sales of reserves-in-place	(29)	0	(29)
Total reserve additions	378	392	428
Production	(388)	(395)	(402)
Net change in proven reserves	(10)	(3)	26

Reserve replacement rate (three-year average)	2002	2003	2004
Corporate	0.78	0.95	1.01
E&P Norway	0.63	0.79	0.70
International E&P(1)	2.79	2.96	3.60

(1) Reserve replacement rate for International E&P is adjusted for the sale of Statoil Energy Inc. in 2000.

booking, the sensitivity relating to the timing of project sanctions, and the time lag between exploration expenditures, booking of reserves and capital expenditures.

Production. Total oil and natural gas production was 1,106,000 boe in 2004, compared to 1,080,000 boe per day in 2003, and 1,074,000 boe per day in 2002.

The production target for the group for 2004 was 1,120,000 boe per day, excluding the production contribution from In Salah, (which in 2004 amounted to 13,000 boe per day). Statoil's production excluding In Salah was therefore 1,093,000 boe per day in 2004. The shut-down on Snorre and Vigdis and the rig strike contributed to the group not reaching its target.

Our expected production growth through 2007 is based on the current characteristics of our reservoirs, our planned investments and development projects. Including the acquisition of interests in the two Algerian assets In Salah and In Amenas, the production target for 2007 is set at 1,400,000 boe per day.

Trend information
Achieving the targeted growth in the coming years will require an increase in investments from the current level which will consequently depress ROACE in 2005 and 2006. Of the projects expected to contribute to reaching this production target of 1,400,000 boe per day for 2007, nearly 100 per cent of these projects have already been sanctioned.

Capital expenditures. Set forth below are our capital expenditures in our four principal business segments for 2001-2004, including the allocation per segment as a percentage of gross investments.

Total investments in the period 2001-2004 amounted to NOK 92 billion (excluding major investments related to the acquisition of assets) compared to NOK 95 billion, which was the level communicated at the IPO in 2001.

Capital expenditures per segment in the years ended 31 December 2002-2004 are shown in the table below.

Future capital expenditures are expected to amount to approximately NOK 100-105 billion over the three-year period from 2005-2007, with an expected distribution of approximately 50 per cent in E&P Norway, 40 per cent in International E&P and five per cent each in Natural Gas and Manufacturing & Marketing.

The group is aiming for a step-up in exploration activities in coming years, and exploration expenditure in 2005 is expected to amount to NOK 4 billion, and is expected to stay at a level of approximately NOK 3.5-4 billion per year in 2006 and 2007. The group expects to participate in the drilling of 30-35 wells in 2005. However, no guarantees can be given with regard to the number of wells drilled, the cost per well and the results of drilling. Uncertainty related to the results of past and future drilling will influence the amount of exploration expenditure capitalised and expensed. See Critical accounting principles and estimates – Exploration and leasehold acquisition costs above.

(in NOK million)	2002	%	2003	%	2004	%
E&P Norway (1)	10,926	54	13,136	55	16,776	39
International E&P (1)	5,032	25	8,019	33	18,987	44
Natural Gas (1)	1,525	8	860	4	2,368	6
Manufacturing & Marketing	1,771	9	1,546	6	4,162	10
Other	799	4	530	2	551	1
Total	20,053	100	24,091	100	42,844	100

(1) 2002 and 2003 figures for the E&P Norway, International E&P and Natural Gas segments are restated due to reclassification of investments and due to the transfer of international mid- and downstream activities from International E&P to Natural Gas and Kollsnes from E&P Norway to Natural Gas.

Statoil uses the "successful efforts" method of accounting for oil and natural gas producing activities. Expenditures to drill and equip exploratory wells are capitalised until it is clarified whether there are proven reserves. Expenditures to drill exploratory wells that do not find proven reserves, and geological and geophysical and other exploration expenditures are expensed. Unproven oil and gas properties are assessed quarterly; unsuccessful wells are expensed. Exploratory wells that have found reserves, but where classification of those reserves as proven depends on whether a major capital expenditure can be justified, may remain capitalised for more than one year. The main conditions are that either firm plans exist for future drilling in the licence or a development decision is planned in the near future.

Production cost per barrel is expected to increase on the NCS as a result of mature fields, if no measures are taken to reduce cost. The corporate initiatives introduced in 2004 are, among other things, expected to reduce cost levels. New international fields are expected in aggregate to reduce the group's production cost per barrel.

Production contribution from the international portfolio is expected to increase in the period up to 2007 to approximately 300,000 barrels per day, which is based on production from already sanctioned projects. Total production is expected to increase to 1,400,000 barrels per day, not necessarily as a result of the period's exploration activity.

This section describes our estimated capital expenditure for 2005 in respect of potential capital expenditure requirements for the principal investment opportunities available to us and other capital projects currently under consideration. The figure is based on an organic development of Statoil and excludes possible expenditures related to acquisitions. Therefore, the expenditure estimates and descriptions with respect to investments in the segment descriptions below could differ materially from the actual expenditures.

E&P Norway. A substantial portion of our 2005 capital expenditure is allocated to the ongoing development projects in Kristin, Snøhvit, Ormen Lange, Norne satellites and the Skinfaks and Rimfaks satellites which will be tied back to Gullfaks C, as well as the late life projects at Statfjord and Gullfaks and the Troll precompression project.

International E&P. We currently estimate that a substantial portion of our 2005 capital expenditure will be allocated to the following ongoing and planned development projects: In Amenas, Azeri-Chirag-Gunashli including the Baku-Tbilisi-Ceyhan pipeline, Shah Deniz, Dalia and Kizomba.

Natural Gas. Our main focus will be to increase the capacity and flexibility of our gas transportation and processing infrastructure. This will be done through expansion of the Kårstø processing plant, the development of a new pipeline to the UK, the Aldbrough gas storage project on the east coast of England and the South Caucasus pipeline related to the Shah Deniz field.

Manufacturing & Marketing. We are focusing our capital expenditure on our retail network and upgrading of the refineries to increase flexibility and increase the value of the refined products.

Finally, it should be noted that we may alter the amount, timing or segmental or project allocation of our capital expenditures in anticipation or as a result of a number of factors outside our control including, but not limited to:

- exploration and appraisal results, such as favourable or disappointing seismic data or appraisal wells

- cost escalation, such as higher exploration, production, plant, pipeline or vessel construction costs
- government approvals of projects
- government awards of new production licences
- fulfilment of necessary preconditions to consummation of acquisitions such as In Salah, In Amenas and SDS
- partner approvals
- development and availability of satisfactory transport infrastructure;
- development of markets for our petroleum and other products including price trends
- political, regulatory or tax regime risk
- accidents such as rig blowups or fires, and natural hazards
- adverse weather conditions
- environmental problems such as development restrictions, costs of regulatory compliance or the effects of petroleum discharges or spills
- acts of war, terrorism and sabotage.

Use and reconciliation of non-GAAP financial measures

Statoil is subject to SEC regulations regarding the use of "non-GAAP financial measures" in public disclosures. Non-GAAP financial measures are defined as numerical measures that either exclude or include amounts that are not excluded or included in the comparable measures calculated and presented in accordance with GAAP.

The following financial measures may be considered non-GAAP financial measures:

- Return on average capital employed (ROACE)
- Normalised return on average capital employed (normalised ROACE)
- Normalised production cost per barrel
- Net debt to capital employed ratio.

ROACE

Statoil uses ROACE to measure the return on capital employed regardless of whether the financing is through equity or debt. This measure is viewed by the company as providing useful information, both for the company and investors, regarding performance for the period under evaluation. Statoil makes regular use of this measure to evaluate its operations. Statoil's use of ROACE should not be viewed as an alternative to income before financial items, other items, income taxes and minority interest, or to net income, which are the measures calculated in accordance with generally accepted accounting principles or ratios based on these figures.

Statoil uses normalised ROACE to measure the return on the capital employed, while excluding the effects of market developments over which Statoil has no control. Effects of changes in oil price, natural gas price, refining margin, Borealis margin and the NOK/USD exchange rate are therefore excluded from the normalised figure.

This measure is viewed by the company as providing a better understanding of Statoil's underlying performance over time and across periods, by excluding from the performance measure factors that Statoil cannot influence. Statoil's management makes regular use of this measure to evaluate its operations.

The figures used for calculating the normalised ROACE towards the 2004 target were (each adjusted for inflation from 2000):

- oil price of USD 16 per barrel
- natural gas price of NOK 0.70 per scm
- FCC refining margin of USD 3.0 per barrel
- petrochemical margin of EUR 150 per tonne
- NOK/USD exchange rate of 8.20.

By keeping certain prices which are key value drivers, as well as the important NOK/USD exchange rate, constant, Statoil is able to utilise this measure to focus on operating cost and efficiency improvements, and is able to measure performance on a comparable basis across periods. Such a focus would be more challenging to maintain in periods in which prices are high and exchange rates are favourable. In the period 2001 to the fourth quarter of 2004, during which Statoil has been using normalised ROACE as a tool of measuring performance, the normalisation procedures have on average resulted in lower normalised earnings compared to the earnings based on realised prices. Normalised results, however, should not be seen as an alternative to measures calculated in accordance with GAAP when measuring financial performance.

The company reviews both realised and normalised results when measuring performance. However, the company finds the normalised results to be especially useful when realised prices, margins and exchange rates are above the normalised set of assumptions. Normalised ROACE is based on organic development and the figures for 2003 and 2004 exclude the effects related to the acquisition of the two Algerian assets, In Salah and In Amenas, as well as the

2004 acquisition of ICA/Ahold's 50 per cent share in SDS, as these major acquisitions were not known when the measures were set, and the company started reporting progress made towards the 2004 targets. In 2004, the gain related to the sale of the shares in VNG in the first quarter was excluded from the calculation of the normalised ROACE.

Statoil also defines certain items to be of such a nature that they will not provide a good indication of the company's underlying performance when included in the key indicators. These items are therefore excluded from calculations of adjusted and normalised ROACE.

The following table shows our ROACE calculation based on reported figures and normalised figures:

Calculation of nominator and denominator used in ROACE calculations (in NOK million)	2002	2003	2004
Net income for the last 12 months	16,846	16,554	24,916
Minority interest for the last 12 months	153	289	505
After-tax net financial items for the last 12 months	(4,352)	(496)	(1,947)
Net income adjusted for minority interest and after-tax net financial items (A1)	12,647	16,347	23,474
Adjustments for tax effects and insurance accruals in 2004	0	0	(1,283)
Adjustment for the gain from the sale of VNG	0	0	(446)
Adjustments made in 2003 and 2002(1)	(144)	(687)	0
Numerator adjustments for costs In Salah, In Amenas and SDS	0	35	(295)
Effect of normalised prices and margins	(3,832)	(6,998)	(12,608)
Effect of normalised NOK/USD exchange rate	446	1,712	2,189
Normalised net income (A2)	9,117	10,410	11,031
Computed average capital employed			
Average capital employed (B1) (2)	86,167	88,016	99,246
Adjusted average capital employed (B2) (2)	84,755	87,361	99,768
Denominator adjustments on average capital employed In Salah, In Amenas (3)	0	(3,422)	(7,766)
Denominator adjustments on average capital employed SDS (3)	0	0	(2,361)
Average capital employed adjusted for In Salah, In Amenas and SDS (B3)	84,755	83,939	89,641

(1) Adjustments made in the 2002 figures consisted of the sale of the exploration and operations activity on the Danish continental shelf (profit NOK 1.0 billion before tax and NOK 0.7 billion after tax), as well as a write-down of the LL652 field in Venezuela of NOK 0.8 billion before tax (NOK 0.6 billion after tax). Adjustments made in the 2003 figures consisted of the positive effect of the change in the Removal Grants Act in the second quarter of 2003 of NOK 0.7 billion after tax.

(2) See Use of non-GAAP financial measures – Net debt to capital employed below for a reconciliation of average capital employed and adjusted average capital employed. Average capital employed used when calculating ROACE is the average of the opening and closing balance of a year.

(3) The adjustment corresponds to approximately 50 per cent of the capital employed effect. The capital employed related to these acquisitions was included in the closing balance of the period, but only to a limited extent in the opening balance, which entails an effect on average capital employed of approximately 50 per cent of this amount.

ROACE calculation	2002	2003	2004
Calculated ROACE using average capital employed (A1/B1)	14.7%	18.6%	23.6%
Calculated ROACE using adjusted average capital employed (A1/B2)	14.9%	18.7%	23.5%
Normalised ROACE (A2/B3)	10.8%	12.4%	12.3%

Normalised production cost per barrel in USD is used to evaluate the underlying development in the production cost. Statoil's production costs are mainly incurred in NOK. In order to exclude currency effects and to reflect the change in the underlying production cost, the NOK/USD exchange rate is held constant.

In the table below, normalised production cost per boe is reconciled to the most comparable GAAP measure, production costs per boe.

Production costs per boe	2002	2003	2004
Total production costs last 12 months (in NOK million)	9,081	8,747	9,377
Lifted volumes last 12 months (million boe)	392	391	400
Average NOK/USD exchange rate	7.97	7.07	6.74
Production cost per boe	**2.92**	**3.17**	**3.49**
Normalisation of production cost per boe			
Total production costs last 12 months (in NOK million)	9,081	8,747	9,377
Production costs last 12 months E&P Norway (in NOK million)	8,102	7,865	8,038
Normalised exchange rate (NOK/USD)	8.20	8.20	8.20
Production costs last 12 months E&P Norway, normalised at NOK/USD 8.20	988	959	980
Production costs last 12 months International E&P (in USD million)	123	125	199
Normalisation for production costs In Salah (in USD million)	0	0	(11)
Total production costs last 12 months in USD (normalised)	1,111	1,084	1,169
Lifted volumes last 12 months (million boe)	392	391	400
Normalisation for lifted volumes In Salah (million boe)	0	0	(5)
Production cost per boe normalised at NOK/USD 8.20	2.84	2.77	2.96

Net debt to capital employed ratio

The calculated net debt to capital employed ratio is viewed by the company as providing a more complete picture of the group's current debt situation than gross interest-bearing debt. The calculation uses balance sheet items related to total debt and adjusts for Cash, cash equivalents and short-term investments. Two additional adjustments are made for two different reasons:

- Since different legal entities in the group lend to and borrow from the investment banks, project financing through an external bank or similar will not be netted in the balance sheet and over-report the debt stated in the balance sheet compared to the underlying exposure in the group.
- Some interest–bearing elements are classified together with non-interest-bearing elements, and are therefore included when calculating the net interest-bearing debt.

The net interest-bearing debt adjusted for these two items is included in the average capital employed, which is also used in the calculation of ROACE and normalised ROACE.

The table below reconciles net interest-bearing debt, capital employed and net debt to capital employed ratio to the most directly comparable financial measure or measures calculated in accordance with GAAP.

