

**A MORE
FOCUSED
STATOIL**

Den norske stats oljeselskap a.s - Statoil - was founded by a unanimous vote of the Storting (parliament) on 14 June 1972. All its shares are still held by the Norwegian state, but the board carried out an assessment of the group's future ownership structure in 1999 at the owner's request and recommended that Statoil be partially privatised. This issue is now being considered at the political level.

The Storting resolved in 1984 to split Statoil's cash flow between the group and the state, and the state's direct financial interest (SDFI) was accordingly established with Statoil as its business manager and caretaker. In connection with its assessment of the future organisation of the state's overall petroleum operations, the Statoil board recommended that all or a substantial part of the SDFI should be transferred to the group before a partial privatisation.

Statoil's object is to carry out exploration, production, transport, refining and marketing of petroleum and petroleum-derived products, as well as other business. Operating revenues for the group in 1999 totalled NOK 140 billion. Its net profit for the year was NOK 3.4 billion. At 31 December, the group had just over 17 000 employees.


The group is the leading player on the Norwegian continental shelf (NCS). A gradual expansion of its international upstream operations over the past decade has also allowed Statoil to build up substantial oil and gas reserves outside Norway. The group is currently active in more than 20 countries.

Statoil ranks as one of the world's largest net sellers of crude oil, and as a strong player in the European gas market. It is the leading Scandinavian retailer of petrol and other oil products. During 1999, the group agreed to establish a Scandinavian retail company together with Sweden's ICA supermarket chain. Statoil owns 50 per cent of this company. Outside Scandinavia, the group has built up service station networks in Estonia, Latvia, Lithuania, Poland and Ireland.

The group's ambition is to develop from an oil and gas company into an integrated energy enterprise. It has built up good positions as a supplier of electricity in Norway and Sweden.

Statoil has a 50 per cent interest in the Borealis petrochemicals group and owns 80 per cent of the Navion shipping company, a world leader for offshore loading.

REVIEW



SIRI ON STREAM: Production began from Siri in the Danish North Sea on 1 March. A new exploration model developed by Statoil was used to find this field. Developing it took less than three years from discovery to production start. Siri accounts today for a fifth of Denmark's oil output.




MORE OIL FROM LUFENG: The producing life of Statoil's Lufeng field in the South China Sea has been extended as a result of good operational results and high oil prices. And the Chinese authorities have praised Statoil for achieving the best-ever health, environment and safety results on an oil field off China.

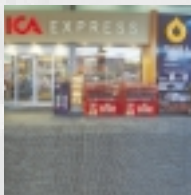
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STATFJORD PASSES 20 YEARS: The 20th anniversary of the start to production from Statfjord A could be celebrated on 24 November. To date, the three platforms on this field have produced oil worth more than NOK 900 billion. The recovery factor on Statfjord has steadily improved. This field has been by far the most important source of revenues for Statoil over many years.



ÅSGARD ON STREAM: Statoil brought the world's largest production ship into operation on Åsgard in the Norwegian Sea during 1999. The biggest floating gas platform ever built is now being readied to start work on the same field.



STRONGER IN SCANDINAVIA: Statoil joined forces with Sweden's ICA supermarket chain to establish Statoil Detaljhandel Skandinavia. Owned 50 per cent by the group, it will sell petrol, oil products and groceries in the Scandinavian market under the Statoil and ICA Express brands. This development will strengthen Statoil's position as a leading retailer in Scandinavia.



FOCUSING: To strengthen the group's competitive position and profitability, substantial cost reductions, restructuring and divestment of operations have been implemented. The aim is to free up capital for profitable growth in priority areas.

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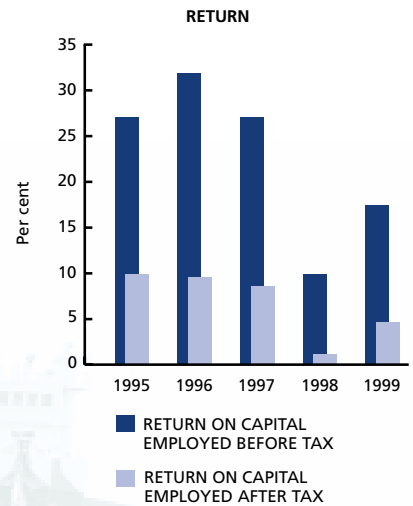
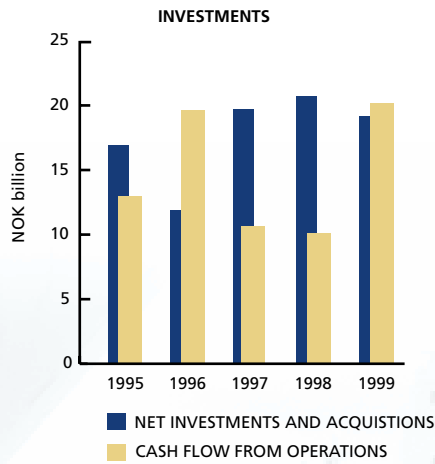
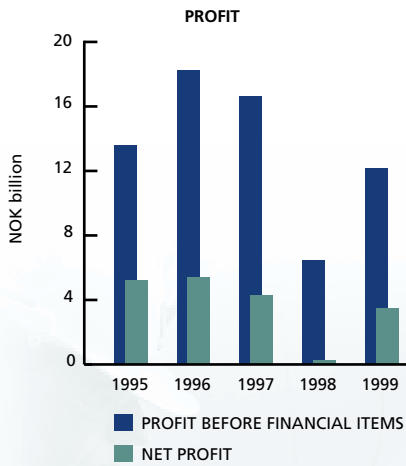
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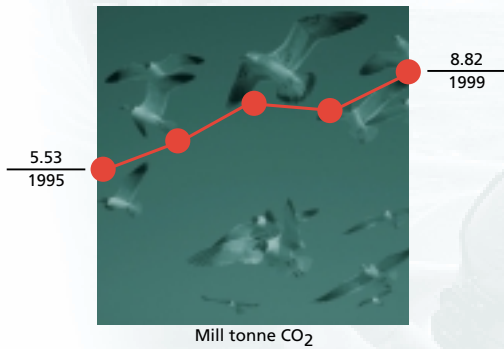
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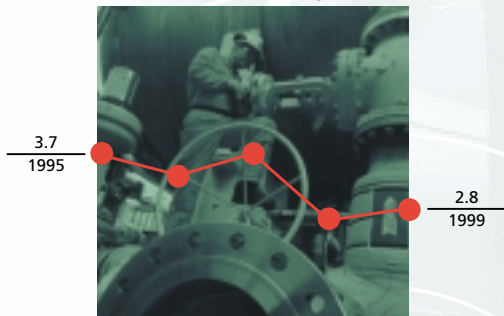


CO₂-EMISSIONS FROM STATOIL-OPERATED FACILITIES



Mill tonne CO₂

LOST-TIME INJURY FREQUENCY



Lost-time injuries per mill working hours

SERIOUS INCIDENT FREQUENCY



Serious incidents per mill working hours

Profit before financial items

(NOK million)

12 156

Net profit

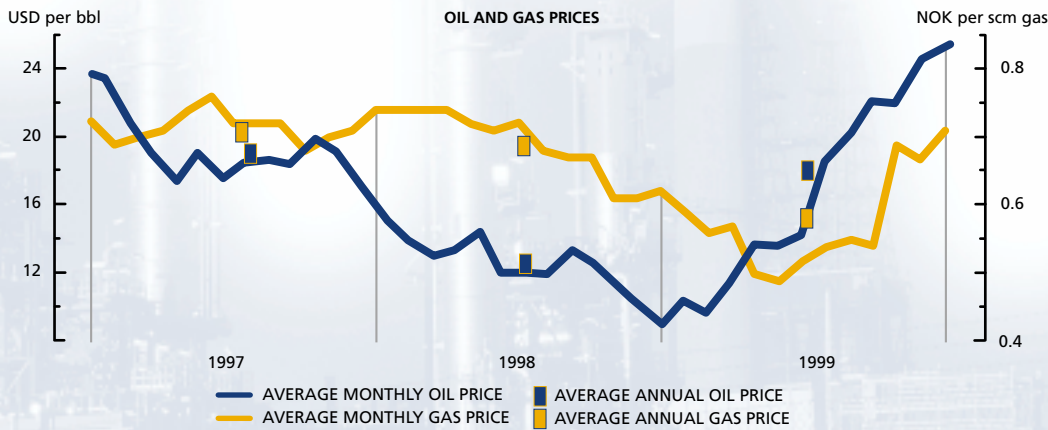
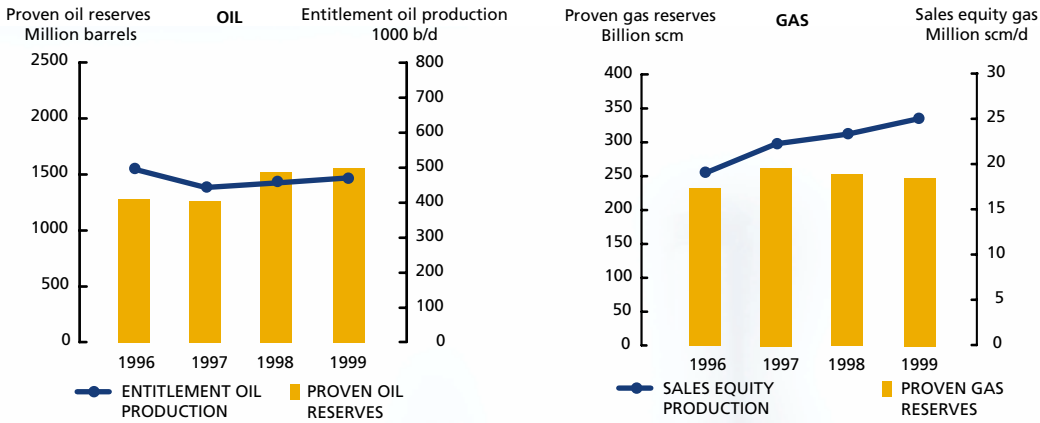
(NOK million)

3 403

(NOK mill)	1999	1998	1997	1996	1995
Operating revenue	139 992	105 892	123 921	106 566	85 375
Profit before financial items	12 156	6 580	16 775	18 234	13 590
Profit before taxation	13 226	4 301	13 722	17 924	14 689
Net profit	3 403	134	4 311	5 281	5 265

(NOK mill)	1999	1998	1997	1996	1995
Net investments	19 105	20 708	19 667	11 910	16 938
Cash flow from operations before tax	25 888	15 806	23 275	27 860	21 645
Net cash flow from operations	20 175	10 074	10 656	19 638	12 934
Interest-bearing debt	49 888	45 175	29 522	23 883	22 951
Shareholder's equity	41 610	41 379	39 894	37 285	33 936

FINANCIAL HIGHLIGHTS



	1999	1998	1997	1996	1995
Return on capital employed before tax	17.6 %	9.4 %	26.2 %	32.2 %	27.1 %
Return on capital employed after tax	4.7 %	1.4 %	8.2 %	9.6 %	9.9 %
Return on equity	7.5 %	0.1 %	11.2 %	14.9 %	16.4 %
Equity ratio	26.3 %	30.0 %	32.4 %	32.5 %	31.1 %

	1999	1998	1997	1996	1995
Exploration expenditure, in NOK million	2 265	3 433	3 473	1 644	1 297
Entitlement oil production*, in thousands of b/d	465	460	447	499	453
Sales of equity gas per day, in millions of scm	25.1	23.5	22.5	19.0	13.8
Refinery throughput, in thousands of b/d	269	268	273	250	216
Proven oil reserves*, in millions of barrels	1 563	1 512	1 278	1 285	**
Proven gas reserves, in billions of scm	251.1	258.9	267.0	237.2	**

* Including condensate and NGL

** New principles for estimating reserves as of 1996.

DEFINITIONS:

Capital employed =

Total assets less non-interest bearing debt

Return on capital employed before tax =

Profit before tax plus borrowing costs as a percentage of average capital employed

Return on capital employed after tax =

Net profit plus borrowing costs after tax as a percentage of average capital employed

Return on equity =

Net profit as a percentage of average shareholder's equity and minority interests

Equity ratio =

Shareholder's equity and minority interests, as a percentage of the total balance sheet less accounts payable related to the state's direct financial interest (SDFI) in the petroleum industry

Cash flow from

operations before tax =

Cash receipts from and cash disbursements to operations less net financial disbursements

Net cash flow from operations =

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

Reserves =

Proven, commercially recoverable reserves


Lost-time injury frequency =

Number of lost-time injuries per million working hours. Lost-time injury is defined as occupational injury causing absence from work (excluding the day the injury occurred)

Serious incident frequency =

Number of incidents with a high loss potential per million working hours. Such an incident is an event or sequence of events which has or could have caused injury, illness and/or damage to/loss of material assets, damage to the environment or a third party





WORLD'S LARGEST: The Åsgard B platform is approaching completion at Kværner Oil & Gas in Stavanger. With a deck area of 11 000 square metres, this structure ranks as the world's largest floating gas production facility. It will be towed to the Norwegian Sea field during the spring of 2000. When the platform comes on stream the same autumn, gas resources off mid-Norway will be tied to markets in continental Europe. A 730-kilometre trunkline with an annual capacity of 20 billion cubic metres has been laid from Åsgard to the Kårstø gas treatment complex north of Stavanger.

Also rated as the world's biggest unit of its kind, the Åsgard A oil production ship began producing in May 1999.

Statoil's Åsgard development qualifies as the largest and most complex on the NCS. This is because it embraces extensive seabed production installations, totalling no less than 16 templates linked by 300 kilometres of flowline and adding up to the world's biggest subsea development.



Major changes characterised the markets in which Statoil works during 1999. Oil industry mergers have generated tougher competition both nationally and internationally. The price of oil also rose sharply during the year. For Statoil, which derives the bulk of its revenues from oil and gas production, this resulted in a substantial improvement in profit before financial items from NOK 6.6 billion in 1998 to NOK 12.2 billion. Net profit for the year came to NOK 3.4 billion. This figure was affected by sales gains and substantial write-downs undertaken on the basis of an overall review carried out by Statoil of its strategy and priority areas.

At the request of the Ministry of Petroleum and Energy, Statoil has prepared recommendations for the future development of the group and the state's direct financial interest (SDFI). These call for Statoil to be strengthened through the transfer of all or a significant part of the SDFI, combined with a partial privatisation and stock market listing of the group.

A far-reaching debate has been under way in Norway since these proposals were submitted in August 1999, and this discussion will continue until the Storting (parliament) reaches its decision. Statoil's view is that its recommendations represent the best solution for the state's overall assets, and the debate so far has not weakened my belief in that argument. The recommendations will give Statoil the financial strength to continue expanding the

extensive operations outlined in this annual report. These activities include a substantial industrial position on the Norwegian continental shelf and in mainland Norway. They also embrace a strong position in global oil markets and the European gas market. And they encompass not least a strong position in sales of oil-related and other products to millions of customers under one of the strongest brands in the end-user markets in which the group is represented. Through their active support, Norway's political authorities can help to strengthen and develop this business.