Calculation of capital employed (in NOK million)	2002	2003	2004
Total shareholders' equity	57,017	70,174	85,030
Minority interest	1,550	1,483	1,616
Total equity and minority interest (A)	58,567	71,657	86,646
Short-term debt	4,323	4,287	4,730
Long-term debt	32,805	32,991	31,459
Gross interest-bearing debt	37,128	37,278	36,189
Cash and cash equivalents	(6,702)	(7,316)	(5,028)
Short-term investments	(5,267)	(9,314)	(11,621)
Cash, cash equivalents and short-term investments	(11,969)	(16,630)	(16,649)
Net interest-bearing debt (B)	**25,159**	**20,648**	**19,540**
Capital employed (A+B)	83,726	92,305	106,186
Average capital employed	86,167	88,016	99,246
Net debt to capital employed (B/(A+B))	30.2%	22.4%	18.4%
Calculation of adjusted net interest-bearing debt			
Adjustment of net interest-bearing debt for project loan (1)	(1,567)	(1,500)	(2,209)
Adjustment of net interest-bearing debt for other items (2)	0	1,758	2,995
Net interest-bearing debt after adjustments (C)	23,592	20,906	20,326
Calculation of adjusted capital employed			
Adjusted capital employed (A+C)	82,159	92,563	106,972
Average adjusted capital employed	84,755	87,361	99,768
Net debt to capital employed (C/(A+C))	28.7%	22.6%	19.0%

(1) Adjustment for inter-company project financing through an external bank.

(2) Adjustment made for deposits received for financial derivatives. Although these deposits are classified as liquid assets, they are interest-bearing and are therefore not excluded from gross interest-bearing debt when calculating our net interest-bearing debt.

Forward-looking statements

All statements other than statements of historical facts, including, among others, statements regarding our future financial position, business strategy, budgets, reserve information, projected levels of capacity and production, projected operating costs, estimates of capital expenditure, expected exploration and development activities and plans and objectives of management for future operations, are forward-looking statements. These forward-looking statements reflect current views with respect to future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including levels of industry product supply, demand and pricing; currency exchange rates; political and economic policies of Norway and other oil-producing countries; general economic conditions; political stability and economic growth in relevant areas of the world; global political events and actions, including war, terrorism and sanctions; the timing of bringing new fields on stream; material differences from reserves estimates; inability to find and develop reserves; adverse changes in tax regimes; development and use of new technology; geological or technical difficulties; the actions of competitors; the actions of field partners; natural disasters and other changes to business conditions. Additional information, including information on factors which may affect our business, is contained in our Registration Statement on Form F-1 filed with the US Securities and Exchange Commission and will be contained in our Annual Report on Form 20F expected to be filed with the US Securities and Exchange Commission in March 2005.

Statoil group – USGAAP

CONSOLIDATED STATEMENTS OF INCOME – USGAAP

(in NOK million)	2004	For the year ended December 31, 2003	2002
REVENUES			
Sales	**303,756**	248,527	242,178
Equity in net income of affiliates	**1,209**	616	366
Other income	**1,253**	232	1,270
Total revenues	**306,218**	249,375	243,814
EXPENSES			
Cost of goods sold	**(188,179)**	(149,645)	(147,899)
Operating expenses	**(27,350)**	(26,651)	(28,308)
Selling, general and administrative expenses	**(6,298)**	(5,517)	(5,251)
Depreciation, depletion and amortization	**(17,456)**	(16,276)	(16,844)
Exploration expenses	**(1,828)**	(2,370)	(2,410)
Total expenses before financial items	**(241,111)**	(200,459)	(200,712)
Income before financial items, other items, income taxes and minority interest	**65,107**	48,916	43,102
Net financial items	**5,739**	1,399	8,233
Other items	**0**	(6,025)	0
Income before income taxes and minority interest	**70,846**	44,290	51,335
Income taxes	**(45,425)**	(27,447)	(34,336)
Minority interest	**(505)**	(289)	(153)
Net income	**24,916**	16,554	16,846
Net income per share	11.50	7.64	7.78
Weighted average number of shares outstanding	2,166,142,636	2,166,143,693	2,165,422,239

Revenues are net of excise tax of NOK 22,910, 20,753 and 18,745 million in 2004, 2003 and 2002, respectively.

See notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS – USGAAP

(in NOK million)	At December 31, 2004	2003
ASSETS		
Cash and cash equivalents	5,028	7,316
Short-term investments	11,621	9,314
Cash, cash equivalents and short-term investments	16,649	16,630
Accounts receivable	31,736	28,048
Accounts receivable - related parties	0	2,144
Inventories	6,971	4,993
Prepaid expenses and other current assets	9,713	7,354
Total current assets	65,069	59,169
Investments in affiliates	10,339	11,022
Long-term receivables	8,176	14,261
Net property, plant and equipment	152,916	126,528
Other assets	11,743	10,620
TOTAL ASSETS	248,243	221,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	4,730	4,287
Accounts payable	19,282	17,977
Accounts payable - related parties	5,621	6,114
Accrued liabilities	12,385	11,454
Income taxes payable	19,117	17,676
Total current liabilities	61,135	57,508
Long-term debt	31,459	32,991
Deferred income taxes	44,270	37,849
Other liabilities	24,733	21,595
Total liabilities	161,597	149,943
Minority interest	1,616	1,483
Common stock (NOK 2.50 nominal value), 2,189,585,600 shares authorized and issued	5,474	5,474
Treasury shares, 23,452,876 shares and 23,441,885 shares	(60)	(59)
Additional paid-in capital	37,273	37,728
Retained earnings	46,153	27,627
Accumulated other comprehensive income (loss)	(3,810)	(596)
Total shareholders' equity	85,030	70,174
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	248,243	221,600

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY – USGAAP

(in NOK million, except share data)	Numbers of shares issued	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
At January 1, 2002	2,189,585,600	5,474	(63)	37,728	6,682	1,953	51,774
Net income					16,846		16,846
Translation adjustment and other comprehensive income						(5,434)	(5,434)
Total comprehensive income							11,412
Bonus shares distributed			4		(4)		0
Ordinary dividend					(6,169)		(6,169)
At December 31, 2002	2,189,585,600	5,474	(59)	37,728	17,355	(3,481)	57,017
Net income					16,554		16,554
Translation adjustment and other comprehensive income						2,885	2,885
Total comprehensive income							19,439
Ordinary dividend					(6,282)		(6,282)
At December 31, 2003	2,189,585,600	5,474	(59)	37,728	27,627	(596)	70,174
Net income					24,916		24,916
Translation adjustment and other comprehensive income						(3,214)	(3,214)
Total comprehensive income							21,702
Settlement with the Norwegian State (see note 1)				(458)			(458)
Value of stock compensation plan				3			3
Treasury shares bought			(1)				(1)
Ordinary dividend					(6,390)		(6,390)
At December 31, 2004	2,189,585,600	5,474	(60)	37,273	46,153	(3,810)	85,030

Other comprehensive income amounts are net of income tax benefit of NOK 32, 81 and 78 million at 2004, 2003 and 2002, respectively.

Dividends paid per share were NOK 2.95, NOK 2.90 and NOK 2.85 in 2004, 2003 and 2002, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS – USGAAP

(in NOK million)	For the year ended December 31, 2004	2003	2002
OPERATING ACTIVITIES			
Consolidated net income	**24,916**	16,554	16,846
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Minority interest in income	**505**	289	153
Depreciation, depletion and amortization	**17,456**	16,276	16,844
Exploration expenditures written off	**110**	256	554
(Gains) losses on foreign currency transactions	**(1,919)**	781	(8,771)
Deferred taxes	**5,006**	(6,177)	628
(Gains) losses on sales of assets and other items	**(1,531)**	5,719	(1,589)
Changes in working capital (other than cash and cash equivalents):			
• (Increase) decrease in inventories	**(1,645)**	349	(146)
• (Increase) decrease in accounts receivable	**(1,149)**	2,054	(6,211)
• (Increase) decrease in prepaid expenses and other current assets	**(4,590)**	(1,511)	3,107
• (Increase) decrease in short-term investments	**(2,307)**	(4,047)	(3,204)
• Increase (decrease) in accounts payable	**(147)**	(949)	4,118
• Increase (decrease) in other payables	**1,449**	2,436	(645)
• Increase (decrease) in taxes payable	**1,387**	(682)	1,740
(Increase) decrease in non-current items related to operating activities	**1,266**	(551)	599
Cash flows provided by operating activities	**38,807**	30,797	24,023
INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(31,800)**	(22,075)	(17,907)
Exploration expenditures capitalized	**(748)**	(331)	(652)
Change in long-term loans granted and other long-term items	**(2,650)**	(7,682)	(1,495)
Proceeds from sale of assets	**3,239**	6,890	3,298
Cash flows used in investing activities	**(31,959)**	(23,198)	(16,756)

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS – USGAAP

(in NOK million)	2004	For the year ended December 31, 2003	2002
FINANCING ACTIVITIES			
New long-term borrowings	**4,599**	3,206	5,396
Repayment of long-term borrowings	**(6,574)**	(2,774)	(4,831)
Distribution to minority shareholders	**(559)**	(356)	(173)
Dividends paid	**(6,390)**	(6,282)	(6,169)
Net short-term borrowings, bank overdrafts and other	**(131)**	(1,656)	1,146
Cash flows used in financing activities	**(9,055)**	(7,862)	(4,631)
Net increase (decrease) in cash and cash equivalents	**(2,207)**	(263)	2,636
Effect of exchange rate changes on cash and cash equivalents	**(81)**	877	(329)
Cash and cash equivalents at the beginning of the year	**7,316**	6,702	4,395
Cash and cash equivalents at the end of the year	**5,028**	7,316	6,702
Interest paid	1,179	1,336	1,782
Taxes paid	38,844	34,230	31,634

Changes in working capital items resulting from the disposal of the subsidiary Navion in 2003 are excluded from Cash flows provided by operating activities and classified as Proceeds from sale of assets. Changes in balance sheet items resulting from the aquisition of the Statoil Detaljhandel Skandinavia in 2004 are excluded from Cash flows provided by operating activities and Cash flow used in financing activities, and classified as Additions to property, plant and equipment.

See notes to the consolidated financial statements.

1. ORGANIZATION AND BASIS OF PRESENTATION

Statoil ASA was founded in 1972, as a 100 per cent Norwegian State-owned company. Statoil's business consists principally of the exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products. In 1985, the Norwegian State transferred certain properties from Statoil to the State's direct financial interest (SDFI), which were also 100 per cent owned by the Norwegian State.

In conjunction with a partial privatization of Statoil in June 2001, the Norwegian State restructured its holdings in oil and gas properties on the Norwegian Continental Shelf. In this restructuring, the Norwegian State transferred to Statoil certain SDFI properties with a book value of approximately NOK 30 billion, in consideration for which NOK 38.6 billion in cash plus interest and currency fluctuation from the valuation date of NOK 2.2 billion (NOK 0.7 billion after tax), and certain pipeline and other assets with a net book value of NOK 1.5 billion were transferred to the Norwegian State. The transaction was completed June 1, 2001 with a valuation date of January 1, 2001 with the exception of the sale of an interest in the Mongstad terminal which had a valuation date of June 1, 2001.

The total amount paid to the Norwegian State was financed through a public offering of shares of NOK 12.9 billion, issuance of new debt of NOK 9 billion and the remainder from existing cash and short-term borrowings.

The transfer of properties from SDFI has been accounted for as transactions among entities under common control and the results of operations and financial position have been accounted for at historical cost. The net book values of the acquired oil and gas properties, and the cash settlement, have been reported as capital contribution and dividend, respectively. The final cash settlement is under review by the Norwegian State, and Statoil has in 2004 recorded its estimated outcome against shareholders' equity. No further material impact is expected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Statoil ASA and its subsidiaries (the Company or the group) are prepared in accordance with United States generally accepted accounting principles (USGAAP).

Consolidation

The consolidated financial statements include the accounts of Statoil ASA and subsidiary companies owned directly or indirectly more than 50 per cent. Inter-company transactions and balances have been eliminated. Investments in companies in which Statoil does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20 to 50 per cent ownership), are accounted for by the equity method. Undivided interests in unincorporated joint ventures in the oil and gas business, including pipeline transportation, are consolidated on a pro rata basis.

Foreign currency translation

Each foreign entity's financial statements are prepared in the currency in which that entity primarily conducts its business (the functional currency). For Statoil's foreign subsidiaries the local currency is normally identical with the functional currency, with the exception of some upstream subsidiaries, which have US dollar as functional currency, mainly because most of the revenues and costs are in US dollar.

When translating foreign functional currency financial statements to Norwegian kroner, year-end exchange rates are applied to asset and liability accounts, and average rates are applied to income statement accounts. Adjustments resulting from this process are included in the Accumulated other comprehensive income account in shareholders' equity, and do not affect net income.

Transactions denominated in currencies other than the entity's functional currency are re-measured into the functional currency using current exchange rates. Gains or losses from this re-measurement are included in income.

Revenue recognition

Revenues associated with sale and transportation of crude oil, natural gas, petroleum and chemical products and other merchandise are recorded when title passes to the customer at the point of delivery of the goods based on the contractual terms of the agreements. Revenue is recorded net of customs, excise taxes and royalties paid in kind on petroleum products.

Sales and purchases of physical commodities which are not settled net are presented on a gross basis as Sales and Cost of goods sold in the Income statement. Activities related to the trading of commodity based derivative instruments are reported on a net basis, with the margin included in Sales. Arrangements involving a series of buys and sells entered into in order to obtain a given quantity and quality of a commodity at a given location are recognized net and included in Sales.

Transactions with the Norwegian State
Statoil markets and sells the Norwegian State's share of oil and gas production from the Norwegian continental shelf (NCS). All purchases and sales of SDFI oil production are recorded as Cost of goods sold and Sales. All oil received by the Norwegian State as royalty in kind from fields on the NCS is purchased by Statoil. Statoil includes the costs of purchase and proceeds from the sale of this royalty oil in its Cost of goods sold and Sales respectively.

Statoil is selling, in its own name, but for the Norwegian State's account and risk, the state's production of natural gas. This sale and related expenses refunded by the State, are recorded net in Statoil's financial statements. Refunds include expenses related to activities incurred to secure market access, and investments made to maximise profitability from the sale of natural gas.

Inter-company balances and transactions in connection with activities in licenses are not included in related parties' transactions.

Cash and cash equivalents
Cash and cash equivalents include cash, bank deposits and all other monetary instruments with three months or less to maturity at the date of purchase.

Short-term investments
Short-term investments include bank deposits and all other monetary instruments and marketable equity and debt securities with a maturity of between three and twelve months at the date of purchase. The portfolios of securities are considered trading securities and are valued at fair value (market). The resulting unrealized holding gains and losses are included in Net financial items.

Inventories
Inventories are valued at the lower of cost or market. Costs of crude oil held at refineries and the majority of refined products are determined under the last-in, first-out (LIFO) method. Certain inventories of crude oil, refined products and non-petroleum products are determined under the first-in, first-out (FIFO) method. Cost includes raw material, freight, and direct production costs together with share of indirect costs.

Use of estimates
Preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as disclosures of contingencies. Actual results may ultimately differ from the estimates and assumptions used.

The nature of Statoil's operations, and the many countries in which Statoil operates, are subject to changing economic, regulatory and political conditions. Statoil does not believe it is vulnerable to the risk of a near-term severe impact as a result of any concentration of its activities.

Property, plant and equipment
Property, plant and equipment are carried at historical cost less accumulated depreciation, depletion and amortization. Expenditures for significant renewals and improvements are capitalized. Ordinary maintenance and repairs are charged to income when performed. Provisions are made for costs related to significant periodic maintenance programs.

Depreciation of production installations and field-dedicated transport systems for oil and gas is calculated using the unit of production method based on proved reserves expected to be recovered during the concession period. Ordinary depreciation of other assets and of transport systems used by several fields is calculated on the basis of their economic life expectancy, using the straight-line method. The economic life of nonfield-dedicated transport systems is normally the production period of the related fields, limited by the concession period. Straight-line depreciation of other assets is based on the following estimated useful lives:

Machinery and equipment	5 — 10 years
Production plants onshore	15 — 20 years
Buildings	20 — 25 years
Vessels	20 — 25 years

Oil and gas accounting
Statoil uses the "Successful efforts"- method of accounting for oil and gas producing activities. Expenditures to acquire mineral interests in oil and gas properties and to drill and equip exploratory wells are capitalized until it is clarified if there are proved reserves. Expenditures to drill exploratory wells that do not find proved reserves, and geological and geophysical and other exploration expenditures are expensed.

Unproved oil and gas properties are assessed quarterly; unsuccessful wells are expensed. Exploratory wells that have found reserves, but classification of those reserves as proved depends on whether a major capital expenditure can be justified, may remain capitalized for more than one year. The main conditions are that either firm plans exist for future drilling in the license or a development decision is planned in the near future.

Expenditures to drill and equip exploratory wells that find proved reserves are capitalized. Capitalized expenditures of producing oil and gas properties are depreciated and depleted by the unit of production method. Pre-production expenditures are expensed as incurred.

Impairment of long-lived assets
Tangible assets, identifiable intangible assets and goodwill, are written down when events or a change in circumstances during the year indicate that their carrying amount may not be recoverable.

Impairment is determined for each autonomous group of assets (oil and gas fields or licenses, or independent operating units) by comparing their carrying value with the undiscounted cash flows they are expected to generate based upon management's expectations of future economic and operating conditions.

Should the above comparison indicate that an asset is impaired, the asset is written down to fair value, generally determined based on discounted cash flows.

Assets held for sale
Assets held for sale are classified as short-term if the appropriate accounting criteria are met. The main criteria is that management with the authority to do so commit to a plan to sell the assets and expects to record the transfer of the assets as a completed sale within one year. Assets held for sale are measured at the lower of its carrying amount or fair value less costs to sell.

Asset retirement obligation
Financial Accounting Standard (FAS) 143, Accounting for Asset Retirement Obligations was effective from January 1, 2003. The Statement requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Fair value is estimated based on existing technology and regulation. Upon initial recognition of a liability, the costs are capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. Changes in asset retirement obligation estimates are capitalized as part of the long-lived asset and expensed prospectively over the remaining useful life of the asset. The discount rate used when estimating the fair value of the asset retirement obligation is a credit-adjusted risk-free interest rate with the same expected maturity as the removal obligation.

Leased assets
Capital leases, which provide Statoil with substantially all the rights and obligations of ownership, are classified as assets under Property, plant and equipment and as liabilities under Long-term debt valued at the present value of minimum lease payments. The assets are subsequently depreciated over their expected economic life, and the liability is reduced for lease payments less the effective interest expense.

Employee retirement plans
Contribution plans, plans where the company's obligation is to contribute a defined amount to the employee, is allocated to net income in the period the contribution covers. Defined benefit plans where the employees have the right of a defined amount of pension, is allocated to net income over the service period.

Prior service costs, due to plan amendments, are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 per cent of the greater of the benefit obligation or the fair value of assets are amortized over the remaining service period of active plan participants.

Research and development
Research and development expenditures are expensed as incurred.

Income taxes
Deferred income tax expense is calculated using the liability method. Under this method, deferred tax assets and liabilities are determined by applying the enacted statutory tax rates applicable to future years to the temporary differences between the carrying values of assets and liabilities for financial reporting and their tax basis. Deferred income tax expense is the change during the year in the deferred tax assets and liabilities relating to the operations during the year. Effects of changes in tax laws and tax rates are recognized at the date the tax law changes.

Deferred tax benefit is reduced by a valuation allowance if it is unlikely that the benefit can be used. Uplift benefit is reflected in the accounts when the deduction impacts taxes payable.

Derivative financial instruments and hedging activities
Statoil operates in the worldwide crude oil, refined products, and natural gas markets and is exposed to fluctuations in hydrocarbon prices, foreign currency rates and interest rates that can affect the revenues and cost of operating, investing and financing. Statoil's management has used and intends to use financial and commodity-based derivative contracts to reduce the risks in overall earnings and cash flows. Statoil applies hedge accounting in certain circumstances as allowed by FAS 133, and enters into derivatives which economically hedge certain of its risks even though hedge accounting is not allowed by the Statement or is not applied by Statoil.

For derivatives where hedge accounting is used, Statoil formally designates the derivative as either a fair value hedge of a recognized asset or liability or unrecognized firm commitment, or a cash flow hedge of an anticipated transaction. Statoil documents the designated hedging relationship upon entering into the derivative, including identification of the hedging instrument and the hedged item or transaction, strategy and risk management objective for undertaking the hedge, and the nature of the risk being hedged. Furthermore, each derivative is assessed for hedge effectiveness both at the inception of the hedging relationship and on a quarterly basis, for as long as the derivative is outstanding. Hedge accounting is only applied when the derivative is deemed to be highly effective at offsetting changes in fair values or anticipated cash flows of the hedged item or transaction. For hedged forecasted transactions, hedge accounting is discontinued if the forecasted transaction is no longer probable of occurring. Any previously deferred hedging gains or losses would be recorded to earnings when the transaction is considered to be probable of not occurring. Earnings impacts for all designated hedges are recorded in the Consolidated Statement of Income generally on the same line item as the gain or loss on the item being hedged.

Statoil records all derivatives that do not qualify for the normal purchase and normal sales exemption at fair value as assets or liabilities in the Consolidated Balance Sheets. For fair value hedges, the effective and ineffective portions of the change in fair value of the derivative, along with the gain or loss on the hedged item attributable to the risk being hedged, are recorded in earnings as incurred. For cash flow hedges, the effective portion of the change in fair value of the derivative is deferred in accumulated Other comprehensive income in the Consolidated Balance Sheets until the transaction is reflected in the Consolidated Statements of Income, at which time any deferred hedging gains or losses are recorded in earnings. The ineffective portion of the change in the fair value of a derivative used as a cash flow hedge is recorded in earnings in Sales or Cost of goods sold as incurred.

Stock based compensation

Statoil has as of the fourth quarter 2004 adopted FAS 123R and related interpretations in accounting for the compensation plan as it relates to bonus shares. In accordance with this standard compensation cost is measured at fair value. Compensation cost is measured at the grant date based on the value of the awarded shares and recognized over the service period. The awarded shares will be accounted for as compensation cost in the Income Statement and recorded as an equity transaction (included in Additional paid-in capital).

Reclassifications

Statoil has adjusted the formula for calculating the inter-segment price for deliveries of natural gas from Exploration and Production Norway to Natural Gas, see note 3.

Certain reclassifications have been made to prior years' figures to be consistent with current year's presentation.

New Accounting Standards

In June 2001, the FASB issued FAS 143, Accounting for Asset Retirement Obligations, effective for fiscal years beginning after June 15, 2002. The Statement requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. The Company adopted the new rules on asset retirement obligations on January 1, 2003. Application of the new standard resulted in an increase in net property, plant and equipment of NOK 2.8 billion, an increase in accrued asset retirement obligation of NOK 7.1 billion, a reduction in deferred tax assets of NOK 1.5 billion, and a long-term receivable of NOK 5.8 billion. The receivable represented the expected refund by the Norwegian State of an amount equivalent to the actual removal costs multiplied by the effective tax rate over the productive life of the assets. Removal costs on the Norwegian continental shelf were, unlike decommissioning costs, not deductible for tax purposes. The implementation effect of NOK 33 million after tax was expensed as Operating expenses in the segment Other. If the standard had been applied as of the beginning of 2002 the effect on net income and shareholders' equity for the year ended 2002 would have been immaterial.

The Norwegian Parliament decided in June 2003 to replace governmental refunds for removal costs on the Norwegian continental shelf with ordinary tax deduction for such costs. Previously, removal costs were refunded by the Norwegian State based on the company's percentage for income taxes payable over the productive life of the removed installation. As a consequence of the changes in legislation, Statoil has charged the receivable of NOK 6.0 billion against the Norwegian State related to refund of removal costs to income under Other items in the second quarter of 2003. Furthermore, the resulting deferred tax benefit of NOK 6.7 billion has been taken to income under Income taxes.

Statoil adopted Financial Accounting Standard (FAS) 123R Share-Based Compensation in the fourth quarter of 2004, as an employee share saving plan was introduced. Employees have the opportunity to buy shares in Statoil every year up to a ceiling of five per cent of their gross salary. For shares held for at least two calendar years, employees will receive one bonus share for every two purchased. The bonus element is valued at the grant day and amortized to income over the vesting period. The effect on the Consolidated Statements of Income and financial position is immaterial.

3. SEGMENTS

Statoil operates in four segments; Exploration and Production Norway, International Exploration and Production, Natural Gas and Manufacturing and Marketing.

Operating segments are determined based on differences in the nature of their operations, geographic location and internal management reporting. The composition of segments and measure of segment profit are consistent with that used by management in making strategic decisions.

A new method for calculating the inter-segment price for deliveries of natural gas from Exploration and Production Norway to Natural Gas was adopted from January 1, 2003. The price is adjusted quarterly by the average USD oil price over the last six months in proportion to USD 15. The new price applies to all volumes, while previously the price was calculated on a field-by-field basis, and the formula used differentiated between gas fields and fields delivering associated gas. The new method is partly a result of the Norwegian Gas Negotiating Committee being abolished, and replaced by company-based sales. Prior periods have been adjusted to reflect the new pricing formula. The inter-segment price in 2004 has been NOK 0.71 per standard cubic meter.

Natural Gas has as of January 1, 2004 taken over certain activities from International Exploration and Production. The activities consist of gas sale activities in some foreign countries, construction of a pipeline for transportation of natural gas from Azerbaijan to Turkey and sale of Statoil's natural gas processed at the Cove Point terminal in the USA. Prior periods' figures have been adjusted to reflect the new structure.

At January 1, 2004 the Kollsnes activity was transferred from Exploration and Production Norway to Natural Gas. At February 1, 2004 the Kollsnes gas processing plant was transferred to Gassled. The transfer did not lead to significant changes in Statoil's existing rights, obligations or book values of the Kollsnes assets. The operatorship was taken over by Gassco. Assets related to Kollsnes were transferred from Exploration and Production Norway to Natural Gas at net book value of NOK 4.2 billion. Prior periods' figures have been adjusted to reflect the new structure.

Segment data for the years ended December 31, 2004, 2003 and 2002 is presented below:

(in NOK million)	Exploration and Production Norway	International Exploration and Production	Natural Gas	Manufacturing and Marketing	Other and eliminations	Total
Year ended December 31, 2004						
Revenues third party	1,570	3,261	32,657	266,182	1,339	305,009
Revenues inter-segment	72,403	6,504	447	58	(79,412)	0
Income (loss) from equity investments	77	0	222	937	(27)	1,209
Total revenues	74,050	9,765	33,326	267,177	(78,100)	306,218
Depreciation, depletion and amortization	12,381	2,215	652	1,719	489	17,456
Income before financial items, other items, income taxes and minority interest	51,029	4,188	6,784	3,921	(815)	65,107
Imputed segment income taxes	(37,904)	(1,429)	(4,381)	(850)	0	(44,564)
Segment net income	13,125	2,759	2,403	3,071	(815)	20,543
Year ended December 31, 2003						
Revenues third party	2,250	2,157	24,785	218,169	1,398	248,759
Revenues inter-segment	60,170	4,458	445	120	(65,193)	0
Income (loss) from equity investments	74	0	222	353	(33)	616
Total revenues	62,494	6,615	25,452	218,642	(63,828)	249,375
Depreciation, depletion and amortization	11,969	1,784	619	1,419	485	16,276
Income before financial items, other items, income taxes and minority interest	37,855	1,781	6,005	3,555	(280)	48,916
Imputed segment income taxes	(28,066)	(676)	(4,196)	(755)	(15)	(33,708)
Segment net income	9,789	1,105	1,809	2,800	(295)	15,208

(in NOK million)	Exploration and Production Norway	International Exploration and Production	Natural Gas	Manufacturing and Marketing	Other and eliminations	Total
Year ended December 31, 2002						
Revenues third party	1,706	5,749	24,236	210,653	1,104	243,448
Revenues inter-segment	57,075	1,020	168	194	(58,457)	0
Income (loss) from equity investments	(1)	0	132	305	(70)	366
Total revenues	58,780	6,769	24,536	211,152	(57,423)	243,814
Depreciation, depletion and amortization	11,725	2,355	728	1,686	350	16,844
Income before financial items, other items, income taxes and minority interest	34,204	1,129	6,134	1,637	(2)	43,102
Imputed segment income taxes	(25,489)	(394)	(4 ,482)	(401)	(20)	(30,786)
Segment net income	8,715	735	1,652	1,236	(22)	12,316

Borrowings are managed at a corporate level and interest expense is not allocated to segments. Income tax is calculated on Income before financial items, other items, income taxes and minority interest. Additionally, income tax benefit on segments with net losses is not recorded. As such, Imputed segment income taxes and Segment net income can be reconciled to Income taxes and Net income per the Consolidated Statements of Income as follows:

(in NOK million)	For the year ended December 31, 2004	2003	2002
Segment net income	20,543	15,208	12,316
Net financial items	5,739	1,399	8,233
Other items (see note 2)	0	(6 ,025)	0
Change in deferred tax due to new legislation (see note 2)	0	6,712	0
Tax on financial items and other tax adjustments	(2 261)	(451)	(3,550)
Change in deferred tax on undistributed earnings in foreign companies*	1,400	0	0
Minority interest	(505)	(289)	(153)
Net income	24,916	16,554	16,846
Imputed segment income taxes	44,564	33,708	30,786
Change in deferred tax due to new legislation (see note 2)	0	(6,712)	0
Tax on financial items and other tax adjustments	2,261	451	3,550
Change in deferred tax on undistributed earnings in foreign companies*	(1,400)	0	0
Income taxes	45,425	27,447	34,336

* Due to changes in Norwegian tax legislation in 2004 dividends received from corporations are, with a few exceptions, exempted from Norwegian income tax. Consequently, deferred tax liabilities of NOK 1.4 billion related to undistributed retained earnings in subsidiaries and affiliates have been reversed.