The group is now implementing a number of measures to become more competitive. Taken together, three important steps will provide a good and solid foundation for new growth. A major restructuring involves divesting roughly 20 per cent of Statoil's assets. Cost reductions totalling NOK 4 billion on an annual basis are being pursued from 1998 to 2001. And the group is concentrating its efforts in order to reach its commercial goals within four business areas.

A strong commitment will be made to exploration for and production of oil and natural gas off Norway. An international effort will be maintained, but concentrated on a limited number of resource-rich oil and gas provinces. Statoil will be a leading player in international oil trading, and will continue to develop as an energy company offering a number of products to customers both in Scandinavia and internationally. Its position as a gas company in Europe will be strengthened, and it will make a continued commitment to petrochemicals. A high standard will be maintained in work on health, the environment and safety.

Statoil has major opportunities to grow into a broadly-based energy company. It is now laying the foundations for this growth.


Olav Fjell

FOCUS

GLOBAL OIL TRADER

Statoil is one of the largest players in the world oil market, responsible for selling roughly two million barrels per day on its own behalf and — primarily — for the state's direct financial interest (SDFI). That has called for the creation of a global trading organisation to secure sales of Norway's large crude volumes. Effective utilisation of this powerful system creates additional value for these resources in a market characterised by growing competition.

Exporting crude across the Atlantic to the world's largest energy market represents a key element in this strategy. The group has built up very solid positions in the American oil market over more than a decade, and ships some 500 000 barrels per day from the Mongstad and Sture terminals to the USA and Canada.

The west European market has long been characterised by a surplus of high-quality crudes with a low sulphur content. Over a number of years, Statoil has worked purposefully to secure access for large crude volumes to the North American continent. The group sold roughly 500 000 barrels per day to these markets throughout 1999. Such westward trading links are necessary for securing an optimal price. The alternative market for these large volumes is western Europe, which would create an oil surplus with associated price reductions. Statoil has also succeeded in building up good trading relations in the Asian market, and sold roughly 170 000 barrels per day to this part of the world in 1999.

"With such substantial daily volumes of crude, it's essential to have effective access to the entire world market," emphasises vice president Gunnar Sletvold, who is responsible for crude oil sales.

When Sigurd Jansen, head of Statoil's trading office at Stamford in Connecticut, recently returned to the USA from Stavanger, he travelled via the Bahamas and New Jersey. These locations house two important bridgeheads for Statoil crude and refined products into the North American market. The group has leased storage capacity for many years at the South Riding Point oil terminal in the Bahamas.

"We've created a transit point here for Norwegian oil on its way into the world's largest energy market," says Sigurd Jansen.

When handling such large volumes of crude, it is important to have an intermediate storage facility for offloading the big tankers crossing the Atlantic from Norway. This makes it possible to tailor cargoes to smaller vessels for the final leg of their journey to America's main oil ports.

The next stop on Mr Jansen's trip was a product terminal in New Jersey. Statoil ships roughly 30 000 barrels of petrol from Mongstad to the USA every day. Product carriers cross the Atlantic to the terminal, which provides a transit point for these valuable products before they enter the distribution network covering the world's thirstiest petrol market.

Statoil has also leased crude storage capacity in South Korea, an important bridgehead for securing a daily position in a part of the world where energy consumption is rising.

Having storage capacity to fall back on will be beneficial when the forward oil price is higher than the price for immediate delivery. This has been Statoil's strategy for a number of years. Large additional value is created by exploiting the crude oil terminals at Mongstad, in the rest of Europe, in the USA and in Asia.

The market reversed at the beginning of 2000, with oil prices for immediate delivery rising sharply and the balance between European demand and supply improving. Forward oil prices declined.

"We could once again benefit from our flexible global trading system," says Mr Sletvold. "We accordingly resolved to cancel our terminal contract in the Bahamas. That was the right decision at this time. We'll always assess what provides optimal value. This strategy also implies that we'll return to terminal storage when that's appropriate."



Effective utilisation of Statoil's global organisation for crude trading creates additional value for Norwegian oil in a demanding market.

1 INTRODUCTION

The Statoil group achieved a net profit of NOK 3.4 billion in 1999. While this represents an improvement of NOK 3.3 billion from the year before, it is still considered unsatisfactory. Profit before financial items came to NOK 12.2 billion, up by almost 85 per cent from 1998, while profit before tax rose from NOK 4.3 billion to NOK 13.2 billion. Return on capital employed improved from 1.4 per cent to 4.7 per cent.

HIGH OIL
PRICES

Higher oil prices and substantial cost reductions were the primary reasons for the positive progress in Statoil's results. However, the level of profit demonstrates that efforts to restructure and to reduce costs must be stepped up throughout the group. Statoil's most important task in the short term will be to strengthen its profitability and competitiveness. The immediate objective is to achieve a profitability — measured by return on capital employed — of at least 10 per cent from 2001. This improvement will be necessary to put Statoil on a par with its international competitors.

Roughly NOK 4 billion in net expenses for the present restructuring process has been charged against the group's 1999 results. Divesting 50 per cent of the service station network in Scandinavia and realising the shareholding in Saga Petroleum ASA yielded an overall gain of NOK 2.7 billion. Losses have been recorded on the divestment of Statoil Energy and upstream operations in the USA, and on write-downs in the value of refining and methanol plants and the West Navion drill ship. The group's loss from divestment of operations, provisions and write-downs totals NOK 6.6 billion.

Substantial write-downs were made by the group in 1998 on the basis of low price expectations for oil. Write-downs implemented in the 1999 accounts are a consequence of strategic choices of direction and changed market assessments.

The low level of rig activity appears to be persisting beyond the period expected at the time the 1998 accounts were compiled. As a result, the provision for loss on rig contracts has been increased by NOK 800 million in 1999.

Statoil's oil and gas reserves remained unchanged during 1999. Taken together, acquiring part of Saga, upgrading existing finds and new discoveries equalled production for the year and divestment of the upstream business in Statoil Energy Inc.

The group's results in health, the environment and safety have shown clear progress in recent years, and were maintained at a high level in 1999. However, Statoil unfortunately failed once again to avoid accidents involving loss of life. Good environmental results and a focus on health and safety are crucial for the group's value creation and standing.

A new board of directors for Statoil was appointed by the minister of petroleum and energy at the annual general meeting on 27 April 1999. Harald Norvik, the chief executive, resolved at the same time to make his job available. Olav Fjell took over as president and CEO on 24 September 1999.

2 TOUGHER COMPETITION

Trends in the global energy market changed quickly during 1999 when the key oil producers in Opec reached agreement on production curbs. The average price per barrel of Brent Blend reference crude rose from USD 12.7 (NOK 96) the year before to USD 18 (NOK 140) in 1999. However, global production capacity remains substantially larger than demand for oil. Growth in the world economy, and particularly the recovery in Asia, could eventually reduce this over-capacity, but there are no signs of any short-term scarcity of resources. High oil prices will accordingly remain dependent on Opec's success in maintaining its curbs.

GAS MARKET
CHANGING

Refining, retailing and petrochemical markets continued to be affected by surplus capacity as well as low prices and margins. Poor margins weakened Statoil's results in 1999 and offset to some extent the benefit of improved oil prices.



Ole Lund is chairman of the board. A Supreme Court attorney, he has previously been chairman of Den norske Bank and the Oslo Stock Exchange. He was appointed to the Statoil chairmanship in 1999.



Rune Bjerke is deputy chairman of Statoil. President of Scancem International ANS, he was appointed to the board in 1999.

The European gas market is changing as a result of deregulation and liberalisation, with the European Union's gas directive involving a gradual liberalisation of this sector from 2000. A combination of deregulation, new players and a good underlying supply position could drive down prices. European demand for gas increased once again in 1999, while prices were rather lower than the year before.

Taken together, the international oil and gas companies failed to deliver satisfactory results during the 1990s, and value creation in this sector has been lower than for industry in general. As a result, the oil business is being extensively restructured through mergers, acquisitions and the formation of new alliances.

The Statoil board expects competition in the petroleum industry to sharpen even further as a consequence of the far-reaching structural changes taking place in markets, and prices and margins are likely to be under lasting pressure in all the group's business areas.

3 STATOIL'S PROFITABILITY TO BE IMPROVED

Statoil has reduced its operating and administration expenses by NOK 600 million over the past year, and its exploration spending by NOK 1.1 billion. The improvement programme established in 1999 aimed at an overall cost reduction of NOK 2 billion by the end of 2000. This process has yielded good results so far, but will not be sufficient to meet the group's profitability target and ensure its long-term competitiveness. Statoil has accordingly raised its sights by NOK 1 billion for 2000 and a further NOK 1 billion for 2001. Overall, this will yield a 20 per cent reduction in annual exploration, operating and administration expenses compared with 1998.

One necessary measure has been a downsizing of the workforce — both the group's own employees and the use of hired consultants — totalling about 1 600 work-years in order to secure efficiency improvements and to adapt the organisation's size to a lower level of activity. The board places great emphasis on ensuring that the necessary organisational and personnel changes are efficiently implemented, while observing the principles of cooperation and openness in relation to those affected and to the unions.

An overall objective for the board is to preserve and develop the group's expertise. Statoil's employees have a high level of professional competence. However, expertise requirements are set to change as a result of continued technological development, the need for new modes of working, internationalisation, entry into new markets and stiffer competition.

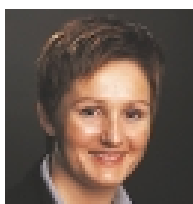
Statoil is releasing capital through a restructuring of the business in order to strengthen the group in priority areas. Substantial changes have been made to its portfolio over the past year:

- Roughly 25 per cent of the assets in Saga Petroleum were acquired after Saga's shareholders accepted an offer from Norsk Hydro and Statoil. This acquisition has strengthened the group's reserve base, production and position on the Norwegian continental shelf.
- The service station network in Scandinavia has been strengthened by establishing Statoil Detaljhandel AS, with supermarket chain ICA as an equal partner with a 50 per cent shareholding.
- The major part of Statoil Energy Inc in the USA has been sold.
- The shareholding in Hafslund has been sold.
- A refining collaboration has been concluded with Shell, which gives Statoil an interest in the Dutch Pernis refinery while Shell has become part owner of the Mongstad facility.
- The flotel on Statfjord has been sold.
- The Varg ship has been sold and leased back.
- Changes have been made to the portfolio on the UK continental shelf through sales and swaps.

Additional measures are under consideration both in Norway and in the international business.

REDUCED
COSTS

MAJOR
RESTRUCTURING



Lill-Heidi Bakkerud trained as a process technician and has worked at the petrochemical complex in Rafnes and on the Gullfaks field. She is now a full-time union official in Statoil, and was elected to the board of the parent company in 1998.



Kirsti Koch Christensen is a professor and vice-chancellor at the University of Bergen. She became a director of Statoil in 1999.

4. HIGH LEVEL OF GROUP ACTIVITY

Exploration and production

The upstream business achieved considerably better results in 1999 than the year before. Increased oil prices and cost savings were important reasons for this improvement.

Statoil's overall daily oil and gas production averaged 624 000 barrels of oil equivalent in 1999, compared with 604 000 barrels the year before. Increases resulting from the acquisition of Saga Petroleum assets, higher gas sales to continental Europe and bigger international production have compensated for the decline in output from mature fields such as Statfjord, Gullfaks and Oseberg.

Levels of investment and activity by the group on the Norwegian continental shelf were once again high during 1999. Very good operational regularity was achieved with Statoil-operated production facilities and transport systems.

The Åsgard field in the Norwegian Sea began producing oil, while its gas production platform, gas receiving and fractionation facilities at Kårstø and the Åsgard Transport trunkline are due to start operating on 1 October 2000. Åsgard B is in a critical phase, with mechanical completion and testing of equipment and systems, and the board is keeping a close eye on cost developments. As with several of the projects in the Åsgard chain, it is transpiring that the quality of the engineering phase was unsatisfactory given the complexity and size of the project. This has meant an increase in work hours from the planned level, but the total estimated cost remains within the exposure previously presented by the board. The deficiencies exposed in connection with completion work are not expected to affect the planned start to gas exports from Åsgard B on 1 October 2000.

The principles applied by Statoil for calculating proven reserves have been changed to accord with those used by its international competitors. Figures for reserves in earlier years have been amended accordingly. Statoil had recorded reserves totalling 1 563 million barrels of oil and natural gas liquids at 31 December 1999, as against 1 512 million at the end of the year before. Recorded gas reserves totalled 251 billion standard cubic metres compared with 259 billion at 31 December 1998. The combination of upgrades to existing reserves and new discoveries was not sufficient to replace production for the year, but the overall volume of proven reserves remained unchanged in relation to 1998 when acquisitions are included. The group has several oil and gas projects under consideration, both in Norway and abroad, but reserves relating to these remain insufficiently mature at present to be recorded as proven. Statoil's plan for developing Kvitebjørn has been approved by the partners and is now under consideration by the Ministry of Petroleum and Energy.

The board emphasises that Statoil still has considerable ambitions on the Norwegian continental shelf. This is, and will remain, the group's most important arena. The board sees substantial opportunities for creating increased value off Norway by concentrating efforts on selected areas.

Over the past decade, Statoil has developed several attractive business opportunities in international exploration and production. This part of the business is still in a build-up phase. Oil production outside Norway averaged 58 500 barrels per day in 1999, an increase of 13 per cent. The Siri field off Denmark came on stream with Statoil as operator.

The board expects Statoil to develop a focused international portfolio. Major new discoveries were again made off Angola and Azerbaijan during 1999. These areas are being given priority. In addition, Ireland and the UK — in other words, the Atlantic Margin — as well as Venezuela and Nigeria could develop into possible core assets.

Natural gas

Statoil's average daily gas production increased from 23.5 million cubic metres in 1998 to 25.1 million. A sales contract for the first Norwegian gas deliveries to Poland was signed in 1999.



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



Finn A. Hvistendahl has previously held senior posts in Norsk Hydro and was chief executive of Den norske Bank. He became a Statoil director in 1999.

The group operates an extensive gas transport system from Norwegian offshore fields to European markets. Another of these trunklines — Europipe II — came into operation between Kårstø and Dornum in Germany. Norwegian gas deliveries achieved 100 per cent regularity. Statoil was also able to make further reductions in operating costs through continuous improvement efforts. The gas trunkline from Åsgard to Kårstø, which is due to begin operating in the autumn of 2000, will tie a new province on the Norwegian continental shelf to European gas markets.

Oil trading, refining and marketing

Statoil traded an average of 1.9 million barrels of oil per day in 1999, derived principally from its entitlement crude and volumes purchased from the state's direct financial interest (SDFI). Trading in crude oil and refined products achieved significantly better results than in 1998.