The Exploration and Production Norway and International Exploration and Production segments explore for, develop and produce crude oil and natural gas, and extract natural gas liquids, sulfur and carbon dioxide. The Natural Gas segment transports and markets natural gas and natural gas products. Manufacturing and Marketing is responsible for petroleum refining operations and the marketing of crude oil and refined petroleum products.

Inter-segment revenues are sales to other business segments within Statoil and are at estimated market prices. These inter-company transactions are eliminated for consolidation purposes. Imputed segment income taxes are calculated on the basis of Income before financial items, other items, income taxes and minority interest.

Long-term deferred tax asset, included in Other long-term assets, is not allocated to business segments, but included in the segment Other.

(in NOK million)	Addition to long-lived assets	Investments in affiliates	Other long-term assets
At December 31, 2004			
Exploration and Production Norway	16,776	258	81,371
International Exploration and Production	18,987	0	37,956
Natural Gas	2,368	2,984	14,551
Manufacturing and Marketing	4,162	7,022	23,033
Other	551	75	15,924
Total	42,844	10,339	172,835
At December 31, 2003			
Exploration and Production Norway	13,136	1,324	75,144
International Exploration and Production	8,019	0	31,875
Natural Gas	860	2,006	13,766
Manufacturing and Marketing	1,546	7,655	15,571
Other	530	37	15,053
Total	24,091	11,022	151,409
At December 31, 2002			
Exploration and Production Norway	10,926	1,284	71,647
International Exploration and Production	5,032	0	19,594
Natural Gas	1,525	1,423	13,733
Manufacturing and Marketing	1,771	6,868	20,975
Other	800	54	11,655
Total	20,054	9,629	137,604

Revenues by geographic areas

	For the year ended December 31,		
(in NOK million)	2004	2003	2002
Norway	288,716	223,139	215,231
Europe (excluding Norway)	29,499	30,152	31,449
United States	27,015	26,524	27,655
Other areas	13,252	8,014	9,253
Eliminations	(53,473)	(39,070)	(40,140)
Total revenues (excluding equity in net income of affiliates)	305,009	248,759	243,448

Non-current assets by geographic areas

(in NOK million)	2004	At December 31, 2003	2002
Norway	122,635	112,672	113,629
Europe (excluding Norway)	44,415	39,845	28,550
United States	678	638	25
Other areas	24,901	21,563	11,586
Eliminations	(9,660)	(12,913)	(7,043)
Total long-lived assets (excludes long-term deferred tax assets)	182,969	161,805	146,747

4. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

In 2002, Statoil sold its interests in the Siri and Lulita oil fields on the Danish continental shelf. The sale resulted in a gain included in the International Exploration and Production segment of NOK 1.0 billion before tax and NOK 0.7 billion after tax.

Effective January 1, 2003 Statoil sold 100 per cent of the shares in Navion ASA to Norsk Teekay AS, a wholly-owned subsidiary of Teekay Shipping Corporation. The operations of Navion were shuttle tanking and conventional shipping. The sales price for the fixed assets of Navion, excluding *Navion Odin* and Navion's 50 per cent share in the *West Navigator* drillship which were not included in the sale, was approximately USD 800 million. The sale was accounted for in the Manufacturing and Marketing segment and the effect on consolidated net income was immaterial.

Statoil and BP signed an agreement in June 2003 whereby Statoil acquired 49 per cent of BP's interests in the In Salah gas project and 50 per cent of BP's interest in the In Amenas gas condensate project, both in Algeria. The purchase price was USD 740 million, and Statoil has in addition covered the expenditures incurred after January 1, 2003 related to the acquired interests. After the receipt of necessary governmental approvals in 2004, the two projects were transferred from Long-term receivables to Property, plant and equipment in the Consolidated Balance Sheets. The projects are included in the segment International Exploration and Production.

In January 2004 Statoil acquired 11.24 per cent of the Snøhvit field, of which 10 per cent from Norsk Hydro and 1.24 per cent from Svenska Petroleum. Following these transactions, Statoil has an ownership share of 33.53 per cent in the Snøhvit field, which is included in the segment Exploration and Production Norway. Reference is made to note 10 for additional information.

In January 2004 Statoil sold its 5.26 per cent shareholding in the German company Verbundnetz Gas, generating a gain of NOK 619 million before tax (NOK 446 million after tax). The gain has been classified as Other income in the Consolidated Statements of Income, and is included in the segment Natural Gas.

Statoil has acquired the retailer group ICA's 50 per cent holding in Statoil Detaljhandel Skandinavia AS (SDS), and now owns 100 per cent of SDS. Following approval under the EU merger control regulations on July 1, the transaction was completed on July 8, 2004. Based on Statoil's ownership share, SDS has been accounted for in accordance with the equity method up to and including the second quarter of 2004. SDS is consolidated as a subsidiary from the third quarter 2004. SDS is included in the Manufacturing and Marketing segment. Reference is made to Note 10 for additional information.

In October 2004 Statoil sold its 50 per cent interest in the joint venture "Partrederiet West Navigator DA", which owns the deepwater drill ship *West Navigator,* to Smedvig. The interest in the joint venture was included in the segment Exploration and Production Norway. The agreed purchase price was USD 175 million for the vessel adjusted for Statoil's share of the cash flow from the operation of the vessel from May 1, 2004. The effect on Income before financial items, other items, income taxes and minority interest was immaterial, while there was a positive tax effect of NOK 0.3 billion.

5. ASSET IMPAIRMENTS

In 2002 a charge of NOK 0.8 billion before tax (NOK 0.6 billion after tax) was recorded in Depreciation, depletion and amortization in the International Exploration and Production segment to write down the Company's 27 per cent interest in the oil field LL652 in Venezuela to fair value. The write-down was mainly due to reductions in the projected volumes of oil recoverable during the remaining contract period of operation. Fair value was calculated based on discounted estimated future cash flows.

6. PROVISON FOR RIG RENTAL CONTRACTS

Statoil provides for estimated losses on long-term fixed price rental agreements for mobile drilling rigs. The losses are calculated as the difference between estimated market rates and the fixed price rental agreements.

(in NOK million)	2004	2003	2002
Provision at January 1	1,360	960	734
Increase (decrease) during the year	(702)	454	231
Cost incurred during the year	(298)	(54)	(5)
Provision at December 31	360	1,360	960

7. INVENTORIES

Inventories are valued at the lower of cost or market. Costs of crude oil held at refineries and the majority of refined products are determined under the last-in, first-out (LIFO) method. Certain inventories of crude oil, refined products and non-petroleum products are determined under the first-in, first-out (FIFO) method. There have been no liquidations of LIFO layers which resulted in a material impact to Net income for the reported periods.

	At December 31,	
(in NOK million)	2004	2003
Crude oil	3,664	2,192
Petroleum products	3,344	2,470
Other	1,253	1,065
Total - inventories valued on a FIFO basis	8,261	5,727
Excess of current cost over LIFO value	(1,290)	(734)
Total	6,971	4,993

8. SUMMARY FINANCIAL INFORMATION OF UNCONSOLIDATED EQUITY AFFILIATES

Statoil's investment in affiliates includes a 50 per cent interest in Borealis A/S, a petrochemical production company, and included up to July 8, 2004 a 50 per cent interest in Statoil Detaljhandel Skandinavia AS (SDS), a group of retail petroleum service stations. As from July 8, SDS became a subsidiary of Statoil ASA.

Summary of financial information for affiliated companies accounted for by the equity method is shown below. Statoil's investment in these companies is included in Investments in affiliates. Statoil has given a long-term sub-ordinated loan of EUR 30 million to Borealis A/S.

Equity method affiliates - gross amounts

	Borealis			SDS		
(in NOK million)	2004	2003	2002	2004	2003	2002
At December 31,						
Current assets	8,321	7,286	5,909	N/A	2,799	2,798
Non-current assets	17,548	19,085	17,432	N/A	6,787	6,029
Current liabilities	8,502	7,058	6,063	N/A	3,717	3,288
Long-term debt	2,323	6,140	5,787	N/A	1,951	2,488
Other liabilities	2,785	2,375	2,187	N/A	444	0
Net assets	12,259	10,798	9,304	N/A	3,474	3,051
Year ended December 31,						
Gross revenues	38,504	30,936	25,617	13,244	24,615	23,112
Income before taxes	2,205	126	215	60	210	423
Net income	1,689	135	43	46	148	302
Capital expenditures	1,805	1,002	978	237	779	721

No dividends have been received from Borealis for 2004, 2003 and 2002. Statoil received NOK 100 million and NOK 65 million in dividend from SDS in 2004 and 2003, respectively. No dividend has been received from SDS for the year 2002.

Equity method affiliates - detailed information

		(amounts in million)			(amounts in NOK million)	
	Currency	Par value	Share capital	Ownership	Book value	Profit share
Borealis A/S	EUR	268	536	50%	6,129	844
South Caucasus Pipeline Holding Company Limited	USD	182	715	25.5%	1,121	0
Other companies					3,089	365
Total					10,339	1,209

Ownership corresponds to voting rights.

South Caucasus Pipeline Holding Company Limited constructs a gas pipeline from Baku in Azerbaijan to Turkey.

9. INVESTMENTS

Short-term investments

	At December 31,	
(in NOK million)	2004	2003
Short-term deposits	53	1,358
Certificates	9,735	7,848
Bonds	0	35
Liquidity fund	1,662	0
Other	171	73
Total short-term investments	11,621	9,314

The cost price of short-term investments for the years ended December 31, 2004 and 2003 was NOK 11,876 and NOK 9,284 respectively. All short-term investments are considered to be trading securities and are recorded at fair value with unrealized gains and losses included in income.

Long-term investments included in Other assets

	At December 31,	
(in NOK million)	2004	2003
Shares in other companies	2,206	1,608
Certificates	1,810	2,005
Bonds	2,891	2,291
Marketable equity securities	2,257	1,934
Total long-term investments	9,164	7,838

Included in Shares in other companies is Statoil BTC Caspian AS' investment in 8.71 per cent of the shares in BTC Pipeline Company. The investment had a book value of NOK 1,543 million and NOK 930 million as at year-end 2004 and 2003, respectively.

10. PROPERTY, PLANT AND EQUIPMENT

(in NOK million)	Machinery, equipment and transportation equipment	Production plants oil and gas, incl pipelines	Production plants onshore	Buildings and land	Vessels	Construction in progress	Capitalized exploration expenditures	Total
Cost as at January 1	9,987	231,528	32,790	7,352	682	21,718	3,792	307,849
Accumulated depreciation, depletion and amortization at January 1	(6,639)	(152,769)	(19,370)	(2,453)	(87)	(3)	0	(181,321)
Additions and transfers *	1,438	19,090	7,733	4,525	72	16,112	(628)	48,342
Disposal at booked value	(126)	(265)	(80)	(241)	0	(855)	(9)	(1,576)
Expensed exploration expenditures capitalized earlier years	0	0	0	0	0	0	(110)	(110)
Depreciation, depletion and amortization for the year	(874)	(14,466)	(1,627)	(83)	(74)	0	0	(17,124)
Foreign currency translation	(4)	(923)	(1,059)	(126)	0	(873)	(159)	(3,144)
Balance specified at December 31, 2004	3,782	82,195	18,387	8,974	593	36,099	2,886	152,916
Estimated useful life (years)	5-10	**	15-20	20-25	20-25			

* Additions and transfers include the effect on property, plant and equipment of Statoil's purchase of 11.24 per cent of the Snøhvit field in 2004, and also reflects Statoil's purchase of 50 per cent of Statoil Detaljhandel Skandinavia AS (SDS).
In addition to amounts reflected in the above table, NOK 0.5 billion of the cost price for SDS has been allocated to goodwill and NOK 0.7 billion to intangible assets, mainly consisting of franchise and merchant agreements. Goodwill and intangible assets are included in Other assets in the Consolidated Balance Sheets. Intangible assets are depreciated in average over 10 years.

** Depreciation according to Unit of production, see note 2.

In 2004, 2003 and 2002, NOK 829 million, NOK 442 million and NOK 382 million, respectively, of interests were capitalized. In addition to depreciation, depletion and amortization specified above intangible assets have been amortized by NOK 332 million in 2004.

Capitalized exploratory drilling expenditures that are pending the booking of proved reserves

(in NOK million)	2004	2003	2002
Capitalized expenditures at January 1	3,792	3,482	3,916
Additions	944	699	820
Reclassified to Production plants oil and gas, including pipelines based on the booking of proved reserves (1)	(1,581)	(89)	(321)
Expensed, previously capitalized exploration expenditures	(110)	(256)	(554)
Foreign currency translation	(159)	(44)	(379)
Capitalized expenditures at December 31 (2)	2,886	3,792	3,482

1) In addition, NOK 238 million in capitalized exploration expenditures related to unproved reserves was reclassified to Construction in progress due to the fact that the development activity commenced prior to the expected booking of proved reserves in 2005.
2) Capitalized exploration expenditures in suspense include signature bonuses and other acquired exploration rights of NOK 609 million, NOK 1,045 million and NOK 940 million as at the end of 2004, 2003 and 2002, respectively.

In addition to capitalized signature bonuses and other acquired exploration rights of NOK 609 million, capitalized exploratory drilling expenditures at year-end 2004 consisted of the following capitalized exploratory drilling expenditures that are pending the booking of proved reserves at December 31:

Capitalized exploratory drilling expenditures that are pending the booking of proved reserves December 31, 2004

	NOK million	Number of wells
Wells in areas requiring major capital expenditures before production can begin, where additional drilling efforts are underway or firmly planned for the near future	798	12
Wells in areas not requiring a major capital expenditure before production can begin, where less than one year has elapsed since the completion of drilling	224	4
Wells in areas requiring major capital expenditures before production can begin, where additional drilling efforts are not underway or firmly planned for the near future;		
Wells avaiting a development decision in 2005	511	10
Wells with economic reserves, development decision planned in near future	206	12
Wells with economic reserves, development decision planned in near future, subject to transportation discussions with government and partners in joint venture	394	5
Wells in areas not requiring major capital expenditures before production can begin, where more than one year has elapsed since the completion of drilling		
Wells waiting a development decision in 2005		
Completed in 1998	33	1
Wells where final evaluation depend on outcome of wells firmly planned in 2005		
Completed in 2001	59	2
Completed in 2003	52	2

11. PROVISIONS

Provisions against assets (other than property, plant and equipment and intangible assets) recorded during the past three years are as follows:

(in NOK million)	Balance at January 1,	Expense	Recovery	Write-off	Other 1)	Balance at December 31,
Year 2004						
Provisions against other long-term assets	0	0	0	0	0	0
Provisions against accounts receivable	275	29	(39)	(22)	12	255
Year 2003						
Provisions against other long-term assets	0	0	0	0	0	0
Provisions against accounts receivable	153	59	(5)	(5)	73	275
Year 2002						
Provisions against other long-term assets	16	0	(16)	0	0	0
Provisions against accounts receivable	212	47	(59)	(33)	(14)	153

1) Other is primarily related to provisions for accounts receivable in acquired companies.

12. FINANCIAL ITEMS

(in NOK million)	2004	For the year ended December 31, 2003	2002
Interest and other financial income	775	1,057	1,311
Currency exchange adjustments, net	5,031	98	9,009
Interest and other financial expenses	(317)	(877)	(1,952)
Dividends received	271	179	457
Gain (loss) on sale of securities	286	205	(228)
Unrealized gain (loss) on securities	(307)	737	(364)
Net financial items	5,739	1,399	8,233

13. INCOME TAXES

Net income before income taxes and minority interest consists of

(in NOK million)	2004	For the year ended December 31, 2003	2002
Norway			
• Offshore	55,709	43,516	42,519
• Onshore	7,532	3,121	5,394
Other countries 1)	7,605	3,678	3,422
Other items (see note 2)	0	(6,025)	0
Total	70,846	44,290	51,335

Significant components of income tax expense were as follows

(in NOK million)	2004	For the year ended December 31, 2003	2002
Norway			
• Offshore	40,548	34,754	34,253
• Onshore	133	2	885
Other countries 1)	1,635	737	352
Uplift benefit	(1,897)	(1,869)	(1,782)
Current income tax expense	40,419	33,624	33,708
Norway			
• Offshore	3,512	(376)	(707)
• Onshore 2)	722	859	250
Other countries 1)	772	52	1,085
Change in deferred tax due to new legislation (see note 2)	0	(6,712)	0
Deferred tax expense	5,006	(6,177)	628
Total income tax expense	45,425	27,447	34,336

1) Includes taxes liable to Norway on income in other contries.
2) Due to changes in Norwegian tax legislation in 2004, dividend from companies, with some exceptions, will not be taxable in Norway. Consequently, NOK 1.4 billion in deferred taxes related to retained earnings in subsidiaries and affiliates have been reversed in 2004.

Significant components of deferred tax assets and liabilities were as follows

(in NOK million)	At December 31, 2004	2003
Net operating loss carry-forwards	1,160	1,612
Decommissioning	10,289	12,204
Other	5,589	4,918
Valuation allowance	(1,923)	(1,775)
Total deferred tax assets	15,115	16,959
Property, plant and equipment	43,045	39,461
Capitalized exploration expenditures and interest	8,367	8,236
Other	7,768	6,491
Total deferred tax liabilities	59,180	54,188
Net deferred tax liability	44,065	37,229

Deferred taxes are classified as follows

(in NOK million)	At December 31, 2004	2003
Long-term deferred tax asset	(205)	(620)
Long-term deferred tax liability	44,270	37,849
Net deferred tax liability	44,065	37,229

A valuation allowance has been provided as Statoil believes that available evidence creates uncertainty as to the realizability of certain deferred tax assets. Statoil will continue to assess the valuation allowance and to the extent it is determined that such allowance is no longer required, the tax benefit of the remaining net deferred tax assets will be recognized in the future.

Reconciliation of Norwegian nominal statutory tax rate of 28 per cent to effective tax rate

(in NOK million)	For the year ended December 31, 2004	2003	2002
Calculated income taxes at statutory rate	19,837	14,088	14,374
Petroleum surtax at statutory rate	27,855	21,758	21,260
Uplift benefit	(1,897)	(1,869)	(1,782)
Other, net	(370)	182	484
Change in deferred tax due to new legislation (see note 2)	0	(6,712)	0
Income tax expense	45,425	27,447	34,336

Revenue from oil and gas activities on the NCS is taxed according to the Petroleum tax law. This stipulates a surtax of 50 per cent after deducting uplift, a special investment tax credit, in addition to normal corporate taxation. Uplift credits are deducted as the credits arises, 5 per cent each year for six years, as from initial year of investment. Uplift credits not utilized of NOK 9.9 billion can be carried forward indefinitely.

At the end of 2004, Statoil had tax losses carry-forwards of NOK 3.8 billion, primarily in the US and Ireland. Only a minor part of the carry-forward amounts expire before 2019.

14. SHORT-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31, 2004	2003
Bank loans and overdraft facilities	1,541	1,071
Current portion of long-term debt	2,971	3,168
Other	218	48
Total	4,730	4,287
Weighted average interest rate (per cent)	3.64	4.06

15. LONG-TERM INTEREST-BEARING DEBT

	Weighted average interest rates in per cent		Balance in NOK million at December 31,	
	2004	2003	2004	2003
Unsecured debentures bonds				
US dollar (USD)	6.25	6.62	13,219	11,052
Norwegian kroner (NOK)	2.19	2.85	499	499
Euro (EUR)	4.27	4.11	8,127	8,282
Swiss franc (CHF)	4.01	3.15	1,197	3,665
Japanese yen (JPY)	0.95	1.47	2,632	3,391
Great British pounds (GBP)	6.13	6.13	2,948	2,949
Total			28,622	29,838
Unsecured bank loans				
US dollar (USD)	2.39	2.10	2,108	3,018
Secured bank loans				
US dollar (USD)	3.46	3.10	3,332	2,638
Other currencies	6.10	4.90	13	26
Other debt			355	639
Grand total debt outstanding			34,430	36,159
Less current portion			2,971	3,168
Total long-term debt			31,459	32,991

The table above contains market values of loans per currency and loan type, and does therefore not illustrate the economic effects of agreements entered into to swap the various currencies to USD.

Statoil has an unsecured debenture bond agreement for USD 500 million with a fixed interest rate of 6.5 per cent, maturing in 2028, callable at par upon change in tax law. At December 31, 2004 and 2003, NOK 2,981 million and NOK 3,293 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for EUR 500 million, with a fixed interest rate of 5.125 per cent, maturing in 2011. At December 31, 2004 and 2003, NOK 4,081 million and NOK 4,166 million were outstanding, respectively. This bond has been swapped to USD dollars with a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for USD 375 million, with a fixed interest rate of 5.75 per cent, maturing in 2009. At December 31, 2004 and 2003, NOK 2,252 million and NOK 2,486 million were outstanding, respectively. Net after buyback this amounted to NOK 1,955 million and NOK 2,156 million at year-end exchange rates.

In 2004 Statoil issued USD 500 million of unsecured bonds with a fixed interest rate of 5.125 per cent maturing in 2014. At December 31, 2004 NOK 3,017 million were outstanding. The interest rate has been swapped to a LIBOR-based floating interest rate.

In addition to the unsecured debentures bond debt of NOK 13,219 million, denominated in US dollars, Statoil utilizes foreign currency swaps to manage foreign exchange risk on its long-term debt. As a result, an additional NOK 15,362 million of Statoil's unsecured debentures bond debt has been swapped to US dollars. The foreign currency swaps are not reflected in the table above as the swaps are separate legal agreements. The foreign currency swaps do not qualify as hedges according to FAS 133 as the swaps are not to functional currency, although they represent hedges in economic terms. The stated interest rate on the majority of the long-term debt is fixed. Interest rate swaps are utilized to manage interest rate exposure.

Substantially all unsecured debenture bond and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders.

Statoil's secured bankloans in USD have been secured by guarantee commitments amounting to USD 108 million, mortgage in shares in a subsidiary and investments in other companies with a combined book value of NOK 2,878 million, a bank deposit with a book value of NOK 1,346 million, and Statoil's pro-rata share of income from certain applicable projects.

Statoil has 23 debenture bond agreements outstanding, which contain provisions allowing Statoil to call the debt prior to its final redemption at par if there are changes to the Norwegian tax laws or at certain specified premiums. The agreements are, net after buyback, at the December 31, 2004 closing rate valued at NOK 24,760 million.

Reimbursements of long-term debt fall due as follows:

(in NOK million)	
2005	2,971
2006	1,157
2007	2,286
2008	2,054
2009	3,427
Thereafter	22,535
Total	34,430

Statoil has an agreement with an international bank syndicate for committed long-term revolving credit facility totalling USD 2.0 billion, all undrawn. Commitment fee is 0.058 per cent per annum.

As of December 31, 2004 and 2003 respectively, Statoil had no committed short-term credit facilities available or drawn.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Statoil uses derivative financial instruments to manage risks resulting from fluctuations in underlying interest rates, foreign currency exchange rates and commodity (such as oil, natural gas and refined petroleum products) prices. Because Statoil operates in the international oil and gas markets and has significant financing requirements, it has exposure to these risks, which can affect the cost of operating, investing and financing. Statoil has used and intends to use financial and commodity-based derivative contracts to reduce the risks in overall earnings and cash flows. Derivative instruments creating essentially equal and offsetting market exposures are used to help manage certain of these risks. Management also uses derivatives to establish certain positions based on market movements although this activity is immaterial to the consolidated financial statements.

Interest and currency risks constitute significant financial risks for the Statoil group. Total exposure is managed at portfolio level in accordance with the strategies and mandates issued by the Enterprise-Wide Risk Management Program and monitored by the Corporate Risk Committee. Statoil's interest rate exposure is mainly associated with the group's debt obligations and management of the assets in Statoil Forsikring AS. Statoil mainly employs interest rate swap and currency swap agreements to manage interest rate and currency exposure.

Statoil uses swaps, options, futures, and forwards to manage its exposure to changes in the value of future cash flows from future purchases and sales of crude oil and refined oil products. The term of the oil and refined oil products derivatives is usually less than one year. Natural gas and electricity swaps, options, forwards, and futures are likewise utilized to manage Statoil's exposure to changes in the value of future sales of natural gas and electricity. These derivatives usually have terms of approximately three years or less. Most of the Derivative transactions are made in the over-the-counter (OTC) market.

Cash Flow Hedges

Statoil has designated certain derivative instruments as cash flow hedges to hedge against changes in the amount of future cash flows related to the sale of crude oil and petroleum products over a period not exceeding 12 months and cash flows related to interest payments over a period not exceeding one month. Hedge ineffectiveness related to Statoil's outstanding cash flow hedges was immaterial and recorded to earnings during the year ended December 31, 2004. The net change in Accumulated other comprehensive income associated with hedging transactions during the year was NOK 474 million after tax. The net amount reclassified into earnings during the year was NOK 420 million after tax. At December 31, 2004, the net deferred hedging loss in Accumulated other comprehensive income related to cash flow hedges was NOK 77 million after tax, most of which will affect earnings over the next 12 months. The unrealized loss component of derivative instruments excluded from the assessment of hedge effectiveness related to cash flow hedges during the year ended December 31, 2004 was immaterial.

Fair Value Hedges

Statoil has designated certain derivative instruments as fair value hedges to hedge against changes in the value of financial liabilities. There was no gain or loss component of a derivative instrument excluded from the assessment of hedge effectiveness related to fair value hedges during the year ended December 31, 2004. The net gain recognized in earnings in Income before income taxes and minority interest during the year for ineffectiveness of fair value hedges was NOK 28 million.

Fair Value of Financial Instruments

Except for the recorded amount of fixed interest long-term debt, the recorded amounts of cash and cash equivalents, receivables, bank loans, other interest bearing short-term debt, and other liabilities approximate their fair values. Marketable equity and debt securities are also recorded at their fair values.

The following table contains the carrying amounts and estimated fair values of financial derivative instruments, and the carrying amounts and estimated fair value of long-term debts. Commodity contracts capable of being settled by delivery of commodities (oil and oil products, natural gas and electricity) are excluded from the summary:

(in NOK million)	Fair market value of assets	Fair market value of liabilities	Net carrying amount
At December 31, 2004			
Debt-related instruments	5,022	(12)	5,011
Non-debt-related instruments	1,972	(5)	1,967
Long-term fixed interest debt	0	(27,702)	(25,793)
Crude oil and Refined products	1,089	(395)	694
Gas and Electricity	86	(131)	(45)
At December 31, 2003			
Debt-related instruments	4,235	(36)	4,200
Non-debt-related instruments	367	(15)	351
Long-term fixed interest debt	0	(29,188)	(26,281)
Crude oil and Refined products	282	(246)	36
Gas and Electricity	272	(222)	50

Fair values are estimated using quoted market prices, estimates obtained from brokers, prices of comparable instruments, and other appropriate valuation techniques. The fair value estimates approximate the gain or loss that would have been realized if the contracts had been closed out at year-end, although actual results could vary due to assumptions utilized.

Credit risk management

Statoil manages credit risk concentration with respect to financial instruments by holding only investment grade securities distributed among a variety of selected issuers. A list of authorized investment limits by commercial issuer is maintained and reviewed regularly along with guidelines which include an assessment of the financial position of counter-parties as well as requirements for collateral.

Credit risk related to commodity-based instruments is managed by maintaining, reviewing and updating lists of authorized counter-parties by assessing their financial position, by frequently monitoring credit exposure for counter-parties, by establishing internal credit lines for counterparties, and by requiring collateral or guarantees when appropriate under contracts and required in internal policies. Collateral will typically be in the form of cash or bank guarantees from first class international banks.

Credit risk from interest rate swaps and currency swaps, which are over-the-counter (OTC) transactions, derive from the counter-parties to these transactions. Counter-parties are highly rated financial institutions. The credit ratings are reviewed minimum annually and counter-party exposure is monitored on a continuous basis to ensure exposure does not exceed credit lines and complies with internal policies. Non-debt-related foreign currency swaps usually have terms of less than one year, and the terms of debt related interest swaps and currency swaps are up to 25 years, in line with that of corresponding hedged or risk managed long-term loans.

The credit risk concentration with respect to receivables is limited due to the large number of counter-parties spread worldwide in numerous industries.

17. EMPLOYEE RETIREMENT PLANS

Pension benefits

Statoil and many of its subsidiaries have defined benefit retirement plans, which cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution plans.