Results for refining, on the other hand, were weak, owing to low margins and a planned turnaround at Mongstad. The collaboration agreement with Shell came into effect on 1 January 2000, giving Statoil a financial interest corresponding to 10 per cent of capacity at Shell's Pernis refinery in the Netherlands and Shell a 21 per cent holding in the Mongstad refinery. A substantial write-down has been made on the Kalundborg refinery. The Vestprosess development began operation, tying together three west Norwegian facilities for processing oil and gas: Kollsnes, Sture and Mongstad.

The marketing business yielded unsatisfactory results, which were affected by sharp competition in the industry with reduced volumes and narrower margins. In addition, substantial expenses related to developing new information technology solutions for administrative and commercial processes were charged to the accounts. Extensive measures have been initiated to improve profitability by cutting costs, using more efficient computer systems and adopting simpler work processes. This business has also been reorganised to tie the oil chain — transport, oil trading, refining and marketing — more closely together.

Cooperation with other companies will be an important instrument in improvement efforts. In this context, the whole retail business in Scandinavia has been assembled in a jointly-owned company, Statoil Detaljhandel Skandinavia AS. Fifty per cent of the shares were sold to ICA with a substantial gain. This company is responsible for sales of automotive fuel, car servicing, groceries, fast food and other services through 1 450 Statoil stations in Scandinavia.

Operating results for Navion strengthened by comparison with the year before, primarily because of increased activity in offshore loading and floating production. However, net profit for Navion ASA was affected by a substantial write-down in the value of the West Navion drill ship.

Petrochemicals

Overall results for petrochemical operations were weaker than in 1998. Despite narrower margins, however, results for Borealis improved in 1999 by comparison with the year before as a consequence of cost reductions, restructuring measures and high production. The methanol plant at Tjeldbergodden operated at a loss in 1999, and a write-down has been carried out on this facility.

5 HEALTH, THE ENVIRONMENT AND SAFETY

Statoil's goal for health, the environment and safety is zero injuries, accidents and material loss. Unfortunately, contractors working for Statoil suffered two fatalities in 1999. One person died on the Heidrun platform, and the other was killed on the Solitaire laybarge. These incidents have been investigated and improvement measures implemented. The fatalities underline the necessity for strengthening and developing measures to prevent accidents in Statoil's operations. While the group has seen a positive trend in lost-time

1.9 MILLION
BARRELS OF
OIL PER DAY

STRONG
FOCUS
ON HES



Bente Rathe is deputy chief executive of Gjensidige Nor. She became a Statoil director in 1999.



Jetfred Sellevåg has an engineering education and is currently a staff electrical engineer at the Mongstad refinery. He has served three periods as an employee-elected member of the Statoil board.

injuries during recent years, there was a small increase in such incidents in 1999. The lost-time injury frequency rose from 2.7 per million working hours in 1998 to 2.8. Sickness absence came to 3.6 per cent in 1999.

The board stresses that efforts to improve profitability in the group should not be pursued at the expense of high safety and environmental standards. It also wants to ensure that Statoil's use of resources is cost-effective in relation to the environmental and social impact.

Carbon dioxide emissions from the group's oil and gas operations rose slightly in 1999 because new fields were brought on stream. The technology selected for Åsgard yields greenhouse gas emissions per unit produced which are lower than on most other comparable fields internationally. Statoil is pursuing an extensive programme to develop technology which can help to reduce greenhouse gas emissions. Accidental spills of oil to the external environment totalled 2 635 barrels in 1999.

The board is positive to the introduction of a Norwegian system for emission trading of greenhouse gases in accordance with the Kyoto protocol. Statoil could become Norway's largest player in a market for emission quotas. The board emphasises the importance of the Norwegian authorities constructing this system in such a way that industrial operations in Norway do not suffer a cost disadvantage in relation to competing industries abroad.

Statoil carries out regular health, working environment and organisation surveys. The board notes with satisfaction the emphasis placed on prevention. These surveys show that the group has a good working environment.

Further details relating to health, the environment and safety are provided in the review of Statoil's operations.

6 FINANCIAL DEVELOPMENTS

Overall gross revenues for Statoil in 1999 totalled NOK 139 992 million. A profit of NOK 12 156 million was achieved before financial items, as against NOK 6 580 million the year before. Profit before tax came to NOK 13 226 million, while net profit for the year rose from NOK 134 million in 1998 to NOK 3 403 million.

Profit before financial items for exploration and production amounted to NOK 12 756 million, as against NOK 6 221 million in 1998. This result includes a profit of NOK 14 883 million from Norwegian offshore operations, and a loss of NOK 2 127 million on international exploration and production. Refining and marketing showed a loss of NOK 273 million, compared with a profit of NOK 234 million the year before. Results for the year include an increase of NOK 1.2 billion in the value of operational stocks of crude oil and refined products. The loss for petrochemicals came to NOK 7 million as against a profit of NOK 371 million in 1998.

Statoil recorded a gain of roughly NOK 1 200 million on the sale of 50 per cent of its Scandinavian service station network to ICA. Realising the shareholding in Saga Petroleum yielded an accounting gain of roughly NOK 1 500 million.

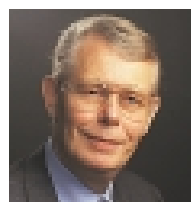
The extensive restructuring and improvement process being pursued in the group has resulted in substantial write-downs and provisions, but gains have also been made on divestments.

The group has made provisions totalling NOK 1 400 million for losses relating to the divestment of Statoil Energy Inc and the upstream operations in the USA. In addition, the group has written down the value of its Kalundborg refinery by NOK 1 800 million and its 15 per cent interest in the Melaka refinery by NOK 500 million. Statoil's share of the methanol plant at Tjeldbergodden and the West Navion drill ship have been written down by NOK 500 million and NOK 1 200 million respectively. These write-downs follow a new review by the board of future market prospects and an overall assessment of the group's strategy and priority areas. NOK 800 million in estimated loss on rig contracts has been charged to the accounts.

Net investment by Statoil totalled NOK 19 105 million, compared with NOK 20 708 million in 1998.



Ingvar M Sviggum is vice president for European sales operations at Ford of Europe Inc, and became a Statoil director in 1999.



Knut Åm has previously held a number of key management posts with Phillips Petroleum. He joined the Statoil board in 1999.

Roughly 70 per cent of this spending related to operations in Norway. It was financed by cash flow from operations, which totalled NOK 20 175 million as against NOK 10 074 million the year before. Interest-bearing debt for the group at 31 December 1999 totalled about NOK 49 888 million, an increase of NOK 4 713 million over the year. This rise reflects the build-up of extraordinary liquidity at 31 December. The group accordingly had NOK 7.7 billion in bank deposits and other liquid assets at 31 December 1999. Overall interest-bearing debt is denominated mainly in US dollars and currencies within the euro zone. The average maturity of the group's long-term loans is unchanged from 1998 at roughly 11 years. Interest charges in 1999 averaged 5.2 per cent as against 5.3 per cent the year before.

At 31 December, Statoil managed a portfolio of NOK 19.6 billion in bonds, shares and certificates. Financial management by the group relates primarily to assets in Statoil Forsikring (insurance) and in Statoil's pension funds, which are not consolidated in the accounts. The average return on financial assets in 1999 was 18 per cent.

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

Statoil has changed its principles for recording proven reserves to accord with US accounting practice. That improves opportunities for comparing the development of reserves in the group with its international competitors. The amended rules impose stricter criteria for calculating proven reserves than the principles applied by Statoil until 1998. Figures for reserves from 1997 to 1999 presented in this report have been recalculated in accordance with the new principles.

As required by section 3.3 of the Norwegian Accounting Act, the board confirms that the going concern assumption has been fulfilled. The annual accounts for 1999 have been prepared on that basis.

**DIVIDEND NOK
1.7 BILLION**

Net profit for the parent company, Den norske stats oljeselskap a.s, came to NOK 1 671 million.

The board recommends that 50 per cent of the group's net profit be paid as dividend, and proposes the following appropriation of net profit in the parent company, Den norske stats oljeselskap a.s (in NOK million):

Dividend	1 702
Transferred from other equity	(31)
<u>Net profit for the year</u>	<u>1 671</u>

7 FUTURE DEVELOPMENTS

At the request of the Ministry of Petroleum and Energy, the board drew up a report in 1999 on future development of Statoil and the SDFI in petroleum operations. The board's objective was to present recommendations which maximised the value of the state's overall assets and helped to reduce its risk. These proposals called for Statoil to be strengthened with all or a substantial part of the SDFI, combined with a partial privatisation and stock market listing of the group. The board's recommendations are now being considered by the Ministry of Petroleum and Energy, and will be submitted to the Storting (parliament) for a final decision. The outcome will have great influence on Statoil's future development.

Without anticipating the conclusions of the debate on the SDFI and the group's ownership, the board is working to a principal strategy which involves maintaining Statoil as a broadly-based energy company with a focused commitment within its various business areas. In the board's view, this provides the best balance between short-term profitability and attractive growth opportunities.

Statoil will strengthen its identity as a focused upstream company. Operations off Norway have the highest priority because of their great significance for the group's earnings. Statoil faces demanding changes off Norway in order to ensure its profitability. International upstream operations represent a necessary continuation of the group's position and expertise, and will be critical for its ability to grow beyond the productive life of the Norwegian continental shelf.

Further development of Statoil's position as a gas and energy company represents an important part of the strategy. The group enjoys a unique position as one of the three major gas suppliers to Europe. That

**16TH LICENSING
ROUND
IMPORTANT**

provides a good basis for developing a more extensive involvement in European gas operations. Statoil has a brand and a customer base in Scandinavia, the Baltic states, Poland and Ireland which provide a good basis for becoming a total supplier of energy and energy-related services to end users.

The group ranks as one of the world's leading crude oil traders, with strong market positions and customer relations. Integrated sale of all state oil production is important for achieving the highest possible price for Norwegian crude.

In the board's view, current and planned improvement measures will strengthen Statoil as a robust and profitable business. Continued development of the group and the SDFI, as recommended in the board's report of 13 August 1999, will further enhance Statoil's opportunities for long-term balanced growth and contribute to industrial development as well as substantial value creation for the owner.

Assuming that oil prices remain high, the board expects a better result for 2000 than in 1999.

STAVANGER, 17 FEBRUARY 2000


THE BOARD OF DIRECTORS OF DEN NORSKE STATS OLJESELSKAP A.S



OLE LUND
CHAIRMAN



KIRSTI KOCH CHRISTENSEN



FINN A HVISTENDAHL



BENTE RATHE



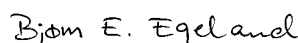
RUNE BJERKE




KNUT ÅM



INGVAR M SVIGGUM



BJØRN E EGELAND



JETFRED SELLEVÅG



LILL HEIDI BAKKERUD



OLAV FJELL
PRESIDENT AND CEO



The Åsgard A vessel produces oil in an area with rich fisheries and bird life. This ship has been built to the strictest specifications to protect nature and the environment.

All volatile organic compounds (VOCs) given off from the storage tanks are recovered and returned to the processing facilities. Energy use has been optimised, with exhaust heat used to warm the living quarters. New materials and technical solutions reduce the use and discharge of chemicals. Employing stainless steel, for instance, means that corrosion inhibiting chemicals are no longer used in the main process.

The ship is fitted with low nitrogen-oxide turbines which cut such emissions by roughly 80 per cent compared with existing power turbines. Leaving the flare unlit in

FOCUS

TOP HES ON ÅSGARD

normal operation also helps to reduce carbon dioxide emissions. Waste sorting and

measures to reduce waste volumes have been adopted. Environment-friendly chemicals are used, and drill cuttings are injected back below ground where possible.

A number of measures to improve the working environment have also been implemented on Åsgard A.

These include a new organisation model based on self-managing teams which are responsible for their respective parts of the vessel. This means that crew are organised on more efficient lines than before. Weight has been given to safety measures and employees have been well trained in emergency response, which is important for safe and stable operation.

Åsgard B, the world's largest platform floating gas platform, has a high power consumption. However, detailed preparations — including the development of new technology, energy saving and heat recovery — will reduce carbon dioxide emissions by 30 per cent compared with conventional solutions.

The high health, environment and safety (HES) standards on ship and platform are also applied to the subsea installations, which embrace 16 templates, 51 wells and 300 kilometres of flowline. New materials and technical solutions help to reduce the use and discharge of chemicals and to prevent wear and tear on metal components.



**EXPLORATION
AND DEVELOPMENT**

Norway

(NOK million)

Income statement	1999	1998	1997
Operating revenues	33 800	26 808	34 414
Operating expenses	(13 094)	(11 930)	(11 343)
Depreciation and write-down	(5 969)	(6 169)	(5 150)
Share of result in associated companies	146	121	112
Result before financial items	14 883	8 830	18 033
Balance sheet items at 31 Dec			
Fixed assets	58 105	47 079	44 937
Current assets	6 515	5 412	5 315
Non interest-bearing debt	(35 131)	(31 545)	(35 071)

Statoil currently operates 9 producing fields/field centres on the NCS. In addition, it serves as operator for Siri in the Danish North Sea and Lufeng in the South China Sea. The group is moreover operator for the Huldra and Sygna developments in the Norwegian sector of the North Sea. Statoil also operates 10 pipeline systems running on or from the NCS, and the Åsgard Transport trunkline currently under construction.

In 1999, Statoil produced a total of 172 million barrels of oil, including 151 million from Norwegian offshore fields and 21 million from fields outside Norway. Its gas production came to nine billion cubic metres, including seven billion from Norwegian fields and two billion from fields outside Norway.

Statoil's total recorded reserves at 31 December 1999 came to 1 563 million barrels of oil and natural gas liquids, and 251 billion cubic metres of natural gas. Thirty per cent of the oil and one per cent of the gas lie outside Norway.

The group changed its principles for recording proven reserves to accord with international industry standards and the requirements of the US Securities & Exchange Commission (SEC). In earlier years, Statoil has reported the development of both proven and probable reserves. Only the development of proven reserves is now reported, in line with American practice.

Under the earlier principles, proven reserves were aggregated stochastically. In other words, account was taken of the fact that it was less likely that the low estimates would prove to be correct for

all deposits in the portfolio than that they would prove correct for an individual deposit. The estimate for 1999 is based on a low assessment of the reserves in each deposit. In other words, no account has been taken of the possibility that any field would produce above expectations, while others would produce below, when a low estimate for the total quantity is determined. Instead, it has been assumed that all fields will produce below expectations. The group's earlier practice was assumed to fall within the SEC's requirements but outside the industry practice which has developed. The change in aggregation principle accounts for a large proportion of the overall reduction, which in turn reflects Statoil's diversified portfolio of reserves. Proven reserves are now aggregated on the basis of the sum of proven reserves for each field.

In accordance with the new practice, royalty volumes are deducted and the group's reserves shown net. Royalty volumes in 1998 totalled 58.2 million barrels of oil.

The revised requirements also demand a stricter assessment of which reserves can be recorded as proven than was allowed by the group's earlier practice, with respect both to the technical definition of reserves and to their maturity in relation to investment decisions.

Note 20 to the group accounts shows proven reserves for 1999, 1998 and 1997, and proven reserves at 31 December 1996 assessed in accordance with the new principles.