Net periodic pension cost

	For the year ended December 31,		
(in NOK million)	2004	2003	2002
Benefit earned during the year	1,062	849	738
Interest cost on prior years' benefit obligation	938	791	719
Expected return on plan assets	(902)	(843)	(856)
Amortization of loss	175	54	34
Amortization of prior service cost	34	34	44
Amortization of net transition assets	0	(15)	(16)
Defined benefit plans	1,307	870	663
Defined contribution plans	34	27	19
Multiemployer plans	0	0	4
Total net pension cost	1,341	897	686

Change in projected benefit obligation (PBO)

(in NOK million)	2004	2003
Projected benefit obligation at January 1	17,642	13,025
Benefits earned during the year	1,062	849
Interest cost on prior years' benefit obligation	938	791
Actuarial loss (gain)	(388)	3,310
Benefits paid	(350)	(332)
Acquisitions	117	(95)
Foreign currency translation	0	94
Projected benefit obligation at December 31	19,021	17,642

Change in pension plan assets

(in NOK million)	2004	2003
Fair value of plan assets at January 1	15,143	12,480
Actual return on plan assets	1,157	1,684
Company contributions*	1,154	1,129
Benefits paid	(188)	(169)
Acquisitions	53	(61)
Foreign currency translation	0	80
Fair value of plan assets at December 31	17,319	15,143

* Include paid-up policies transferred from external companies

Status of pension plans reconciled to Consolidated Balance Sheets

(in NOK million)	2004	2003
Defined benefit plans		
Funded status of the plans at December 31	(1,702)	(2,499)
Unrecognized net loss	2,685	4,248
Unrecognized prior service cost	295	329
Total net prepaid pension recognized at December 31	1,278	2,078

Amounts recognized in the Consolidated Balance Sheets:

(in NOK million)	2004	2003
Prepaid pension at December 31	4,633	4,881
Accrued pension liabilities	(3,960)	(3,372)
Intangible assets	295	331
Other comprehensive income	310	238
Net amount recognized at December 31	1,278	2,078

Weighted-average assumptions for the year ended (Profit and Loss items)

	2004	2003
Discount rate	5.5%	6.0%
Expected return on plan assets	6.0%	6.5%
Rate of compensation increase	3.5%	3.0%

Weighted-average assumptions at end of year (Balance sheet items)

	2004	2003
Discount rate	5.5%	5.5%
Expected return on plan assets	6.5%	6.0%
Rate of compensation increase	3.5%	3.5%

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets

	At December 31,	
(in NOK million)	2004	2003
Projected benefit obligation	4,894	4,580
Accumulated benefit obligation	3,648	3,189
Fair value on plan assets	365	251

The accumulated benefit obligation (ABO) was NOK 15,018 million at December 31, 2004.

Pension assets allocated on respective investments classes

	At December 31,	
	2004	2003
Equity securities	26%	17%
Debt securities	32%	25%
Certificates	31%	39%
Real estate	6%	10%
Other assets	5%	9%
Total	100%	100%

In its asset management, the pension fund aims at achieving long-term returns which contribute towards meeting future pension liabilities. Assets are managed to achieve a return as high as possible within a framework of public regulation and prudent risk management policies. The pension fund's target returns require a need to invest in assets with an higher risk than risk-free investments. Risk is reduced through maintaining a well diversified asset portfolio. Assets are diversified both in terms of location and different asset classes. Derivatives are used within set limits to facilitate effective asset management.

Statoil's pension funds invest in both financal assets and real estate. The expected rate of return on real estate is expected to be something between the rate of return on equity securities and debt securities. The table below presents the portfolio weight and expected rate of return of the finance portfolio, as approved by the board of the Statoil pension funds for 2005.

Finance portfolio Statoils pension funds	Portfolio weight 1)		Expected rate of return
Equity securities	35%	(+/- 5%)	X + 4%
Debt securities	64.5%	(+5.5%/-10%)	X
Certificates	0.5%	(+15%/-0.5%)	X - 0.4%
Total finance portfolio	100 %		

1) The brackets express the scope of tactical deviation by Statoil Kapitalforvaltning ASA (the asset manager)
X = Long-term rate of return on debt securities

The long-term expected return on pension assets is based on long-term risk-free rate adjusted for the expected long-term risk premium for the respective investment classes.

Company contributions are mainly related to employees in Norway. This payment may either be paid in cash or be deducted from the pension premium fund. Statoil has a relatively large amount classified as pension premium fund in Statoil's pension funds. The decision whether to pay in cash or deduct from the pension premium fund is made on an annual basis. The expected company contribution for the next five years will be approximately NOK 0.8 billion annually. The company contribution in 2004 was NOK 0.7 billion, of which NOK 0.3 billion was deducted from the pension premium fund.

18. DECOMMISSIONING AND REMOVAL LIABILITIES

The asset retirement obligation (ARO) is related to future well closure-, decommissioning- and removal expenditures. The accretion expense is classified as Operating expenses.

(in NOK million)	2004	2003
Asset retirement obligation at January 1	16,494	15,049
Liabilities incurred / revision in estimates	1,515	962
Accretion expense	771	539
Disposals	(22)	0
Incurred removal cost	(89)	(56)
Currency exchange adjustments	(67)	0
Asset retirement obligation at December 31	18,602	16,494
Long-lived assets related to ARO at January 1	2,757	2,451
Net assets incurred / revision in estimates	1,470	962
Depreciation	(821)	(656)
Currency exchange adjustments	(18)	0
Long-lived assets related to ARO at December 31	3,388	2,757

19. RESEARCH AND DEVELOPMENT EXPENDITURES

Research and Development (R&D) expenditures were NOK 1,027 million, NOK 1,004 million and NOK 736 million in 2004, 2003 and 2002, respectively. R&D expenditures are partly financed by partners of Statoil-operated activities.

20. LEASES

Statoil leases certain assets, notably shipping vessels and drilling rigs.

In 2004, rental expense was NOK 4,367 million. In 2003 and 2002 rental expenses were NOK 4,893 and NOK 5,595 million, respectively.

The information in the table below shows future minimum lease payments under non-cancelable leases at December 31, 2004. In addition, Statoil has entered into subleases of certain assets amounting to a total future rental income of NOK 1,603 million, of which NOK 557 for 2005.

Statoil has entered into a number of general or field specific long-term frame agreements mainly related to loading and transport of crude oil. The main contracts expire in 2007 or later, up until the end of the respective field lives. Such contracts are not included in the below table of future lease payments unless they entail specific minimum payment obligations.

Amounts related to capital leases include future lease payments for assets in the books at year-end 2004.

(in NOK million)	Operating leases	Capital leases
2005	3,381	44
2006	1,841	33
2007	838	25
2008	748	6
2009	679	4
Thereafter	3,893	9
Total future lease payments	11,380	121
Interest component		(17)
Net present value		104

Property, plant and equipment include the following amounts for leases that have been capitalized at December 31, 2004 and 2003:

	At December 31,	
(in NOK million)	2004	2003
Vessels and equipment	190	119
Accumulated depreciation	(97)	(86)
Capitalized amounts	93	33

21. OTHER COMMITMENTS AND CONTINGENCIES

Contractual commitments

(in NOK million)	In 2005	Thereafter	Total
Contractual commitments related to investments and property, plant and equipment	13,203	7,551	20,754

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

Statoil has entered into agreements for pipeline transportation for most of its prospective gas sale contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to pay for booked capacity. In addition, the group has entered into certain obligations for entry capacity fees and terminal, processing, storage and vessel transport capacity commitments. The following table outlines nominal minimum obligations for future years. Corresponding expense for 2004 was NOK 3,701 million. Obligations payable by the group to unconsolidated equity affiliates are included gross in the table below. Where the group however reflects both ownership interests and transport capacity cost for a pipeline in the consolidated accounts, the amounts in the table include the transport commitments that exceed Statoil's ownership share.

Transport capacity and other obligations at December 31, 2004:

(in NOK million)	
2005	4,222
2006	4,289
2007	4,066
2008	4,117
2009	3,945
Thereafter	27,556
Total	48,195

Statoil has in 2004 signed an agreement with the US-based energy company Dominion regarding additional capacity at the Cove Point liquefied natural gas (LNG) terminal in the USA. The agreement involves annual terminal capacity of approximately 7.7 billion cubic metres of gas for a 20-year period with planned start-up in 2008, and is subject to approval from US authorities. Pending such approval, no obligations related to the additional Cove Point capacity have been included in the table above at year-end 2004.

Guarantees

In 2004 Statoil, as an owner in BTC Co Ltd, has entered into guarantee commitments for financing of the development of the BTC pipeline. At year-end 2004 these guarantee commitments amount to USD 110 million (NOK 0.66 billion), and are subject to the balance sheet recognition requirements of FIN 45. Since net present value of expected fees to be received exceeds the net present value of expected payments under the guarantees, in accordance with FIN 45 no liability has been reflected in the Consolidated Balance Sheets related to these guarantee commitments.

Statoil Detaljhandel Skandinavia has issued guarantees amounting to a total of NOK 0.5 billion, the main part of which relates to guarantee commitments to retailers. The liability recognized under FIN 45 in the Consolidated Balance Sheets related to these guarantee commitments is immaterial at year-end 2004.

The group has in addition provided other guarantees for a total of NOK 66 million for contractual commitments at year-end 2004.

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 USD 0.8 billion (NOK 4.8 billion) 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 a major part of the risk in the international insurance market. About 29 per cent is retained.

Statoil Forsikring a.s is a member of two mutual insurance companies, Oil Insurance Ltd and sEnergy Insurance Ltd. Membership of these companies means that Statoil Forsikring is liable for its proportionate share of any losses which might arise in connection with the business operations of the companies. Members of the companies have joint and several liability for any losses that arise to the pool.

Other commitments and contingencies

As a condition for being awarded oil and gas exploration and production licenses, participants may be committed to drill a certain number of wells. At the end of 2004, Statoil was committed to participate in 13 wells off Norway and 10 wells abroad, with an average ownership interest of approximately 50 per cent. Statoil's share of estimated expenditures to drill these wells amounts to approximately NOK 2.3 billion. Additional wells that Statoil may become commited to participate in depending on future discoveries in certain licences are not included in these numbers.

During the normal course of its business Statoil is involved in legal proceedings, and several unresolved claims are currently outstanding. The ultimate liability in respect of litigation and claims cannot be determined at this time. Statoil has provided in its accounts for these items based on the Company's best judgment. Statoil does not expect that either the financial position, results of operations nor cash flows will be materially adversely affected by the resolution of these legal proceedings.

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has conducted an investigation concerning an agreement which Statoil entered into in 2002 with Horton Investments Ltd for consultancy services in Iran. On June 28, 2004 Økokrim informed Statoil that it had concluded that Statoil violated section 276c, first paragraph (b) of the Norwegian Penal Code, which became effective from July 4, 2003 and prohibits conferring on or offering to a middleman an improper advantage in return for exercising his influence with a decision-maker, without the decision-maker receiving any advantage, and imposed a penalty on Statoil of NOK 20 million. The Board of Statoil ASA decided on October 14, 2004 to accept the penalty without admitting or denying the charges by Økokrim.

The U.S. Securities and Exchange Commission (SEC) is also conducting a formal investigation into the Horton consultancy arrangement to determine if there have been any violations of U.S. federal securities laws, including the Foreign Corrupt Practices Act. The U.S. Department of Justice is conducting a criminal investigation of the Horton matter jointly with the Office of the United States Attorney for the Southern District of New York. The SEC Staff informed Statoil on September 24, 2004 that it is considering recommending that the SEC authorize a civil enforcement action in federal court against Statoil for violations of various U.S. federal securities laws, including the anti-bribery and books and records provisions of the Foreign Corrupt Practices Act. Statoil is continuing to provide information to the U.S. authorities to assist them in their ongoing investigations.

Iranian authorities have been carrying out inquiries into the matter. In April 2004 the Iranian Consultative Assembly initiated an official probe into allegations of corruption in connection with the Horton matter with Iran. The probe was finalized for the parliamentary session at the end of May. It was reported in the international press that at such time no evidence of wrongdoing by the subjects of the probe in Iran had been revealed by the probe.

22. RELATED PARTIES

Total purchases of oil and natural gas liquid from the Norwegian State amounted to NOK 81,487 million (319 million barrels oil equivalents), NOK 68,479 million (336 million barrels oil equivalents), and NOK 72,298 million (374 million barrels oil equivalents), in 2004, 2003 and 2002, respectively. Purchases of natural gas from Norwegian State amounted to NOK 237 million, NOK 255 milllion and NOK 119 million in 2004, 2003 and 2002, respectively. Amounts payable to the Norwegian State for these purchases are included as Accounts payable - related parties in the Consolidated Balance Sheets. The prices paid by Statoil for the purchased from the Norwegian State are estimated market prices.

Statoil is, in its own name, but for the Norwegian State's account and risk, selling the State's natural gas production. This sale, as well as related expenditures refunded by the State, is shown net in Statoil's Financial Statements. Refunds include expenses incurred related to activities and investments necessary to obtain market access and to optimize the profit from sale of natural gas.

23. SHAREHOLDERS' EQUITY

The common stock consists of 2,189,585,600 shares at nominal value NOK 2.50.

In 2001, 25,000,000 treasury shares were issued. During 2002 and 2003 a number of 1,558,115 of the treasury shares were distributed as bonus shares in favor of retail investors in the initial public offering in 2001. Distribution of treasury shares requires approval by the general meeting.

There exists only one class of shares and all shares have voting rights.

The board of directors is authorised on behalf of the company to acquire Statoil shares in the market. The authorisation may be used to acquire Statoil shares with an overall nominal value of up to NOK 10 million. The board will decide the manner in which the acquisition of Statoil shares in the market will take place. Such shares acquired in accordance with the authorisation may only be used for sale and transfer to employees of the Statoil group as part of the group's share investment plan approved by the board. The lowest amount which may be paid per share is the nominal value; the highest amount which may be paid per share is a maximum of 50 times the nominal value. The authorisation will apply untill November 2005. As per December 31, 2004 Statoil has 10,991 shares according to this authorisation.

Retained earnings available for distribution of dividends at December 31, 2004 is limited to the retained earnings of the parent company based on Norwegian accounting principles and legal regulations and amounts to NOK 65,589 million (before provisions for proposed dividend for the year ended December 31, 2004 of NOK 11,481 million). This differs from retained earnings in the financial statements of NOK 46,153 million mainly due to the impact of the transfer of the SDFI properties to Statoil, which is not reflected in the Norwegian GAAP accounts until the second quarter of 2001. Distribution of dividends is not allowed to reduce the shareholders' equity of the parent company below 10 per cent of total assets.

24. AUDITORS' REMUNERATION

	For the year ended December 31,	
(in NOK million)	**2004**	**2003**
Audit fees	23.8	27.0
Audit-related fees	4.5	2.8
Tax fees	5.1	14.5
All other fees	0	0.9
Total	33.4	45.2

25. STOCK-BASED COMPENSATION

In 2004 Statoil introduced a Share Saving Plan for all permanent Statoil employees both in full and part time positions. Because of differences in legal and tax regulations between participating jurisdictions, and with the need for specific technical solutions for the Share Saving Plan, the program will be launched at different times in the different countries/companies within the Statoil Group. As of December 31, 2004 only some of the companies in the group have launched the program. Thirty per cent of all employees in the group participate in the program as of December 31, 2004.

Statoil's Share Saving Plan gives the employees the opportunity to purchase Statoil shares though monthly salary deduction. The employees may save up to five per cent of their annual gross salary. Statoil will, for employees in some of the companies in the group, give a contribution to the employees of 20 per cent of the saved amount, at a maximum of NOK 1,500 per employee per year. Terms may vary between participating entities in the group.

If the shares are kept for two full calendar years of continued employment the employees will be allocated one bonus share for each two they have bought. The same kind of allocation is planned to be carried out for future yearly programs.

Due to uncertainty with respect to future share prices, the number of shares to be purchased by employees under the programs is unknown. Consequently, the number of bonus shares to be purchased by Statoil must be estimated in connection with the valuation of the cost of the program. The fair value of the bonus shares is estimated at the date of grant using a one-factor capital asset pricing model with adjustments for dividend payments assumed according to the corporate dividend policy in the vesting period.

Significant assumptions for 2004 used in connection with estimating the fair value are shown in the table below.

Risk free interest rate	2.5%
Risk premium	5.5%
Beta	1.0
Expected return/discount rate	8.0%

The model requires the input of highly subjective assumptions. Because changes in the subjective input assumptions can affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of fair value of Statoil's Share Saving plan.

The basis for purchases of bonus shares is the combined amount of salary deductions and Statoil contributions. For the 2004 and 2005 programs (granted in 2004), this amounts to NOK 54 and NOK 111 million, respectively.

Estimated compensation cost including contribution and social security related to the 2004 and 2005 program for Statoil amounts to NOK 35 million and NOK 65 million respectively. At December 31, 2004 the amount of compensation cost yet to be expensed throughout the vesting period is NOK 91 million.

SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

Exchange Commission (SEC), Statoil is making certain supplemental disclosures about oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgment involved in developing such information. Accordingly, this information may not necessarily represent the present financial condition of Statoil or its expected future results.

Oil and gas reserve quantities

Statoil's oil and gas reserves have been estimated by its experts in accordance with industry standards under the requirements of the SEC. Reserves are net of royalty oil paid in kind, and quantities consumed during production. Statements of reserves are forward-looking statements.

The determination of these reserves is part of an ongoing process subject to continual revision as additional information becomes available.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

Proved developed oil and gas reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

On the Norwegian Continental Shelf Statoil sells its oil and gas together with the oil and gas of the Norwegian state (SDFI). Under this arrangement, Statoil and SDFI will deliver gas to its customers in accordance with certain supply type sales contracts. The commitments will be met using a schedule that provides the highest possible total value for our oil and gas and the Norwegian State's oil and gas. Our gas reserves will be drawn on to supply this gas in the proportion that we own production from the fields that from time to time are chosen to deliver gas against these commitments.

In addition, Statoil has entered into a gas sales contract with Turkey, Georgia and Azerbaijan where gas will be supplied from Shah Deniz.

The total commitments to be met by the Statoil / SDFI arrangement and Statoil's separate commitments were on December 31, 2004 to deliver a total of 37.7 tcf.

Statoil's and SDFI's delivery commitments for the contract years 2004, 2005, 2006 and 2007 are 1,714, 1,866, 2,087 and 2,203 bcf. These commitments may be met by production of proved reserves from fields were Statoil and/or the Norwegian State participates.

The principles for booking of proved gas reserves are limited to contracted gas sales and gas with access to a market. New contracted sales from the Norwegian continental shelf are recorded as Extensions and discoveries, while shifts of forecasted deliveries between fields are recorded as Revisions and improved recovery.

In 2002, Statoil entered into a buy-back contract in Iran. Statoil also participates in a number of production sharing agreements (PSA). Reserves from such agreements are based on the volumes to which Statoil has access (cost oil and profit oil), limited to available market access. Proved reserves at end of year associated with PSA and buy-back agreements are disclosed separately.

Statoil is booking as proved reserves volumes equivalent to our tax liabilities payable in-kind under negotiated fiscal arrangements (production sharing agreements or income sharing agreements).

The subtotals and totals in the following tables may not equal the sum of the amounts shown due to rounding.

	Net proved oil and NGL reserves in million barrels			Net proved gas reserves in billion standard cubic feet			Net proved oil, NGL and gas reserves in million barrels oil equivalents		
	Norway	Outside Norway	Total	Norway	Outside Norway	Total	Norway	Outside Norway	Total
At December 31, 2001	1,398	565	1,963	12,718	267	12,985	3,664	612	4,277
Of which:									
Proved developed reserves	948	166	1,113	9,069	42	9,112	2,564	173	2,737
Proved reserves under PSA and buy-back agreements	0	302	302	0	0	0	0	302	302
Production from PSA and buy-back agreements	0	3	3	0	0	0	0	3	3
Revisions and improved recovery	108	(25)	83	237	0	237	151	(25)	125
Extensions and discoveries	31	73	104	942	0	942	199	73	272
Purchase of reserves-in-place	4	0	4	35	0	35	10	0	10
Sales of reserves-in-place	(13)	(2)	(16)	(73)	0	(73)	(26)	(2)	(29)
Production	(242)	(29)	(271)	(645)	(12)	(657)	(357)	(31)	(388)
At December 31, 2002	1,286	580	1,867	13,215	255	13,470	3,641	626	4,267
Of which:									
Proved developed reserves	919	137	1,056	9,321	30	9,351	2,580	143	2,722
Proved reserves under PSA and buy-back agreements	0	349	349	0	0	0	0	349	349
Production from PSA and buy-back agreements	0	12	12	0	0	0	0	12	12
Revisions and improved recovery	110	41	151	311	1	312	165	41	206
Extensions and discoveries	27	15	43	503	303	806	117	69	186
Purchase of reserves-in-place	0	0	0	0	0	0	0	0	0
Sales of reserves-in-place	0	0	0	0	0	0	0	0	0
Production	(239)	(31)	(271)	(695)	(6)	(700)	(363)	(33)	(395)
At December 31, 2003	1,184	605	1,789	13,334	552	13,886	3,560	703	4,264
Of which:									
Proved developed reserves	876	163	1,039	9,582	25	9,606	2,584	167	2,751
Proved reserves under PSA and buy-back agreements	0	364	364	0	303	303	0	418	418
Production from PSA and buy-back agreements	0	13	13	0	0	0	0	13	13
Revisions and improved recovery	111	(4)	107	(9)	334	324	109	56	165
Extensions and discoveries	23	20	44	14	0	14	26	20	46
Purchase of reserves-in-place	10	47	57	478	582	1,060	95	150	246
Sales of reserves-in-place	(13)	0	(13)	(87)	0	(87)	(29)	0	(29)
Production	(226)	(37)	(263)	(751)	(31)	(782)	(360)	(42)	(402)
At December 31, 2004	1,089	632	1,720	12,978	1,437	14,416	3,401	888	4,289
Of which:									
Proved developed reserves	782	170	952	9,316	234	9,550	2,442	212	2,654
Proved reserves under PSA and buy-back agreements	0	398	398	0	1,192	1,192	0	610	610
Production from PSA and buy-back agreements	0	20	20	0	26	26	0	25	25

The conversion rates used are 1 standard cubic meter = 35.3 standard cubic feet, 1 standard cubic meter oil equivalent = 6.29 barrels of oil equivalent and 1,000 standard cubic meter gas = 1 standard cubic meter oil equivalent.

SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

Statoil is required through its articles of association to market and sell the Norwegian State's oil and gas together with Statoil's own oil and gas in accordance with the owner's instruction established in shareholder resolutions in effect at any given time. For natural gas acquired by Statoil for its own use, its payment to the Norwegian State is based on market value. For all other sales of natural gas to Statoil or to third parties the payment to the Norwegian State is based on either achieved prices, a net back formula or market value. All of the Norwegian State's oil and NGL will be acquired by Statoil. Pricing of the crude oil is based on market reflective prices; NGL prices are either based on achieved prices, market value or market reflective prices.

The Norwegian State may at any time cancel the owner's instruction. Due to this uncertainty and the Norwegian State's estimate of proved reserves not being available to Statoil, it is not possible to determine the total quantities to be purchased by Statoil under the owner's instruction from properties in which it participates in the operations.

Capitalized costs related to Oil and Gas producing activities

(in NOK million)	At December 31, 2004	2003
Unproved Properties	2,886	3,792
Proved Properties, wells, plants and other equipment, including removal obligation assets	273,289	244,621
Total Capitalized Expenditures	276,175	248,414
Accumulated depreciation, depletion, amortization and valuation allowances	(160,315)	(147,441)
Net Capitalized Costs	115,860	100,973

Costs incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

These costs include both amounts capitalized and expensed. Certain reclassifications have been done from other operating expenses to exploration expenses in 2002.

(in NOK million)	Norway	Outside Norway	Total
Year ended December 31,2004			
Exploration costs	1,102	1,390	2,492
Development costs (1) (2)	15,400	9,819	25,219
Acquired proved properties	2,999	8,441	11,440
Total	19,501	19,650	39,151
Year ended December 31, 2003			
Exploration costs	1,220	1,538	2,758
Development costs (1)	13,284	6,071	19,355
Acquired unproved properties	0	54	54
Total	14,504	7,663	22,167
Year ended December 31, 2002			
Exploration costs	1,350	1,398	2,748
Development costs	10,269	4,088	14,357
Total	11,619	5,486	17,105

1) Development costs include investments in Norway in facilities for liquefaction of natural gas and storage of LNG amounting to NOK 614 million in 2003 and NOK 1,262 million in 2004.
2) Includes minor development costs in unproved properties.

Results of Operation for Oil and Gas Producing Activities

As required by Statement of Financial Accounting Standards No. 69 (FAS 69), the revenues and expenses included in the following table reflect only those relating to the oil and gas producing operations of Statoil.

A new method for calculating the inter-segment price for deliveries of natural gas from E&P Norway to Natural Gas has been adopted as of the first quarter of 2003. The new price amounts to NOK 0.32 per standard cubic meter, adjusted quarterly by the average USD oil price over the last six months in proportion to USD 15. The new price applies to all volumes, including associated gas, while previously the price was calculated on a field-by-field basis. Prior periods segment reporting has been adjusted to reflect the new pricing formula.

Activities included in Statoil's segment disclosures in note 3 to the financial statements but excluded from the table below relates to gas trading activities, transportation and business development as well as effects of disposals of oil and gas interests. Historic amounts have been adjusted to reflect the effects of organizational changes in order to make results of operations comparable between the years presented. Income tax expense is calculated on the basis of statutory tax rates in addition to uplift and tax credits only. No deductions are made for interest or overhead.

Transfers are recorded approximating market prices.

(in NOK million)	Norway	Outside Norway	Total
Year ended December 31, 2004			
Sales	21	3,085	3,105
Transfers	72,400	6,499	78,899
Total revenues	72,421	9,584	82,004
Exploration expenses	(777)	(1,051)	(1,828)
Production costs	(8,038)	(1,339)	(9,377)
Accretion expense	(701)	(56)	(757)
Special items 1)	(259)	0	(259)
DD&A 2)	(12,123)	(2,215)	(14,338)
Total costs	(21,898)	(4,661)	(26,559)
Results of operations before taxes	50,523	4,923	55,445
Tax expense	(38,287)	(1,848)	(40,135)
Results of producing operations	12,235	3,075	15,310
Year ended December 31, 2003			
Sales	352	1,944	2,296
Transfers	60,143	4,455	64,598
Total revenues	60,495	6,399	66,894
Exploration expenses	(1,365)	(1,005)	(2,370)
Production costs	(7,865)	(560)	(8,425)
Accretion expense	(479)	(48)	(527)
Special items 1)	0	(151)	(151)
DD&A 2)	(11,971)	(1,625)	(13,596)
Total costs	(21,680)	(3,389)	(25,069)
Results of operations before taxes	38,815	3,010	41,825
Tax expense	(29,290)	(1,039)	(30,329)
Results of producing operations	9,525	1,971	11,495

(in NOK million)	Norway	Outside Norway	Total
Year ended December 31, 2002			
Sales	351	4,672	5,024
Transfers	57,075	1,018	58,093
Total revenues	57,426	5,690	63,117
Exploration expenses	(1,420)	(990)	(2,410)
Production costs	(8,102)	(979)	(9,081)
Special items 1)	0	(766)	(766)
DD&A 2)	(12,266)	(1,738)	(14,004)
Total costs	(21,788)	(4,473)	(26,261)
Results of operations before taxes	35,638	1,218	36,856
Tax expense	(26,676)	(784)	(27,460)
Results of producing operations	8,962	434	9,396

1) Impairment of the Murchison and Thune field on Norwegian Continental Shelf in 2004, the Dunlin field in the UK in 2003, and the oil field LL652 in Venezuela in 2002.

2) Include provisions made for future decommissioning and removal costs in years 2002. For 2003 and 2004, the amount includes the amortization of removal assets recorded due to implementation of FAS 143 on January 1, 2003.

Standardized measure of discounted future net cash flows relating to proved oil and gas reserves

The table below shows the standardized measure of future net cash flows relating to proved reserves presented. The analysis is computed in accordance with FAS 69, by applying year-end market prices, costs, and statutory tax rates, and a discount factor of 10 per cent to year-end quantities of net proved reserves. The standardized measure is a forward-looking statement.

Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Future net cash flow pre-tax is net of decommissioning and removal costs. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pretax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10 per cent mid-period discount factors. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced. The information provided does not represent management's estimate of Statoil's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, identified reserves and contingent resources, that may become proved in the future, are excluded from the calculations. The standardized measure of valuation prescribed under FAS 69 requires assumptions as to the timing and amount of future development and production costs and income from the production of proved reserves. This does not reflect management's judgment and should not be relied upon as an indication of Statoil's future cash flow or value of its proved reserves.

SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

(in NOK million)	Norway	Outside Norway	Total
At December 31, 2004			
Future net cash inflows	739,788	179,336	919,124
Future development costs	(42,906)	(22,169)	(65,075)
Future production costs	(172,892)	(35,516)	(208,408)
Future net cash flow pre-tax	523,990	121,651	645,641
Future income tax expenses	(395,155)	(29,108)	(424,263)
Future net cash flows	128,835	92,543	221,378
10 per cent annual discount for estimated timing of cash flows	(56,336)	(44,862)	(101,198)
Standardized measure of discounted future net cash flows	72,499	47,681	120,180
At December 31, 2003			
Future net cash inflows	644,003	132,884	776,887
Future development costs	(39,207)	(17,029)	(56,236)
Future production costs	(179,686)	(26,509)	(206,195)
Future net cash flow pre-tax	425,110	89,346	514,456
Future income tax expenses	(320,763)	(19,998)	(340,761)
Future net cash flows	104,347	69,348	173,695
10 per cent annual discount for estimated timing of cash flows	(47,303)	(37,810)	(85,113)
Standardized measure of discounted future net cash flows	57,044	31,538	88,582
At December 31, 2002			
Future net cash inflows	644,327	127,460	771,787
Future development costs	(44,983)	(17,396)	(62,379)
Future production costs	(192,779)	(22,146)	(214,925)
Future net cash flow pre-tax	406,565	87,918	494,483
Future income tax expenses	(302,254)	(17,468)	(319,722)
Future net cash flows	104,311	70,450	174,761
10 per cent annual discount for estimated timing of cash flows	(44,336)	(38,725)	(83,061)
Standardized measure of discounted future net cash flows	59,975	31,725	91,700

Of a total of NOK 65,075 million of estimated future development costs as of December 31, 2004, an amount of NOK 38,896 million is expected to be spent within the next three years, as allocated in the table below.