An extensive restructuring of Statoil's exploration and production operations on the NCS is currently being pursued. These activities will be organised in core areas. Similarly, exploration and production internationally are being concentrated on selected core assets. Technology operations in the group are also being reorganised.



OUTFITTING ÅSGARD B IN STAVANGER.

The aim is to enhance value creation by Statoil, improve its financial results and thereby lay the basis for future growth. In its restructuring efforts, the group is placing great emphasis on preserving the expertise required to safeguard future growth opportunities and competitiveness.

The NCS provides the basis for Statoil's operations. These waters will remain its most important core asset, but the group's foreign exploration and production operations are showing good progress and growth. Statoil has built up an international business over the past decade, initially securing substantial oil and gas reserves for the group. That will lead in turn to increased production outside Norway as well.

Statoil is the leading player for exploration, production and transport on the NCS, and its aim is to maintain this position. The level of activity off Norway was high in 1999. Sixteen wells were drilled on the NCS during the year, including nine operated by Statoil. The scale of development operations in these waters is diminishing. Through the major projects executed in recent years, however, Statoil has laid a solid foundation for long-term operation. Output from the biggest Norwegian offshore oil fields is declining. In future, production will come from a large number of smaller fields. Many of these will be characterised by complex geology, deep water and the need to find solutions for selling the associated gas. Statoil is very well equipped today to meet these challenges through its technological expertise, particularly with subsea production solutions. In addition, the group has great opportunities to succeed through the use of established infrastructure.

Although oil output from Norway's largest fields is in decline, Statoil has succeeded in maintaining a high level of production from the NCS. Acquiring holdings from Saga Petroleum has made an important contribution in this respect. Under the agreement with Norsk Hydro on the acquisition of Saga, Statoil will also take over the Snorre and Visund operatorships in the Tampen area of the northern North Sea in 2003. The Saga agreement has substantially strengthened the group's Tampen positions. This region ranks today as Statoil's most important core area on the NCS, and the group is well placed to achieve synergies and create added value there.

Norwegian gas production will increase substantially over the next few years, and Statoil has a very good basis in the gas sector. The group

has made the authorities aware of the opportunities for strengthening this position offered by a transfer of SDFI assets.

The group ranks as the leading operator of gas transport systems from the NCS to continental Europe, and is concerned to maintain this position.

Although the NCS generally bears the mark of being a mature petroleum province, Statoil still has ambitions to explore these waters actively. This is reflected in the group's application for new exploration acreage in Norway's 16th offshore licensing round. New exploration assignments are essential if Statoil is to retain the sub-surface expertise it has built up on the NCS.

The 20th anniversary of the start to production from the Statfjord A platform was celebrated on 24 November 1999. After many years as being by far the largest oil producer in the North Sea, however, Statfjord is experiencing a steep decline in production.

Through a purposeful commitment, the recovery factor on this field has been increased from an initial 50 per cent to the present target of roughly 70 per cent of stock tank oil originally in place.

Since it came on stream, Statfjord has yielded

Increased use of internet technology

A growing proportion of Statoil's interaction with customers, partners and its own employees makes use of the internet. The group is also working on commercial utilisation of electronic commerce in such areas as procurement, marketing and continuous communication with partners.

Extranets have been established in several areas, such as drilling and well technology, to permit efficient information-sharing between employees, partners and contractors.

Statoil has almost 1 000 subscribers to its daily news service at <http://www.statoil.com>, and the number of visitors to this address has been rising since the net site was relaunched at the beginning of August 1998. The internet

is also the group's primary channel for presenting financial information.

With its Eureka portal, the group's intranet is the principal source of daily news for the employees. The functionality of this system was improved in 1999, and a growing number of units and projects are establishing net sites to achieve information-sharing and communication across the group.

The original IT step training programme, with its offer of a home PC to employees, ended at 31 December 1999. However, the home PC scheme is continuing in 2000 as Statoil@home, and a separate web site with that name was established just before the end of the year to give employees access to selected in-house information from their homes.



oil with a gross production value of NOK 910 billion. More than 5 000 cargoes have been lifted from the field by shuttle tanker.

When approving the central government budget for 2000, the Storting accepted the principle of phasing out production royalty without specifying a timetable for each field. The phase-out period has since been set at three years for Statfjord and six for Gullfaks.

In 1999, Statoil acquired some of Saga's interests in the Statfjord Unit, Statfjord East, Statfjord North, Sygna and Murchison. The Sygna field is under development, with production scheduled to start in August 2000. This field is being developed with a subsea template and multiphase wellstream transport via a flowline to Statfjord C.

Catering services on Statfjord C have been pursued without lost-time injuries for 10 years by Eures Support Services.

The world's largest subsea development on the Åsgard field in the Norwegian Sea is approaching its end. This has been the most complex project ever pursued on the NCS. A milestone was passed on 19 May 1999, when the world's largest production ship — Åsgard A — began producing. Åsgard has been a demanding project, marked by substantial cost increases, but has breached existing technological barriers. Production began at a time when oil prices were high, giving the field a good start. Åsgard is a financially and technologically robust project which will create substantial value for Statoil, its partners and the Norwegian community over many years to come.

During 1999, the world's largest floating gas production platform — Åsgard B — was also readied for tow-out to the field. The Åsgard Transport trunkline links this field with the Kårstø gas treatment complex north of Stavanger, and thereby ties the Norwegian Sea to the extensive gas transport system from the NCS to continental Europe.



THE TROLL A PLATFORM.

Development of the receiving facilities for Åsgard gas at Kårstø during 1999 concentrated primarily on installing all the processing systems and utilities. At 31 December, the plant was virtually complete in mechanical terms. Annual rich gas capacity at the Kårstø complex will expand from today's eight billion cubic metres to 20 billion when the Åsgard installations begin operating on 1 October 2000.

The gas export trunkline from Kårstø to Dornum/Emden in northern Germany began operating on 1 October 1999.

Gas deliveries from Åsgard B will commence on 1 October 2000. The Åsgard C storage vessel was launched in September. Outfitting and completion work is under way at the Astilleros Españoles Sestao yard outside Bilbao in Spain.

Gullfaks and the Gullfaks satellites in the North Sea flowed an average of about 336 000 barrels of oil per day during 1999. While production from the main field went according to plan, the build-up of Gullfaks South output was substantially slower than scheduled. Purposeful efforts to improve recovery were made on the main Gullfaks field. The recovery factor has risen from an initial 46 per cent to the present estimate of 61 per cent. These efforts, combined with tying other fields back to Gullfaks, will extend the producing life of its installations by 10 years to 2016. Activity on the field remained high in 1999, including preparations to start gas production from the Gullfaks satellites phase II project. Other developments include the introduction of low staffing on Gullfaks B and the reception, storage and loading of Visund oil on Gullfaks A.

Phase II of the Gullfaks satellites development kicked off in January 1999, and was on schedule and within budget at 31 December.

As part of the further development of Gullfaks, Statoil is considering opportunities to expand processing of oil from the Tordis field. Also under discussion are the timing of and solutions for additional production of oil and gas from the Gullfaks satellites area as well as the Gamma area. In coming years, Statoil will apply for the allocation of new gas contracts to the Gullfaks satellites in order to produce the time-critical gas in this area. Gas from the phase II development is due to start being piped through the Statpipe trunkline to Statoil's Kårstø treatment complex in the autumn of 2001.

The Heidrun field in the Norwegian Sea achieved good operational regularity and an overall output of 79 million barrels — four per cent better than planned. Faster drilling and completion of

wells made an important contribution to this increase. However, the group lost one of its contractor employees in a tragic fatal accident on the Heidrun platform in February 1999. This incident prompted an investigation which resulted in a tightening of safety standards on the installation.

Production from Norne in the Norwegian Sea averaged more than 200 000 daily barrels during 1999. Engineering of the gas export pipeline from Norne to Åsgard is under way. Similarly, an improved recovery project was initiated.

Gas output from Troll A was stable during the year. Over the past two years, this platform has operated without lost-time injuries. Gas production facilities were upgraded from 84 million to 100 million cubic metres per day.

Veslefrikk B was towed in early summer to

Aker Stord for conversion work to hull and topsides. These modifications also embraced installations required to receive condensate from Huldra. Oil production from Veslefrikk resumed in September after a shut-down of three and a half months.

The Beta West structure on the Yme field in the North Sea was brought on stream, followed by the start to production from two small deposits in the area. This additional output accounts for roughly a third of total production from Yme.

Partner-operated licences

Statoil's overall participation in licences operated by other companies yielded 53 million barrels of oil equivalent in 1999, corresponding to 27 per cent of its total production volume from the NCS.

The most important contributions to this output came from Oseberg at 16 million barrels, Snorre at seven million barrels and Troll Oil at nine million barrels. All are currently operated by Norsk Hydro.

Production from these licences was slightly below plans for the year. Output from several of the existing fields — including Oseberg — is in decline.

Development of new production capacity to offset the reduction from established sources and boost output even further was pursued on a large scale in 1999.

Statoil was a licensee in 11 partner-operated developments, which involve a combined total investment under the original

Statoil — important interests on the NCS

Fields on stream

Field	Licence	Interest	Operator
Statfjord	PL 037	44.34%	Statoil
Statfjord North	PL 037	21.88%	Statoil
Statfjord East	PL 037/089	14.55%	Statoil
Sleipner East	PL 046	20.00%	Statoil
Sleipner West	PL 029/046	17.13%	Statoil
Gullfaks	PL 050	18.00%	Statoil
Yme	PL 114	35.00%	Statoil
Veslefrikk	PL 052	18.00%	Statoil
Heidrun	PL 095/124	12.43%	Statoil
Åsgard	PL 062/074/ 094/134/237	13.55%	Statoil
Norne	PL 128/128B	24.00%	Statoil
Troll Gass	PL 054/085	13.88%	Statoil
Troll Oil	PL 054/085	13.88%	Norsk Hydro
TOGI	PL 054/085	13.88%	Norsk Hydro
Brage	PL 051/055/185	12.66%	Norsk Hydro
Njord	PL 107/132	20.00%	Norsk Hydro
Oseberg	PL 053/079	14.00%	Norsk Hydro
Oseberg South	PL 079/104/171	18.22%	Norsk Hydro
Borg	PL 089	7.22%	Norsk Hydro
Snorre	PL 089	13.00%	Norsk Hydro
Tordis	PL 089	7.22%	Norsk Hydro
Vigdis	PL 089	7.22%	Norsk Hydro
Visund	PL 120	13.30%	Norsk Hydro
Varg	PL 038	35.00%	Norsk Hydro
Fields under development			
Huldra	PL 051/051	19.66%	Statoil
Sygna	PL 037/089	15.28%	Statoil
Jotun	PL 027/103B	2.00%	Esso

Strong technology community creates substantial value

Statoil has considerable technical expertise which is utilised by its various operational units. A new solution — the high integrity pressure protection system (Hippis) — introduced in the process safety area has saved substantial sums in a number of projects. This technology also laid the basis for operating one of Statoil's major pipeline systems at a higher design pressure, increasing the net present value of this development by more than NOK 1 billion.

The Hippis solution has helped to make it possible, for instance, to install a processing facility with a gas capacity equal to two Sleipner platforms on the Åsgard B floater. These valves are also used in the new cold flare systems being introduced on several Statoil installations.

Results achieved by the group from adopting Hippis have attracted wide attention, also internationally. Its own technical specialists regard this solution as the biggest safety technology innovation in Statoil's part of the process industry for the past 10 years.

FOCUS

THE NEW MONGSTAD

Further steps have been taken by Statoil to develop the Mongstad oil refinery near Bergen as its most important centre for processing oil and gas along the energy-rich Norwegian coast. These come just over 25 years after the facility began production.

A pipeline link was established during 1999 between the gas treatment plant at Kollsnes, Norsk Hydro's oil terminal at Sture, and Mongstad. Tying together these three facilities, which lie within a radius of 30 kilometres, provides opportunities for major coordination gains. Establishing the Vestprosess system, operated by Statoil, lays a basis for maximising value creation, increasing energy utilisation and reducing overall emissions to the air per unit produced.

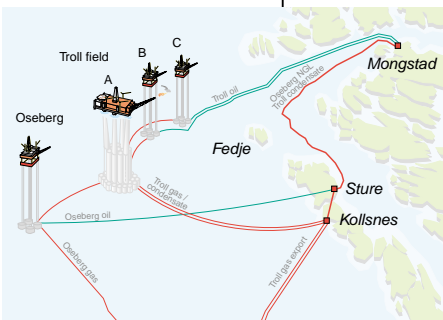
Kollsnes is a large treatment plant for gas and condensate, while the Sture terminal was originally built to receive oil piped from the Oseberg area. A link with these major facilities gives Mongstad access to feedstock which allows refinery operations to develop further and to diversify.

The Vestprosess system pipes condensate (light oil) and natural gas liquids from Kollsnes and Sture for processing. Starting at Kollsnes, the 12-inch pipeline runs overland via Sture and then under water to Mongstad — a total distance of roughly 60 kilometres. On arrival at the refinery, the condensate/NGL mix is separated into propane and butanes, which are exported by ship, as well as naphtha for use as feedstock in the refinery.

The Kollsnes facilities were built to treat gas from the Troll field, and condensate separated from this output was previously piped to Sture for blending with crude oil being exported by ship. This practice continued until 2000, when the owners have the right to store and transport their condensate separately. The Vestprosess line now makes it possible to pipe condensate to Mongstad for further processing. This solution will enhance the value of Troll condensate. The Troll condensate store at Sture will be freed to hold oil from Oseberg. The existing Kollsnes-Sture condensate line can be converted

to carry gas, supplying Troll output to the crude oil terminal for fuel.

The two dominant and mature gas provinces on the NCS today are the northern North Sea and the Halten Bank. A number of fields rank as possible development candidates, and many of these have a high proportion of liquids in their gas. The recovery factor for NGLs from a process plant on land is





much higher than can be achieved through offshore treatment. In addition, processing on land provides a basis for better energy utilisation and lower emissions.

In connection with the decision to land NGLs from Oseberg at Sture, arrangements have been made for onward transport of these liquids to Mongstad for processing through the same condensate line laid from Kollsnes. A new NGL fractionation plant has been constructed at the refinery to separate out the propane, butanes and naphtha. An agreement in principle has been concluded between Borealis and Statoil on feedstock deliveries to the Noretyl plants at Bamble south of Oslo. This contract provides long-term deliveries of liquefied petroleum gases to Noretyl on competitive terms, and will be of considerable importance for safeguarding operations in Bamble when Ekofisk deliveries start to decline after 2000.

Independently of the plans to transport and process condensate and NGLs, the existing crude oil refinery at Mongstad was modified and upgraded. These facilities have thereby become more flexible in terms of the crude oils they can handle. Integrating the new NGL fractionation plant at Mongstad with the refinery provides substantial coordination gains, not only with costs but also with energy utilisation and emissions to air.

The Kollsnes/Sture/Mongstad pipeline has been dimensioned to carry substantial quantities of condensate and NGLs in addition to supplies from Troll and Oseberg, providing scope for future developments.