FUTURE DEVELOPMENT COSTS

(in NOK million)	2005	2006	2007	TOTAL
Norway	13,570	6,482	3,735	23,787
Outside Norway	7,661	5,178	2,270	15,109
Total	21,231	11,660	6,005	38,896
Future development cost expected to be spent on proved undeveloped reserves	18,907	10,121	4,541	33,569

In 2004, Statoil incurred NOK 33,135 million in development costs, of which NOK 28,353 million related to proved undeveloped reserves. The comparable amounts for 2003 were NOK 19,355 million and NOK 14,355 million, and for 2002 NOK 14,357 million and NOK 9,964 million, respectively.

Changes in the standardized measure of discounted future net cash flows from proved reserves

(in NOK million)	2004	2003	2002
Standardized measure at January 1	88,582	91,700	79,217
Net change in sales and transfer prices and in production (lifting) costs related to future production	146,938	28,007	(297)
Changes in estimated future development costs	(34,976)	(6,971)	(6,115)
Sales and transfers of oil and gas produced during the period, net of production costs	(77,023)	(62,099)	(56,994)
Net change due to extensions, discoveries, and improved recovery	10,668	7,907	9,790
Net change due to purchases and sales of minerals in place	26,129	(19)	(1,802)
Net change due to revisions in quantity estimates	10,733	24,675	9,791
Previously estimated development costs incurred during the period	33,135	19,355	14,357
Accretion of discount	(41,506)	(3,877)	33,342
Net change in income taxes	(42,500)	(10,095)	10,411
Total change in the standardized measure during the year	31,598	(3,117)	12,483
Standardized measure at December 31	120,180	88,582	91,700

Operational statistics

Productive oil and gas wells and developed and undeveloped acreage
The following tables show the number of gross and net productive oil and gas wells and total gross and net developed and undeveloped oil and gas acreage in which Statoil had interests at December 31, 2004.

A "gross" value reflects to wells or acreage in which Statoil has interests (calculated as 100 per cent). The net value corresponds to the sum of whole or fractional working interest in gross wells or acreage.

At December 31, 2004		Norway	Outside Norway	Total
Number of productive oil and gas wells				
Oil wells	— gross	717	641	1,358
	— net	186	119	306
Gas wells	— gross	120	54	174
	— net	37	20	57

At December 31, 2004 (in thousands of acres)		Norway	Outside Norway	Total
Developed and undeveloped oil and gas acreage				
Acreage developed	— gross	655	910	1,565
	— net	149	305	454
Acreage undeveloped	— gross	14,544	14,642	29,186
	— net	5,978	9,307	15,285

Remaining terms of leases and concessions are between one and 36 years.

Exploratory and development drilling activities

The following table shows the number of exploratory and development oil and gas wells in the process of being drilled by Statoil at December 31, 2004.

(number of wells)	Norway	Outside Norway	Total
Number of wells in progress			
— gross	39	47	86
— net	12.3	11.7	24.0

Net productive and dry oil and gas wells

The following tables show the net productive and dry exploratory and development oil and gas wells completed or abandoned by Statoil in the past three years. Productive wells include wells in which hydrocarbons were found, and the drilling or completion of which, in the case of exploratory wells, has been suspended pending further drilling or evaluation. A dry well is one found to be incapable of producing in sufficient quantities to justify completion.

	Norway	Outside Norway	Total
Year 2004			
Net productive and dry exploratory wells drilled	2.5	1.1	3.5
- Net dry exploratory wells drilled	0.5	0.1	0.6
- Net productive exploratory wells drilled	2.0	0.9	3.0
Net productive and dry development wells drilled	16.9	6.7	23.6
- Net dry development wells drilled	0.0	0.0	0.0
- Net productive development wells drilled	16.9	6.7	23.6
Year 2003			
Net productive and dry exploratory wells drilled	4.3	2.5	6.8
- Net dry exploratory wells drilled	1.7	1.0	2.7
- Net productive exploratory wells drilled	2.6	1.5	4.1
Net productive and dry development wells drilled	25.3	18.1	43.4
- Net dry development wells drilled	2.4	0.0	2.4
- Net productive development wells drilled	22.9	18.1	41.0
Year 2002			
Net productive and dry exploratory wells drilled	9.6	1.5	11.0
- Net dry exploratory wells drilled	2.5	0.1	2.6
- Net productive exploratory wells drilled	7.1	1.3	8.4
Net productive and dry development wells drilled	27.3	13.5	40.8
- Net dry development wells drilled	0.0	0.3	0.3
- Net productive development wells drilled	27.3	13.2	40.5

Average sales price and production cost per unit

	Norway	Outside Norway
Year ended December 31, 2004		
Average sales price crude in USD per bbl	38.4	35.2
Average sales price natural gas in NOK per Sm3	1.10	0.89
Average production costs, in NOK per boe	22.4	31.9
Year ended December 31, 2003		
Average sales price crude in USD per bbl	29.1	27.6
Average sales price natural gas in NOK per Sm3	1.02	0.83
Average production costs, in NOK per boe	21.9	27.4
Year ended December 31, 2002		
Average sales price crude in USD per bbl	24.7	23.7
Average sales price natural gas in NOK per Sm3	0.95	0.65
Average production costs, in NOK per boe	22.5	30.7

To the Board of Directors and Shareholders of Statoil ASA

Report of Independent Registered Public Accounting Firm – USGAAP accounts

We have audited the accompanying consolidated balance sheets of Statoil ASA and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Statoil ASA and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

Stavanger, March 9, 2005
Ernst & Young AS

Jostein Johannessen
State Authorized Public Accountant
(Norway)

Proved reserves report

DEGOLYER AND MACNAUGHTON
4925 GREENVILLE AVENUE, SUITE 400, ONE ENERGY SQUARE, DALLAS, TEXAS 75206

February 16, 2005

Statoil ASA
Forusbeen 50
N-4035 Stavanger
Norway

Gentlemen:
Pursuant to your request, we have prepared estimates of the proved oil, condensate, liquefied petroleum gas (LPG), and natural gas reserves, as of December 31, 2004, of certain properties in Algeria, Angola, Azerbaijan, China, Iran, Ireland, Norway, the United Kingdom, and Venezuela owned by Statoil ASA (STATOIL). The estimates are discussed in our "Report as of December 31, 2004 on Proved Reserves of Certain Properties owned by Statoil ASA" (the Report). We also have reviewed STATOIL's estimates of the reserves, as of December 31, 2004, of the same properties included in the Report.

In our opinion, the information relating to proved reserves estimated by us and referred to herein has been prepared in accordance with Paragraphs 10–13, 15, and 30(a)–(b) of Statement of Financial Accounting Standards No. 69 (November 1982) of the Financial Accounting Standards Board and Rules 4–10(a) (1)–(13) of Regulation S–X of the United States Securities and Exchange Commission (SEC).

STATOIL represents that its estimates of the proved reserves, as of December 31, 2004, attributable to STATOIL's interests in the properties included in the Report are as follows, expressed in millions of barrels (MMbbl) or billions of cubic feet (Bcf):

Oil, Condensate, and LPG (MMbbl)	Sales Gas (Bcf)	Net Equivalent (MMbbl)
1,720	14,416	4,289

Note: Net equivalent million barrels is based on 5,612 cubic feet of gas being equivalent to 1 barrel of oil, condensate, or LPG.

STATOIL has advised us that its estimates of proved oil, condensate, LPG, and natural gas reserves are in accordance with the rules and regulations of the SEC. It is our opinion that the guidelines and procedures that STATOIL has adopted to prepare its estimates are in accordance with generally accepted petroleum reserves evaluation practices and are in accordance with the requirements of the SEC.

Our estimates of the proved reserves, as of December 31, 2004, attributable to STATOIL's interests in the properties included in the Report are as follows, expressed in millions of barrels (MMbbl) or billions of cubic feet (Bcf):

Oil, Condensate, and LPG (MMbbl)	Sales Gas (Bcf)	Net Equivalent (MMbbl)
1,723	14,460	4,300

Note: Net equivalent million barrels is based on 5,612 cubic feet of gas being equivalent to 1 barrel of oil, condensate, or LPG.

In comparing the detailed reserves estimates prepared by us and those prepared by STATOIL for the properties involved, we have found differences, both positive and negative, in reserves estimates for individual properties. These differences appear to be compensating to a great extent when considering the reserves of STATOIL in the properties included in the Report, resulting in overall differences not being substantial. It is our opinion that the reserves estimates prepared by STATOIL on the properties reviewed by us and referred to above, when compared on the basis of net equivalent million barrels of oil, in aggregate, do not differ materially from those prepared by us.

Submitted,
DeGOLYER and MacNAUGHTON

General information

Annual general meeting
The annual general meeting in Statoil ASA will be held at Stavanger Forum, Gunnar Warebergs gate 13, Stavanger, Norway on Wednesday 11 May 2005 at 5pm.

Shareholders who would like to attend the annual general meeting are asked to give notification of this by 4pm on Friday 6 May to:
DnB NOR Bank ASA
Verdipapirservice
Stranden 21
N-0021 Oslo, Norway.

Telephone:	+47 22 48 35 84
Telefax:	+47 22 48 11 71

Shareholders who wish to attend the general meeting by proxy must give notice of this in writing. Notice of the annual general meeting will be published in the Norwegian newspapers *Stavanger Aftenblad, Aftenposten, Dagens Næringsliv* and *Finansavisen*.

Dividend
The board's proposal for the distribution of dividend will be resolved at the annual general meeting, with 31 May 2005 as the planned date for payments. Dividend payments will be made to persons listed in the register of shareholders in the Norwegian Central Securities Depository (VPS) on 11 May 2005.

Reporting of results
The following dates have been set for the quarterly reports in 2005:

1st quarter	3 May
2nd quarter	1 August
3rd quarter	31 October

The results will be published at 8.30am.
Statoil reserves the right to change the dates.

Information from Statoil
The annual report is available in printed and electronic versions, in Norwegian and English. Quarterly reports in both languages are available electronically. The group also prepares a report in English once a year, Form 20-F, and quarterly reports, Form 6-K, as required by the Securities and Exchange Commission in the USA. These reports, together with further information about the group's operations, can be obtained by contacting investor relations or public affairs in Statoil.

Shareholders who are registered in the VPS as owners in Statoil may now receive the group's annual report and accounts and notice of annual general meeting electronically.

If you wish to make use of this opportunity or want to find more information, please go to www.vps.no/investor on the internet.

Addresses
Statoil's head office has the following address:

Statoil ASA,	4035 Stavanger, Norway.
Telephone:	+47 51 99 00 00
Telefax:	+47 51 99 00 50
E-mail:	statoil@statoil.com
Investor relations :	ir@statoil.com
Internet:	www.statoil.com

A complete list of addresses and telephone numbers is available at:

www.statoil.com/address

Articles of association for Statoil ASA

Article 1

The name of the Company is Statoil ASA. The Company is a Public Limited Company and the Company's shares are recorded in the Norwegian Central Securities Depository *(Verdipapirsentralen)*. The corporate object of Statoil ASA 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.

Article 2

The Company shall be situated in Stavanger.

Article 3

The share capital of the Company is NOK 5,473,964,000 divided into 2,189,585,600 shares of NOK 2.50 each.

Article 4

The Board of Directors of the Company shall be composed of at least five and a maximum of 11 directors. The Board of Directors, including the chair and the deputy chair, shall be elected by the Corporate Assembly. Five deputy directors may be elected in respect of the directors elected by and among the employees, and these deputies shall be summoned in the order in which they are elected. Two deputy directors may be elected in respect of the other directors, one as first deputy and one as second deputy. The normal term of office for the directors is two years.

Article 5

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

Article 6

The Board shall appoint the Company's chief executive officer and stipulate his/her salary.

Article 7

The Company shall have a Corporate Assembly consisting of 12 members. Members and deputies shall be elected for two years at a time. The Annual General Meeting shall elect eight members and three deputy members for these eight. Four members and deputies for these four shall be elected by and among the employees of the Company in accordance with regulations pursuant to the Public Limited Companies Act concerning the rights of employees to be represented on the Board of Directors and in the Corporate Assembly of limited companies.
The Corporate Assembly shall elect a chair and deputy chair from and among its members.
The Corporate Assembly shall hold at least two meetings annually.

Article 8

The Annual General Meeting shall be held each year before the end of June. Annual General Meetings shall be held in Stavanger or in Oslo.

Article 9

The Annual General Meeting shall deal with and decide the following matters:
Adoption of the profit and loss account and the balance sheet.
Application of the annual profit or coverage of loss as shown in the adopted balance sheet, and the declaration of dividends.
Adoption of the consolidated profit and loss account and the consolidated balance sheet.
Any other matters which are referred to the Annual General Meeting by statute law or the Articles of Association.

Article 10

The Company shall be responsible for the marketing and sale of the state's petroleum which is produced from the state's direct financial interest (SDFI) on the Norwegian continental shelf, as well as for the marketing and sale of petroleum paid as royalty in accordance with the Petroleum Act of 29 November 1996 No 72. The Annual General Meeting of the Company may by simple majority decide on further instructions concerning the marketing and sale.

Article 11

The Company shall have an Election Committee. The tasks of the Election Committee are to make recommendations to the Annual General Meeting regarding the election of shareholder-elected members and deputy members of the Corporate Assembly, and to make recommendations to the Corporate Assembly regarding the election of shareholder-elected members and deputy members of the Board of Directors. The chair of the Board of Directors and the chief executive officer of the group shall, without having the right to vote, be summoned to at least one meeting of the Election Committee before it delivers its final recommendations.

The Election Committee shall consist of four members who shall be shareholders or representatives of shareholders. The chair of the Corporate Assembly shall be a permanent member and chair of the Election Committee. Two members shall be elected by the Annual General Meeting, and one member shall be elected by and among the Corporate Assembly's shareholder-elected members. The members of the Election Committee are elected for a term of two years. The shareholder-elected members of the Corporate Assembly may, following recommendations from the shareholder-elected members of the Board of Directors, adopt instructions for the Election Committee.

Article 12

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

Adopted at the Annual General Meeting of 7 May 2002.

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STATOIL ASA
NO-4035 STAVANGER
NORWAY
TELEPHONE: +47 51 99 00 00
www.statoil.com

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