Production began as planned in the Vestprosess plants at Mongstad on 1 October 1999, using feedstock from the refinery. Vestprosess cost a total of NOK 1.7 billion.

Partners in Vestprosess are:

- Statoil 58 per cent**
(SDFI 41 per cent)
- Hydro 17 per cent**
- Esso 10 per cent**
- Shell 8 per cent**
- Total 5 per cent**
- Conoco 2 per cent**



**VESTPROSSESS
AT MONGSTAD.**

plans of NOK 66.9 billion. The group's own share of this figure is NOK 8.2 billion. However, costs have risen substantially in several of the projects.

The following partner-operated field developments and installations were completed and brought on stream during 1999:

- Visund (Hydro) in April
- Oseberg East (Hydro) in May
- Oseberg D (Hydro's gas processing facility) in December
- the NGL plant at Sture (Hydro) in December
- Borg (Saga) in July
- Jotun (Esso) in September.

With the exception of Borg, all the fields came on stream later than originally planned. With the exception of Jotun and Borg, production build-up has also been slower than planned.

Statoil gives emphasis to maintaining close and constructive cooperation with all operators on the NCS.

Phillips, Elf, Saga and Hydro initiated and introduced extensive restructuring programmes in order to improve their long-term cost position. Part of the expenses incurred by these processes are allocated to the partners

in the licences concerned when the programmes are implemented.

It was decided in 1999 to implement a



STATOIL IS DUE TO TAKE OVER AS OPERATOR ON VISUND.
(PICTURE: HYDRO)

far-reaching restructuring of the group's field portfolio. This will include the selection and scope of participation in partner-operated fields.

Projects and business development

The plan for development and operation of Huldra was approved by the authorities on 2 February 1999. This field is being developed with a fixed well-head platform carrying simple process equipment to separate gas and condensate before transport for further processing. The gas will be carried in a separate pipeline to Heimdal, while the condensate is to be piped separately to Veslefrikk.

Aker Verdal was awarded the job of fabricating the platform jacket, while Kværner Oil & Gas won the engineering, procurement and construction contract for the topsides. The latter will be built at Kværner's Rosenberg yard in Stavanger.

Fabrication work has begun at Aker Verdal, and detail engineering is under way on the topsides. Substantial modifications are being made to Veslefrikk B to prepare it for receiving condensate, and this work remains to be completed. Gas from Huldra will be delivered under the Transgas contract and the Troll gas sales agreements.

The plan for development and operation of Gullfaks satellites phase II was approved in June 1998. This project covers production and export of gas and associated liquids in Gullfaks South and Rimfaks. These fields are being developed with sub-sea installations tied back to Gullfaks A and C. Rich gas will be exported through a pipeline loop tied into the Statpipe trunkline for transport to Kårstø.

The Tampen Transport project embraces pipelines from Huldra and the Gullfaks satellites. A 35-kilometre loop from Gullfaks A will be laid to the C platform, with tie-ins to Statpipe, the 150-kilometre gas export line from Huldra to Heimdal, and the 16-kilometre condensate link between Huldra and Veslefrikk. Detail engineering of these installations has been completed, and construction is under way.

The Heidrun Plateau development comprises three sub-projects: the Heidrun north flank development, the Heidrun gas export line and increased water injection capacity.

A plan for installation and operation of the Heidrun gas export line was submitted to the authorities in April 1999. Final approval has yet to be received. Expanding water injection capacity was shelved in May-June 1999 in the wake of higher cost estimates and uncertainty over the reservoir-related effects of increased injection.

Transport systems

In operation	Interest	Operator
Statpipe	58.25 %	Statoil
Zeepipe	15.00 %	Statoil
Ula Transport	100.00 %	Statoil
Sleipner East condensate	20.00 %	Statoil
Troll Oil Pipeline I & II	13.90 %	Statoil
Europipe I	15.00 %	Statoil
Europipe II	0.01 %	Statoil
Haltenpipe	11.90 %	Statoil
Franpipe	9.70 %	Statoil
Norsea Gas	50.00 %	Phillips
Norpipe Oil	20.00 %	Phillips
Oseberg Transport	14.00 %	Norsk Hydro
Frigg Transport	29.00 %	Total
Frostpipe	20.00 %	Elf
Vestprosess	17.00 %	Statoil
Under construction		
Åsgard Transport	13.60 %	Statoil

Three seabed templates to drain the Heidrun north flank have been installed, flowlines are laid and the first subsea production well has been drilled. Modifications to the Heidrun platform are well in hand and will be completed in May 2000.

A plan for development and operation of Heidrun North was submitted to the authorities in January 2000.

The plan for development and operation of the Norne gas export line was submitted to the authorities in 1999.

A plan for development and operation of Kvitebjørn was submitted to the authorities on 23 December 1999. Containing gas and condensate, this field is to be developed with a fixed platform carrying full drilling equipment, quarters and a process plant to split gas and condensate for transport in separate pipelines. The development is conditional on allocation of the gas to a sales contract.

**Regional impact assessments
provide good basis
for decisions**

Norway's Petroleum Act requires that an impact assessment is appended to each plan for development and operation of a Norwegian offshore field. The authorities want such projects to be considered not only individually — in a field-specific assessment — but also in a broader context to clarify the overall consequences of petroleum operations on a region. This is the background for the regional impact assessments.

Such evaluations have been compiled for the Halten Bank area of the Norwegian Sea and for the North Sea. Statoil was project manager for both studies, which were prepared in cooperation with other operators in the respective regions. The Halten Bank analysis was completed in 1998, with the North Sea study following in 1999.

These impact assessments contain updated basic data on the physical environment, biological resources and ecological relationships. In addition, they describe the impact on commercial interests such as fishing and other users.

The regional impact assessments (in Norwegian only) can be accessed on the internet at:

- www.statoil.com/hms/norskehavet
- www.statoil.com/hms/nordsjoen/index.htm

**INTERNATIONAL EXPLORATION
AND PRODUCTION**

Key figures

(NOK million)

Income statement	1999	1998	1997
Operating revenues	20 621	15 390	11 044
Operating expenses	(21 020)	(15 931)	(11 772)
Depreciation and write-down	(1 747)	(2 109)	(2 231)
Share of result in associated companies	19	41	0
Result before financial items	(2 127)	(2 609)	(2 959)
Balance sheet items at 31 Dec			
Fixed assets	14 970	16 209	14 115
Current assets	13 468	6 341	4 840
Non interest-bearing debt	(7 067)	(6 971)	(5 320)

Denmark

Statoil brought its Siri project in the Danish North Sea on stream in 1999. This was the first field off Denmark to be developed by a foreign operator. Siri is also the first producing Danish field outside the Central Graben, where the country's offshore oil and gas production had previously been concentrated. The Danish authorities awarded an exploration licence in May 1995, and Statoil proved Siri as early as the following Christmas. Just over three years later, on 1 March 1999, Statoil was able to bring the field on stream. With an average flow of roughly 50 000 barrels per day, Siri currently accounts for a fifth of Denmark's overall oil output. Statoil has been highly praised by the Danish authorities for its execution of this project.



**DENMARK'S SIRI FIELD
CAME ON STREAM IN 1999.**

Production from Siri imposes less of a burden on the environment than other platforms off Denmark, in part because process water is returned to the reservoir together with the drill cuttings.

Statoil's first cargo of crude from Siri arrived at the Mongstad refinery on 11 April 1999.

China

Good operational results were achieved on the Lufeng field in the South China Sea, operated by Statoil with a 75 per cent interest. This means that production from the field will be extended by up to two years from February 2000, representing just over seven million barrels of additional oil with a gross value of NOK 940 million. Lufeng came on stream in December 1997, and has so far yielded rather more than 20 million barrels of oil.

Angola

Several promising discoveries were again made off Angola in 1999. These confirm the big hydrocarbon reserves in these waters, and their potential to become an important production area for Statoil. Operator Elf found the Orchidea oil field in Angola's resource-rich block 17, where Statoil has a 13.33 per cent interest. Overall reserves in this block could be on a par with Norway's Ekofisk field in the North Sea.

Girassol, roughly equal in size to Statoil's Norne field in the Norwegian Sea, is currently under development with a large production ship and subsea templates. Plans call for oil to start flowing in 2001.

Another oil discovery was also made in Esso's block 15, where Statoil is a partner. Named Dikanza, this field lies about 370 kilometres north-west of the Angolan capital of Luanda. Three previous finds have been made in the same acreage. Recoverable reserves in block 15 are thought to be substantial.

Block 31 was awarded in 1999, with BP Amoco as operator and a Statoil interest of 13.33 per cent.

Azerbaijan

Azerbaijan is another of Statoil's core assets. The group has secured substantial oil and gas reserves in the Caspian. Until February 1999, operations in Azerbaijan were pursued in alliance with BP. Statoil is continuing operations on its own account, and has established an office in the capital, Baku.

Statoil lifted its first crude oil consignment from Azeri-Chirag in March via Novorossiysk in



OIL FROM AZERBAIJAN IS LOADED AT NOVOROSSIIYSK ON THE BLACK SEA.

Russia, one of two export ports for oil from Azerbaijan. The western export route by pipeline to a new terminal at the Georgian port of Supsa on the Black Sea was inaugurated on 17 April.

As operator for Azerbaijan International Operating Company (AIOC), BP Amoco recommended plans in August for the next stage of the Azeri-Chirag phase I development, with a production capacity of 400 000 barrels per day.

Heydar Aliyev, the president of Azerbaijan, announced in July that a giant gas/condensate discovery had been made in the Shah Deniz field. Statoil has a 25.5 per cent interest in this discovery.

President Aliyev appointed a working party in the summer of 1999 to pursue commercialisation and export of Shah Deniz gas. Socar, BP Amoco, Statoil and Elf are members of this team.

Nigeria

Statoil is operator for deepwater blocks 217 and 218 off Nigeria. Drilling of the third exploration well in block 218 was completed in March. Oil and gas were proven in this Nnwa-1 well, but it is too early to say whether the find will be commercialised. A big oil find has been made in block 216. This discovery is presumed to extend into neighbouring block 217.

Venezuela

Three new processing platforms were installed on the LL 652 field in Venezuela's Lake Maracaibo. A water injection programme intended to boost oil output from 12 000 to 100 000 barrels per day over the next five years began on 24 December. For the first time in Venezuelan oil history, a rig has been introduced which injects drilling fluids into the reservoir in order to eliminate discharges to the sea.

Statoil is involved in the Sincor heavy crude project, which ranks as Venezuela's largest development. A 250-well drilling programme began



in 1999, with early production due to start in 2000. Output of heavy crude from Sincor is expected to last for 35 years.

UK

Statoil sold some of its interests on the UK continental shelf, which ended its participation in the Blake field (block 13/29b) and the Goldeneye discovery (block 20/4b). The group will be concentrating its operations in selected core areas, and the sale resulted from a review of its interests on the UKCS.

Through a swap with Kerr-McGee Oil, Statoil UK increased its holding in the Dunlin oil field by 14.38 per cent to 28.76 per cent. In exchange, Statoil's 15 per cent interest in Gryphon was acquired by Kerr-McGee Oil, which is the operator for this field.

Ireland

A new appraisal well was completed on the Corrib gas field off Ireland, which confirmed the existing commercial gas discovery in this block. Statoil's interest in Corrib increased to 36.5 per cent following the Saga acquisition. Enterprise is the operator.

USA

The upstream side of Statoil Energy Inc in the USA was divested in 1999. The rest of the company will be divested during 2000. Statoil has also resolved to offer its operations in the Gulf of Mexico for sale.

Fields on stream

International	Interest	Operator
Azerbaijan: AZ/CH/GU	8.56%	AIOC
Denmark: Lulita Unit	38.61%	Maersk
Denmark: 6/95 Siri	40.00%	Statoil
China: CA 17/22 Lufeng	75.00%	Statoil
UK: Alba	17.00%	Chevron
UK: Victor	10.00%	Conoco
UK: Schiehallion	5.88%	BP Amoco
UK: Dunlin	28.76%	Shell
UK: Jupiter	30.00%	Conoco
Venezuela: LL652	27.00%	Chevron

NATURAL GAS

Market conditions

Statoil sold 7.4 billion cubic metres of gas from the NCS in 1999, and was also responsible for selling 21.5 billion cubic metres on behalf of the SDFI. Overall gas sales from the NCS came to 51.2 billion cubic metres in 1999. Exports to the UK and continental Europe totalled 47.5 billion cubic metres. In addition, 735 million cubic metres were used for methanol production at Tjeldbergodden or sold to Tjeldbergodden Luftgassfabrikk and the local Gasnor company north of Stavanger. Three billion cubic metres were consumed in driving facilities on the NCS.

After stagnating in 1997, European gas consumption expanded by 3.3 per cent in 1998. Preliminary figures for 1999 show continued growth. Europe is the world's third largest gas user, with overall consumption coming to 470 billion cubic metres in 1999. That includes 400 billion cubic metres in western Europe and 70 billion in central Europe.

Preliminary figures show a five per cent increase in gas consumption for the European members of the OECD from 1998 to 1999, and 4.7 per cent growth for the European Union countries despite mild weather in most of these countries. This confirms the general expansion in gas use. Among established gas markets, growth in 1999 was strongest in Spain at 16.6 per cent, Italy at 9.1 per cent and Belgium at seven per cent. Portugal and Greece are developing as new markets, and the percentage increase in these countries is accordingly large.

Statoil's biggest gas markets are Germany, France, Belgium and the Netherlands. The group and the SDFI had 12, 20, 24 and seven per cent respectively of the market in these countries during 1999. In a short-term perspective, existing contracts meet gas demand in markets close to Norway while more peripheral markets are short of supplies. However, a potential also exists in the longer term to increase exports to nearby markets. Changed terms in the gas market following the introduction of the EU's gas directive will mean tougher competition over new export volumes. Both Trinidad and Nigeria began delivering liquefied natural gas to the European market in 1999, and more new players are expected to enter the scene.

Gas ranks as the third largest source of energy in Europe, accounting for 21.5 per cent of primary



FOCUS

THE NORWEGIAN

The opening of the 21st century sees the Norwegian gas machine poised to shift into top gear. The Troll, Sleipner East/West and Åsgard fields operated by Statoil are key elements in this Norwegian gas machine. Over the past decade, the group has laid more than 5 000 kilometres of gas trunkline beneath the North and Norwegian Seas to receiving stations in Germany, Belgium and France. During these years, the group laid Europipe I and II, Zeepipe and Franpipe. Statpipe had been constructed earlier. Statoil has major gas treatment facilities at Kollsnes near Bergen and Kårstø north of Stavanger.

Over the next few years, Norwegian gas exports to continental Europe are set to increase sharply. Statoil plays a key role in Norwegian gas operations, having been responsible for selling these resources and for developing production and transport systems from the NCS.

The group has spent a number of years bringing gas fields and transport systems on stream. It is now ready to bear the principal responsibility for reliable deliveries to Europe over many decades to come. Revenues from gas will create major value for Statoil. For its customers, the gas it delivers will provide energy security. Gas represents an important energy form for the 21st century, offering as it does a more environmentally-appropriate alternative — primarily to coal and secondly to oil.

Buyers and sellers saw the opportunities well before the end of the 20th century, which has been justifiably designated the Century of Oil. Statoil believes that the coming hundred years can with equal justification be termed the Century of Gas, even though it knows that oil will continue to play an important role — not least in the transport sector. The key players in the European gas market purchased an important part of their energy security as long ago as 1986, when the gas sales agreements for the giant Troll field in the North Sea were signed. Deliveries under these contracts began in 1993 from Sleipner East, followed three years later by gas from Troll itself. In 2000, Norway will follow up by starting gas deliveries from the Åsgard development in the Norwegian Sea.

Trunklines with an annual export capacity of roughly 75 billion cubic metres run today from fields in the North and Norwegian Seas to customers in key areas of the European market.

Tens of thousands of people have helped to establish this machine, and thousands will be involved in future operation of its production facilities, pipelines and receiving stations. Customers must be able to set their watches by Norway's gas deliveries. These supplies will arrive at the agreed time in Germany, France, Belgium, the Netherlands, Luxembourg, the Czech Republic, Austria, Spain and Italy, and from 2000-2001 in Poland.

G A S M A C H I N E

Ole Eilertsen is one of the Statoil personnel who has helped to establish the Norwegian gas machine. He knows what this is all about. He was in charge of building Statpipe, the first trunkline to cross the Norwegian Trench feature along Norway's west coast in water depths beyond 300 metres. This line ran from Statfjord to Kårstø and on to Emden in Germany via Norpipe. Mr Eilertsen was later platform manager on Statfjord, delivering oil and gas every day. He headed construction of the Kollsnes treatment plant, which handles the huge volumes of Troll gas for onward transmission to continental Europe. And he now runs the two receiving stations at Zeebrugge and Dunkerque.

Mr Eilertsen knows that fulfilling the major gas contracts demands a reliable supplier and a reliable buyer. He knows the platforms, the transport systems, the export facilities and the receiving stations. He knows the job which has been done and the one which will be done every day for generations to come. He knows the obligation and the challenge. He is one of the tens of thousands who have helped to establish the Norwegian gas machine. He knows that it works.



OLE EILERTSEN.



LAYING EUROPIPE II.

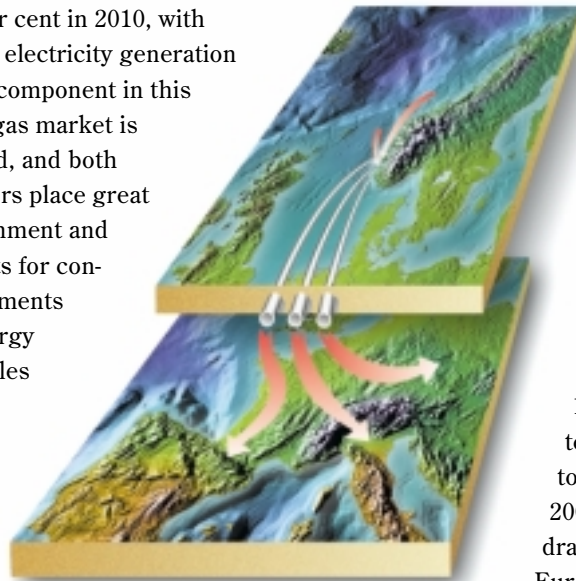
energy consumption in 1998. This proportion is expected to reach 26 per cent in 2010, with increased use of gas for electricity generation likely to be the biggest component in this growth. The European gas market is generally well-developed, and both politicians and consumers place great emphasis on the environment and energy saving. Prospects for continued growth in all segments are good, providing energy policies do not put hurdles in the way of gas. The household and commercial sector is the biggest market, accounting for roughly 40 per cent of overall consumption, while gas deliveries to industry account for 34 per cent. Electricity generation takes 18 per cent of deliveries today. This percentage is expected to rise to 25 per cent in 2010. Structural changes in demand will reduce the share of the market represented by the household and commercial sector, but it will remain the largest customer.

Competition and deregulation

The introduction of the EU gas directive in August 2000 will mean increased competition through the entry of new players in the most important European markets. It is expected to affect competition over gas transport and sales in the various markets. Demand for gas is likely to rise.

Gas transport from the NCS

Europipe II, a new gas trunkline between Kårstø and Dornum in Germany, began operating on



NORWAY'S GAS FLOW TO CONTINENTAL EUROPE.

1 October 1999. With an annual capacity of roughly 20 billion cubic metres, this system is just over 700 kilometres long and operated by Statoil. Pipeline crossings between Europipe II and Europipe I increase the flexibility of gas deliveries to Germany.

Gas deliveries achieved a regularity of 100 per cent in 1999. The year was also characterised by a high level of activity to ensure a smooth transition to 2000. Contingency plans were drawn up in close collaboration with European gas buyers. The new transport systems were brought on line without increased staffing.

Substantial cost reductions were achieved in Statoil's gas operations during 1999 through a constant focus on improvement efforts.

New gas sales

With support from Elf and Total, the Norwegian Gas Negotiating Committee (GFU) — then comprising Statoil, Norsk Hydro and Saga Petroleum — signed the first gas sales contract with Polskie Gornictwo Naftowe i Gazownictwo (PGNiG) on 5 May 1999. This agreement covers the delivery of 500 million cubic metres of gas annually to Poland from 2000/2001 to 2006. The Polish market is very interesting, and negotiations are under way on a possible expansion of deliveries.

New gas sales totalling roughly 900 million cubic metres were agreed in 1999 with customers in the UK. Statoil's share came to around 180 million cubic metres.



LAYING EUROPIPE II.

Statoil's British gas marketing company, Alliance Gas, strengthened its position as a quality supplier to business customers in that country. The company was ranked as the best gas supplier in a large independent customer survey of major UK gas consumers.

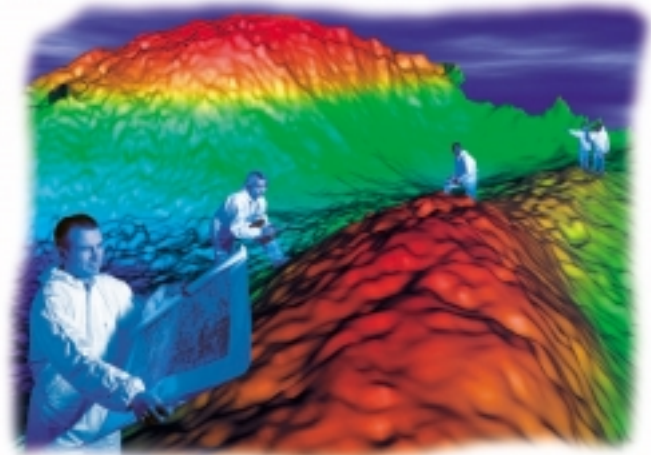
A partnership was established by Statoil with Ireland's Electricity Supply Board to build a 400-megawatt gas-fired power station in Dublin. Plans call for this facility to be completed in late 2001 to compete in the newly-opened Irish electricity market. Statoil has a 30 per cent interest and will supply all gas to the power station.

The group has formed a partnership with ABB to build a 400-megawatt power station in the UK. These plans were temporarily shelved because the British authorities have not provided the project with the necessary permits. This is primarily because the UK government has imposed strict limits on new construction of gas-fired power stations until necessary reforms to the sales structure for electricity have been implemented.

Construction projects and business development

A plan for installation and operation of the Vesterled project was submitted to the authorities on 13 December. This development embraces a pipeline from Heimdal which will be tied in to the trunkline from Frigg to St Fergus in the UK. Statoil owns Vesterled together with Total, Elf, Mobil and operator Hydro. The tie-in will improve opportunities for new gas sales to the UK.

The authorities resolved in December 1999 to introduce the Troll Swing system as an instrument for better resource management through more efficient coordination of fields and infrastructure. Fields using the Troll Swing service will enhance their profitability through improved coordination of field development and production strategies. Better utilisation of established infrastructure will reduce the need to invest in projects to meet the need for flexibility in gas sales contracts. Statoil regards Troll Swing as a good way to make Norwegian field developments more profitable and robust.



Half the time and twice the quality

"The new Score solution lets us obtain an overall picture of a reservoir deep beneath the seabed in half the time and with twice the quality than our previous systems for interpreting geological and geophysical data could achieve," says Martin Loktu, executive vice president for the group's technology unit.

Statoil completed the first phase of its extensive Score (Statoil core) programme in 1999. Being able to locate petroleum with great accuracy far below ground is the fundamental success factor for an oil company.

NOK 540 million has been invested in Score, and the group is now set to reap the rewards of this outlay — on the NCS, in Azerbaijan, off Angola and in all exploration licences where Statoil is operator or partner.

"Score was completed on schedule and NOK 180 million below budget," says Mr Loktu. "Together with Landmark, a Halliburton company, we've developed a tool which puts us in the industry's premier division for understanding what's beneath the seabed."

Statoil has built up "visionaria" at its Stavanger head office and Trondheim research centre. These computerised visualisation centres allow geoscientists to call up a three-dimensional, full-colour model of any reservoir and study it in ways never before possible.

REFINING AND MARKETING

Key figures

(NOK million)

Income statement	1999	1998	1997
Operating revenues	104 871	76 646	97 264
Operating expenses	(99 685)	(74 523)	(94 062)
Depreciation and write-down	(3 796)	(1 850)	(1 891)
Share of result in associated companies	(1 663)	(39)	(10)
Result before financial items	(273)	234	1 301
Balance sheet items at 31 Dec			
Fixed assets	22 701	28 173	23 779
Current assets	32 796	17 948	21 044
Non interest-bearing debt	(27 550)	(14 103)	(18 992)

Oil trading

Statoil ranks as one of the biggest oil sellers in the global market. In addition to its own crude volumes, it is responsible for trading SDFI oil. The principal market for Norwegian crude lies in north-western Europe, which is oversupplied with oil. An important part of Statoil's crude oil strategy involves securing sales outside the traditional local market for North Sea production. This makes an important contribution to high and stable oil prices. Availability of large crude volumes gives Statoil a solid position in the market, which can be favourably exploited to achieve value creation both for the group and for the SDFI. Exports to the USA have for several years formed an important element in a global crude oil strategy. Increasingly, Statoil has also succeeded in gaining entry for Norwegian oil in Asia. This again represents an important contribution to value creation.

The group sold 1.9 million barrels of crude oil per day on international markets in 1999. This substantial volume makes Statoil the world's third largest net crude trader after Saudi Arabia and Iran.

Oil prices fell to USD 9 per barrel in December 1998. At the beginning of 1999, many observers expected a further decline. However, prices staged a recovery during the spring which laid the basis for lasting growth over the rest of the year to levels above USD 26 per barrel. This upswing can largely be attributed to the agreement within the Organisation of Petroleum Exporting Countries (Opec) on export curbs.

Refining

Refining margins were very narrow during 1999, primarily because European production of refined products outstripped demand.

Improvement programmes, high plant availability and capacity utilisation, optimisation of the crude oil and condensate blend and the use of product premiums in the market contributed positively to results. Annual capacity at the Mongstad refinery rose from eight to 10 million tonnes.

The group has two refineries, at Mongstad in Norway and Kalundborg in Denmark, as well as a 15 per cent interest in part of Malaysia's Melaka refinery. An agreement to swap refinery interests was also reached by Statoil and Shell. This gives Statoil a financial interest in Shell's Pernis complex in the Netherlands corresponding to 10 per cent of its capacity. At the same time, Shell has received a 21 per cent interest in the Mongstad refinery. The strategic advantage of the latter facility lies in its proximity to producing fields on the NCS. This can be exploited by both parties to the agreement, who have substantial Norwegian offshore output. With its big expertise in refining, Shell is also a very good partner for Statoil. Pernis is Europe's largest refinery, centrally placed in relation to product markets. A new technical collaboration agreement has also been concluded with Shell at Mongstad.

Retailing

Statoil has been the leading player in retail sales of automotive fuels and other oil products in Scandinavia for many years. In addition, the group sells such products in Ireland, Estonia, Lithuania, Latvia, Poland and Russia. Statoil has opened its 100th Polish service station, and now has three forecourts in the Russian port of Murmansk.

An agreement was reached in 1999 with Sweden's ICA supermarket group on establishing a joint Scandinavian retailing company — Statoil Detaljhandel Skandinavia AS — owned 50-50 by the two partners. This collaboration provides a stronger footing in the Scandinavian retail market and means that customers are offered a full-service concept by combining a service station and a shop. The agreement has been approved by the European Commission.

Statoil's goal is to become an integrated energy company. As part of this strategy, positions as an electricity supplier in the Scandinavian market are being built up by the group. It currently has 70 000 power customers in Norway and 40 000 in Sweden.

Statoil has acquired the Norwegian electricity supplier Meganor with 10 000 customers.

The Store Norske Spitsbergen Kullkompani mining company at Longyearbyen in Svalbard chose Statoil as its supplier of oil products for the next five years. A similar contract has also been secured from the Norwegian Post Office.

Navion

Owned 80 per cent by Statoil and 20 per cent by Rasmussengruppen AS, Navion ASA was established in 1997 to continue pursuing commercial opportunities in ship-based transport of crude oil and refined products, offshore loading and floating production. The company has its head office in Stavanger and employs 147 people. Its fleet at 1 January 2000 totalled 53 vessels.

Offshore loading of crude oil with specially-equipped tankers represents a core business for Navion, which is a world leader in this market. It has developed a business concept based on contracts of affreightment (CoA) as an alternative to dedicated vessels for each field. A CoA means that Navion undertakes to transport an agreed volume for the customer. Because these contracts are independent of the vessels used, they ensure high contractual regularity in loading from the offshore installations. Combined with its size, this concept puts Navion in a unique competitive position. The advantage is expected to increase in future because new offshore developments are unlikely to be able to employ field-dedicated ships in a cost-effective manner. Navion holds 55 offshore loading contracts for 24 Norwegian, British and Danish fields. At the end of 1999, the company took delivery of *Navion Anglia* — the last in a series of five new shuttle tankers built for the company at Astilleros Españoles in Spain over the previous 18 months. This substantial newbuilding programme was completed on budget.

Navion has established a good market position in floating production through two technologically-demanding projects. Multipurpose shuttle tanker *MST Berge Hugin*, owned 50-50 by Navion and Bergesen d.y ASA, is producing Enterprise Oil's Pierce development on the UKCS according to plan. The contract from Enterprise covers the field's producing life. Navion's *MST Navion Munin* has maintained stable production on Statoil's Lufeng field in the South China Sea, and this contract was extended for a year from February 2000 with an option for another year.

Navion owns 50 per cent of the *West Navion* drill

ship, with Smedvig ASA as co-owner and operator of this vessel. Outfitting work on the drill ship suffered from constant delays and big cost increases. Completion and testing work on the drill ship ended in early 2000. In late February, *West Navion* commenced a charter with Statoil which runs to 1 December 2000. After a start-up well on the NCS, the ship is due to drill on the Fylla licence west of Greenland.

Conventional transport of crude oil, refined products, NGLs, methanol and petrochemical gases is pursued through Navion Shipping AS, a wholly-owned Navion subsidiary. The decline in market rates during the year and existing charter commitments meant that this business activity recorded a loss in 1999.



THE WEST NAVION DRILL SHIP.
(PICTURE: STAVANGER AFTENBLAD)

Renewable energy from biopellets

Biological energy represents the most important renewable energy source after hydropower in the Nordic region, and is widely used in the forest industry, district heating and wood-burning stoves. However, a large potential exists for using biological fuels in stationary heating of detached homes, blocks of flats and schools. This sector has traditionally used more efficient energy forms such as heating oil and electricity. The challenge is to introduce bio-energy in an economic and user-friendly form.

Forests and various forest products provide the principal source of bio-energy in the Nordic region, and the raw material potential is accordingly considerable. Biomass can be processed into biopellets, which represent a standardised commodity with higher energy intensity and user comfort.

The Langmoen Trepelletsfabrikk at Brumunddal north of Oslo was opened by Statoil and the Norske Skog forest products group in the autumn of 1999. This plant has an annual capacity of 8 000 tonnes of biopellets, corresponding to 40 GWh.

Statoil has also acquired an interest in Cambi Bioenergy AS and taken over a pellets plant at Säfte in Sweden. The group is responsible for marketing output from the Langmoen facility in Norway as well as its own Swedish production. Under the purchase contract with Cambi, Statoil owns and operates 13 pellets-fuelled heating facilities in Norway and Sweden. The group is also part-owner of Bio Varme, which sells heat produced from sawdust. This company is developing district heating systems in the Norwegian towns of Levanger and Kongsvinger.



A PELLETS CONTAINER
AT LANGMOEN
TREPELLETSFABRIKK.

ICA EXPRESS

FOCUS

STRONGER IN

The combination of petrol from Statoil and groceries supplied by Sweden's ICA supermarket chain has been established as a new and exciting concept for the Scandinavian retail market.

In 1999, Statoil Detaljhandel Skandinavia was created on a 50-50 basis by Statoil and ICA with a share capital of NOK 2.6 billion. This company sells petrol and other oil products as well as groceries under the Statoil and ICA brands.

The first ICA Express shops opened in 1999 as a round-the-clock service selling petrol and groceries. Eighteen of these outlets had been established by January 2000, with plans calling for 100 to be open by 2001 and 500-600 in the longer term throughout the three Scandinavian countries.

This partnership is an example of the way Statoil aims to restructure through strategic alliances. After assessing a number of relevant partners, Statoil opted for ICA. Immediately before the joint venture was agreed, the Swedish group merged with Norway's Hakon supermarket group. ICA/Hakon has subsequently also concluded an agreement with Dutch company Ahold, giving the latter 50 per cent of the shares in ICA Holding. Ahold is one of Europe's largest retailers.

Statoil's position in the Scandinavian retail market for petrol and other oil products is very solid.



STATOIL

Blivask

The group has some 1 500 service stations in these three countries, and an average market share of roughly 25 per cent. Before the agreement with ICA, Statoil completed an extensive strategy process for the Scandinavian retail market. With a strong focus on the way forward, this work identified two options: automated stations or a full-service concept. The choice fell on the second of these, and it was also decided to use the group's strength to find a partner who could provide additional reinforcement in a market affected by sweeping change. Being ahead of developments became an important goal for Statoil.

SCANDINAVIA

"We saw that the way forward would demand a lot of capital and much expertise,"

says Øyvind Holm-Karlsen, the Statoil vice president responsible for negotiating the creation of the new company. "Our conclusion was accordingly that a partnership offered the best return. We foresaw the extensive changes now taking place in the market, and taking action while we were still doing well became an important consideration for us."



ØYVIND HOLM-KARLSEN.



PETROCHEMICALS**Key figures***(NOK million)*

Income statement	1999	1998	1997
Operating revenues	698	728	635
Operating expenses	(675)	(699)	(861)
Depreciation and write-down	(679)	(182)	(79)
Share of result in associated companies	649	524	701
Result before financial items	(7)	371	396
Balance sheet items at 31 Dec			
Fixed assets	7 625	8 259	7 732
Current assets	244	359	302
Non interest-bearing debt	(437)	(497)	(466)

Borealis

Borealis was established in 1994 by merging petrochemical operations at Statoil and Neste. Borealis ranks as one of the largest European petrochemical companies, with 5 500 employees, and has production facilities in 10 countries. Its principal products are the plastic raw materials (polyolefins) polyethylene and polypropylene, as well as the base petrochemicals (olefins) ethylene and propylene. Owned 50 per cent by Statoil, Borealis ranks as Europe's biggest producer of polyolefins and the fourth largest globally. The other owners are Austrian oil company OMV and the International Petroleum Investment Company (IPIC), Abu Dhabi's national company for foreign investment in the petroleum business.

Market conditions for Borealis products during 1999 were demanding.

Despite narrower margins, the group increased its 1999 results compared with the year before.

This reflected stable and high production which — combined with increased demand for petrochemical products — boosted sales for Borealis. In addition, internal improvement efforts reduced both fixed and variable expenses.

At the beginning of 2000, however, the petrochemicals market was characterised by high prices and margins. Uncertainty prevails about market developments. Demand for Borealis products rose in Europe during 1999, but this growth is expected to be lower during the present year. Positive progress in Asia, after a weak 1998, meant that demand once again increased in this region. New production capacity is primarily expected to come on line outside Europe. If continued stable

economic growth can be achieved in Europe, North America and Asia, the negative effect of such additional capacity will be limited. However, prices and margins are likely to continue fluctuating and to be determined primarily by the balance between supply and demand in the industry.

Borealis is assessing a number of projects in Asia and other regions. Establishing production capacity outside Europe is regarded as an important long-term success factor in the industry because of new consumer growth for petrochemical products after a period of slower expansion. An ethylene plant and two polyethylene facilities are under construction in Abu Dhabi by Borealis and local state-owned oil company Adnoc. The two partners have established the Borouge joint venture, which will have a production company in Abu Dhabi and a sales operation in Singapore. These are owned 40 and 50 per cent respectively by Borealis. The polyethylene plants are based on the Borstar polyolefin technology developed by Borealis. All three facilities are due to start production in 2001. In China, Borealis is working to establish partnerships to produce polyethylene. These projects could give the group access to the major Chinese market. During 2000, Borealis is also scheduled to expand production capacity at several of its European plants on the basis of the Borstar technology.

With the improvements made, the new projects in Asia and the expansion of its European plants, Borealis has taken a long step forward in strengthening its leading position in Europe and has laid a good basis for establishing production and marketing beyond that continent. For Statoil, value creation at the interface between Borealis and its own operations is also important. This will primarily occur through the use of ethane and liquefied petroleum gases delivered by Statoil to Borealis.

Methanol

Statoil operates Europe's largest methanol plant at Tjeldbergodden in Aure local authority in mid-Norway. This facility is owned 81.875 per cent by the group and 18.125 per cent by Conoco. The Heidrun field delivers 700 million cubic metres of gas to Tjeldbergodden annually through the Haltenpipe line, and this feedstock yields an annual output of 830 000 tonnes of methanol. That corresponds in turn to 13 per cent of European consumption, and Statoil ranks as one of the largest players in this market.

A gas fractionation and liquefaction plant with

an annual gas capacity of 35 million cubic metres has been built by Tjeldbergodden Luftgassfabrikk DA, which is owned 53.68 per cent by Statoil, 34.44 per cent by Aga and 11.88 per cent by Conoco. The liquefied natural gas produced is used in part to fuel buses in Trondheim.

The three collaborating local authorities of Aure, Hemne and Hitra participate in a company established in connection with Tjeldbergodden. This aims to exploit the energy in coolant water and to attract industry which can utilise the available gas. Several companies of this kind are being built up. A plan to develop the area for gas-based industry has been submitted to the authorities for approval.



THE METHANOL PLANT AT TJELDBERGODDEN.

FINANCIAL CONDITIONS

Valuation

The value of shareholder's equity in Statoil at June 1999 was estimated by two financial institutions to total NOK 111 billion and NOK 126 billion respectively. An important consideration in these valuations is the assumptions made about future cash flows. Many factors will influence these flows, of which the most important are:

Oil production

Statoil's value is largely dependent on entitlement oil production. This depends in turn on reservoir properties, knowledge of these, and expertise which permits a high recovery factor. A five per cent change in the production of entitlement oil will affect annual profit before financial items by about NOK 1.2 billion.

Oil prices

At an output of entitlement oil corresponding to the 1999 level, a USD 1.00 change in the price of a barrel of oil will affect profit before financial items by roughly NOK 1.4 billion.

Gas

At today's output, a 10 per cent change in the gas price will affect profit before financial items by about NOK 500 million.

Operations

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

Reserves

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

Petrochemicals

A change of DEM 100 per tonne in polyolefin margins would affect Statoil's net profit by about NOK 400 million.

Foreign exchange

Viewed in isolation, a fall in the exchange rate for the Norwegian krone will increase the sales value of the group's future production. However, Statoil's

interest-bearing debt is denominated mainly in foreign currencies. Although a fall in the NOK exchange rate against Statoil's most important foreign currencies would be favourable in the long term, the immediate accounting effect of a rise of NOK 0.50 per USD is an unrealised currency loss of roughly NOK 500 million before tax. An increase of NOK 0.50 per EUR represents an unrealised currency loss of about NOK 200 million before tax.

Tax

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

Fund management

Liquid assets held by the group and by Statoil's pension funds are placed in the Norwegian and international securities markets. The aim is to achieve annual results which put Statoil in the first quartile of comparable fund managers. At the same time, the group pursues an investment profile which ensures that the return over time is in line with long-term objectives. Defined strategies and continuous monitoring of risks and results seek to ensure a sensible balance between expected return and risk for Statoil's portfolio of securities. About 30-35 per cent of this portfolio is now invested in stocks, including an increasing proportion on international stock markets. Bond placements are also increasingly made outside Norway. The adjusted return on total assets in the pension funds under management came to about 18 per cent in 1999.

Interest-bearing debt

The group's interest-bearing debt — which totalled about NOK 50 billion at 31 December 1999 — is largely denominated in US dollars, either directly or through currency swap agreements. This strategy has been adopted because the largest part of the group's net cash flow is in USD. The USD proportion was relatively stable in 1999 and is expected to remain over 60 per cent through 2000.

Most of the remaining debt is in EUR. The average interest rate on the group's long-term debt in 1999 was 5.2 per cent, compared with 5.3 per cent in 1998. Average maturity and interest lock-in periods remained by and large unchanged at roughly 11 years and about three years respectively. At 31 December, short-term debt accounted for some 18 per cent of total interest-bearing debt.

The group's liquidity reserves, comprising cash, bank deposits, a number of liquid securities and committed credit facilities, totalled about NOK 14.7 billion at 31 December 1999.

Property insurance

Statoil Forsikring a.s provides the group with insurance coverage for land-based and offshore installations under construction and in operation at their estimated replacement cost. Policies also cover consequential loss, cargo risks and third party liability. Virtually all the insurance provided by the company is restricted to Statoil-related risks. Statoil Forsikring retains about 46 per cent of the sum insured, which totals roughly NOK 70 billion. The balance is placed in the Norwegian and international reinsurance market. Total equity and insurance provisions at 31 December 1999 amounted to NOK 5.6 billion, including NOK 158 million in indemnity provisions.

Statoil's pension funds

The Statoil pension funds are organised as independent trusts with their own accounts. Covering employees in Statoil, Statoil Norge, Navion and the Statoil Nursery Schools Foundation, their purpose is to provide retirement and disability pensions for the members as well as pensions for surviving spouses and children. The funds had 12 442 members in employment and 1 328 pensioners at 31 December 1999, and manage funds totalling NOK 11.5 billion. This figure includes the value of the wholly-owned Forusbeen Eiendom subsidiary, which owns some of Statoil's main office buildings. The pension funds are not consolidated in the Statoil accounts.

A high standard for health, the environment and safety is basic to all Statoil operations. The group maintains the norms established over many years in Norwegian offshore operations, and applies the experience gained to its international activities. So Statoil is very satisfied with the recognition it has received from the Chinese authorities

FOCUS

GOOD HES RESULTS OFF CHINA

for its HES performance as operator for the Lufeng oil field in the South China Sea.

Navion Munin, which is producing the field, became the world's first multipurpose shuttle tanker to receive a maritime Safety Management Certificate.

The best HES results ever recorded in the region were achieved in the design and development phase for Lufeng, and the project is the first in these waters to have suffered no fatalities. Statoil is cited today by the Chinese authorities as an example of how efficient HES management systems can be implemented. Representatives from the group have given extensive HES seminars for managers in the Chinese state oil companies.

Good operational results have also been achieved in the Lufeng licence. As a result, production from the field will be extended for up to two years from February 2000. That could yield more than seven million barrels of oil with an estimated gross value of NOK 940 million — a result both the Chinese authorities and Statoil find very satisfying.

The first oil from Lufeng was produced on 27 December 1997, and the field has so far flowed more than 20 million barrels. Statoil, the state-owned China National Offshore Oil Company (CNOOC) and Norway's Lufeng Development Company (LDC) have extended the charter for *Navion Munin* with its associated production equipment. LDC is a joint venture between the Navion shipping and offshore company and Advanced Production Systems, which owns the production facilities.

Statoil has a 75 per cent interest in the field through its Statoil Orient Inc subsidiary, while CNOOC holds 25 per cent. The two companies have established a joint operating company.



HEALTH, THE ENVIRONMENT AND SAFETY

HES

Our objectives in health, the environment and safety:

- zero harm to people or the environment
- zero accidents or losses
- A high performance in HES has a value in itself. It is also a prerequisite for positive financial results and a good reputation.
- We will contribute to sustainable development.
- We apply the same attitudes towards HES wherever we do business.
- We expect our suppliers and partners to share our values and objectives.

You and I have a common responsibility to care for the environment, our values and each other!

Olav Fjell
Olav Fjell
President and CEO

STATOIL

Environment-friendly production

Statoil's goals and ambitions

Our goal is to run our operations without harm to people's health or the environment. In our production, we will actively seek profits through good health and environmental quality.

Our goal is zero occupational illnesses. Statoil will be a stimulating and challenging place to work, hosting an environment characterised by caring and effective work processes.

Official demand for zero harmful discharges to the sea

White Paper no 58 (1996-1997) on environmental policies for sustainable development specifies national goals for reducing the spread of chemicals which are hazardous to health and the environment. The petroleum sector's goal is that, as a main rule, environmentally-harmful discharges should not be permitted from new discoveries with stand-alone development solutions. Existing fields will be reviewed by 2000 with a view to achieving zero discharges to the sea in 2005.

Phasing out chemicals hazardous to health and the environment

Roughly 170 000 tonnes of chemicals are used annually by Statoil in connection with drilling and

production on the NCS. Half of this volume — 85 000 tonnes — is discharged to the sea. Ninety-one per cent of the discharges are water and substances which occur naturally in seawater, or which are regarded as harmless to the environment. A further eight per cent comprises chemicals not considered to be environmentally critical, and which have been ecologically tested and found to be acceptable for discharge. Environmentally-questionable substances account for about one per cent. Phasing out such chemicals represents an important element in achieving the goal of zero environmentally-hazardous discharges.

When Statoil awards or renews contracts for chemicals, emphasis is placed on the supplier's ability to develop more environment-friendly products. Development of new technology has yielded good results. In 1999, for instance, new contracts for scale-inhibiting chemicals were placed by Statoil for its production installations. Such products have traditionally been very slow to break down through biological action. Statoil has now adopted new and more readily degradable scale inhibitors. The solubility of these chemicals in water means that roughly 70 per cent of the volume is discharged to the sea via produced water. By adopting the new scale inhibitors, Statoil is phasing out a large proportion of its environmentally-questionable chemicals.

The group has been an important driving force in the development of base oils for drilling fluids which are friendlier to the working environment. These substances do not irritate the skin on direct contact and yield lower hydrocarbon emissions to the air, and thereby improve working conditions for drilling fluid personnel.

Reducing discharges to the sea

The new Statoil contracts for drilling and well fluids which came into force in the autumn of 1999 incorporate incentives for reusing chemicals. By making it more profitable for fluid suppliers to reuse or recycle chemicals rather than to produce new volumes, this scheme is expected to reduce total consumption and emission of chemicals to the sea.

R&D to quantify environmental damage and the impact of measures

Substantial resources have been devoted by Statoil to research into and development of an environmental management system which quantifies the damage caused by present and future discharges to the sea and assesses the effect of various counter-measures.

The environmental impact factor (EIF) system compares natural critical loads for different chemicals with the concentrations which arise around the point of discharge. Both naturally-occurring substances in produced water and chemicals added for various processing purposes on the platform are taken into account.

Extensive laboratory testing and studies have been carried out to clarify natural critical loads for



NAVION VIKING IS EQUIPPED WITH A VOC FUEL SYSTEM.

the various chemicals in produced water. The results show great variation in the potential to cause environmental damage. Future work will extend this experience to permit prioritisation of field-specific measures.

Requirements to reduce VOC emissions

International conventions commit Norway to reducing its overall emissions of volatile organic compounds (VOCs) by 37 per cent compared with the 1990 level. The deadline for achieving this is 2010. Norway was unable to meet the goals set in the original VOC agreement by the deadline of 31 December 1999.

Offshore loading and tanker transport of crude oil from the NCS is by far the largest single source of VOC emissions in Norway, with Statoil facilities accounting for a significant proportion. A number of oil companies, headed by Statoil, have negotiated with the Norwegian authorities on a voluntary agreement to reduce the volume of VOCs released during offshore loading of crude oil. The companies failed to reach a consensus on this issue, and the Norwegian authorities are now expected to impose emission reductions.

Cutting VOC emissions during offshore loading

All oil companies with rights to oil loaded off Norway have participated, under Statoil's leadership, in the VOC development project. This has

constructed two pilot plants for reducing VOC emissions from shuttle tankers, and commercial specifications for such installations have been developed. An absorption solution is in full operation on the *Anna Knutsen* shuttle tanker, while a VOC Fuel system is being completed on *Navion Viking*. This project has given Statoil valuable experience which could yield important environmental improvements.

Environmentally-adapted products

Statoil's goals and ambitions

In developing products and services, we will actively seek profits through good health and environmental quality.

Official standards set for air quality and automotive fuels

Air quality is attracting ever increasing attention, especially in the larger cities, and the transport sector in particular has been the subject of stricter regulation. The European Union has set new standards



Good environmental results for Sleipner

Systematic efforts have been made by the Sleipner operations organisation during recent years to reduce emissions to the air and discharges to the sea. These include technical modifications, revised work procedures, work on attitudes and establishing "best practice" for operating the facilities.

Modifications have substantially reduced the oil content in produced water, to a level about 50-80 per cent below the official ceiling. Chemical discharges from the carbon dioxide separation facility on Sleipner T have also been significantly reduced. Combined with technical changes, "best practice" routines for operating this plant reduced consumption and discharge of amine by 85 per cent from 1997 to 1999, for instance.

for particulates (PM10), sulphur dioxide and nitrogen oxides, and has proposed ceilings for benzene, carbon monoxide and ozone. One approach to meeting these requirements is the adoption of new quality demands for petrol and diesel oil, which come into effect in 2000 and are likely to be further tightened in 2005. These requirements mean that the content of benzene and sulphur must be reduced.

Automotive fuels

Petrol, diesel oil and other energy products are among Statoil's most important commodities. The group is committed to producing environmentally-adapted products, and has accordingly implemented measures and followed up official standards for new automotive fuel grades over a long period. Uncertainty persists about the impact of different environmental measures. But the introduction of more modern engine technology and better technical maintenance, combined with the right fuel grade, is expected to yield substantial reductions in transport sector emissions.

Statoil is working actively with the authorities, the car industry and other oil companies to acquire knowledge of the relationships between engine technology, product properties and effects on health and the environment. The focus has been on technological monitoring and studies of alternative products, new engine and exhaust gas treatment technology, and improved documentation for the group's principal products.

Results from this work in 1999 could contribute to a cost/benefit-based determination of future requirements for automotive fuels and vehicles to meet society's demands for air quality. Where



COAL FIRING IS BEING REPLACED BY NORWEGIAN GAS.

alternative products are concerned, the commitment includes fuels from renewable sources such as rape methyl ester, bioethanol and biogas.

Natural gas reduces emissions

Natural gas offers clear environmental advantages over other fossil fuels. By comparison with coal and oil, it emits 30-50 per cent less carbon dioxide and 60-90 per cent less nitrogen oxides for the same energy output. And natural gas yields only marginal emissions of sulphur dioxide and particulates.

Fuel cell commitment

Statoil is cooperating with Canada's Methanex, the world's largest methanol producer, and Northwest Power Systems of the USA to test methanol-driven fuel cells for decentralised power and heat production. Designed for installation in dwelling units to make them self-sufficient in electricity, this fuel-cell system is currently being utilised in a pilot project in Oregon.

In addition, Statoil and Methanex are collaborating to implement a demonstration project in Europe to test cars running on methanol-driven fuel cells. The latter use hydrogen to generate electricity, with water as the principal by-product.

Bio-energy

Statoil is also making a commitment to biological energy, and opened a new plant for biopellets at Brumunddal north of Oslo. See page 31.

Improved global environment and climate

Statoil's goals and ambitions

We will pursue a long-term and substantial reduction in emissions of greenhouse gases through best practice, the development of new technology and application of the Kyoto mechanisms.

Extensive internal studies show that it will not be possible to achieve the industry's ambitious target of cutting greenhouse gas emissions by 30 per cent in 2007, compared with "business as usual" based on 1997 technology, without incurring quite unreasonable costs. Work has accordingly been initiated to revise the original goals

Demands to cut greenhouse gas emissions

Industrial countries are due to reduce greenhouse gas emissions by at least five per cent from the 1990 level up to 2008-12, according to the Kyoto protocol. An expert committee appointed by the Norwegian

government has proposed a plan for emission trading in Norway, linked to the international mechanisms proposed by the protocol. This will add to the costs of land-based industry which has not previously been required to invest in curbing emissions, while the proposals indicate that the offshore sector could be allowed to participate in emission trading as a substitute for today's carbon dioxide tax.

Statoil could be the largest Norwegian player in a market for emission quotas. Introducing such quotas for land-based industry would add to its expenditures. They would also present a possible cost disadvantage in relation to competitors in other countries if the latter do not face the same burdens in adopting the Kyoto protocol. Imposing a cost disadvantage on the industry would weaken the basis for establishing and operating energy-intensive land-based industry in Norway by comparison with other countries.

Measures for emitting less greenhouse gas
An analysis of possible measures with associated costs for limiting greenhouse gas emissions has been presented by Statoil. This study shows that only marginal improvements can be profitably achieved with Norway's existing carbon tax. Research into and development of less energy-intensive technology will accordingly be maintained.

Statoil is also considering how emission trading and adoption of the Kyoto mechanisms can be utilised.

Applying HES expertise internationally
Statoil wishes to make an active contribution to transferring experience from the NCS to other parts of the world. The group's HES image has attracted attention from both foreign governments and collaborating companies. Its vision for work in this area calls for Statoil to be among the best regardless of where it operates. The aim is to avoid all injuries and accidental emissions.

The group has achieved good results in China, but has also been a driving force in raising HES standards in Venezuela. Drilling rigs on the LL 652 oil field in Lake Maracaibo will inject drilling mud and waste water into dedicated wells. This represents the first time in Venezuelan history that such units cause no polluting discharges to the sea. As a partner in the field, Statoil has played a key role in getting this solution adopted.

Energy efficiency and resource use

Statoil's goals and ambitions

Statoil's operations will contribute to a sustainable development. The group will develop a portfolio of environmentally-adaptable energy products, and actively seek to achieve profits through environment-friendly product quality.

Statoil's facilities and installations will be operated in accordance with technical standards and in such a manner that accidents and hazardous events do not occur. Its emergency response organisation will become even more professional and effective.

New energy management system at Statoil's Kalundborg refinery

Systematic efforts are being made by Statoil to reduce energy consumption. That applies both to offshore operations and to office and production facilities on land. The refinery at Kalundborg in Denmark, for instance, has adopted an energy management system as part of an agreement with the authorities. Measures to improve energy efficiency have cut carbon dioxide emissions by almost 100 000 tonnes per year compared with the way the plant was constructed and operated in the early 1990s.



STATOIL'S REFINERY AT
KALUNDBORG IN DENMARK.

Waste sorting and recycling

Statoil is committed to waste sorting both offshore and at its production facilities and offices on land.

An action team appointed by the Norwegian Oil Industry Association (OLF), chaired by Statoil and including representatives from several major oil companies, has drawn up guidelines for more environment-friendly waste management offshore. Criteria have been established for sorting waste in order to recycle these materials.

These guidelines were incorporated in the

Statoil's environmental forum

Engaging in a dialogue with organisations and individuals with views on Statoil's operations or who can provide it with knowledge and ideas is important for the group. This enhances its understanding of the values, attitudes and arguments encountered in society at large, and makes it better equipped to find good solutions from a social perspective. Established in 1998, the Statoil environmental forum provides a setting for the chief executive to meet environmental and consumer organisations.

contract awarded by Statoil in the spring of 1999 to Norwegian contractor Renovasjon Nord. Covering all waste from the group's operations on the NCS, with the exception of Norne, this deal includes all licensees using Statoil's supply bases in Kristiansund, Florø, Bergen and Stavanger. Several of the land-based plants in Norway are also covered.

The lubricants plant at Fagerstrand has established a system for environment-friendly management in this area which accords with requirements for increased resource utilisation and a reduced environmental burden. All types of waste are sorted, residual volumes have been reduced by 70 per cent over three years and the recycling factor is almost 90 per cent.

Increased gas use at Tjeldbergodden
Methanol is produced from natural gas, and the Statoil plant at Tjeldbergodden ranks as Europe's largest source of this chemical. It makes particular use of feedstock with no access to the conventional gas market. The more gas the plant is able to utilise, the more oil can be recovered. Injecting the gas would be the alternative, but there are limits to how far such injection can be pursued.

Experience enhances safety

Transferring experience is important in securing a good and safe working environment, and a number of measures have been initiated to encourage such

transfer on a broad scale. Best HES practice has been implemented through programmes for the offshore fields and the production facilities on land. Using computer tools to register and follow up incidents, participating in discipline networks, benchmarking cooperation with major international companies and taking part in joint projects such as the Norwegian deepwater programme (NDP) are examples of measures which contribute to a good transfer of experience in the HES area.

Involvement in the NDP has allowed Statoil to build up expertise with deepwater operations. Among the benefits of this three-year collaboration between the deepwater operators off Norway is a very good understanding of the effects of accidental oil spills in deep water. Conditions in deeper parts of the NCS make new demands on oil spill response systems, since oil can become incorporated in the water column and would thereby not be very evident on the surface.

One case in which Statoil has achieved very good safety results is its Kårstø development project for treating gas from Åsgard. Good transfer of experience from earlier developments, including the Kollsnes facility, extensive training (9 000 people participated in basic HES courses during 1999), and good supervision of the various contractors have yielded very good outcomes.

Statoil's results in this area are presented in the HES accounting on pages 80-83.

The chief executive's HES prize for 1999

Particularly good commitments in the HES area have been recognised by Statoil since 1997 with the chief executive's HES prize. Awarded annually, it can be presented to employees, suppliers or others working for the group. Nominations identify a number of examples of good HES practice which can be transferred to other parts of Statoil's business.



CHIEF EXECUTIVE OLAV FJELL (LEFT) PRESENTED THE CHIEF EXECUTIVE'S HES PRIZE FOR 1999 TO JOSEPH ODIJK. THE PRIZE WAS A SCULPTURE BY HUGO WATHNE.

The 1999 prize was awarded to physiotherapist Joseph Odijk for his work on reducing sickness absence. He has been involved in the local care project in production services and catering for almost two years. A relatively high level of sick leave in catering prompted Statoil to seek measures to combat such absences.

Focusing on presence rather than absence, Mr Odijk promotes positive factors which bring people on sick leave quickly back to work. A system has been established for contacting the absent employee as early as possible to discuss opportunities for a quick return to work, often in the form of an active or graded medical certificate. Planned and continuous assessment of the arrangement is pursued in consultation with the employee's personal physician, the company medical service and the social security office. Mr Odijk's work has been well received among employees, and has yielded very good results which can be transferred to other parts of the group.

The jury chaired by chief executive Olav Fjell regarded Mr Odijk's efforts as very satisfactory. He has achieved good cooperation internally and externally, and can report very good results in an area where documenting genuine improvements is not always easy. His work has big transfer value for the group, and shows that commitment by an individual can have very positive outcomes.

PEOPLE AND SOCIETY

A number of considerations create the framework for Statoil's operations. As an international oil and gas company, it seeks to achieve profitability and a long-term return from its business operations. The group is dependent on raw material deposits and opportunities to produce and sell these. Statoil also sets other conditions for its operations — requiring that these respect the environment, the community and individuals. The group's values are expressed in its value statement, which specifies in part that it will act in the long-term interests of society, have high standards of business ethics, be characterised by honesty and integrity, and show respect for human rights. These values help to shape Statoil's corporate identity.

International operations in Statoil build on the experience gained by the group in the first phase of its business. From the start, the oil industry on the NCS was required to maintain a responsible attitude to the environment and the community in which it was to establish itself. Statoil has fulfilled its obligations through good human resource policies, by contributing to the development of expertise in the oil sector and by devoting substantial resources to health, the environment and safety (HES). Through its operations, the group has also contributed to the growth of Norway's offshore supplies industry and thereby to positive spin-offs from the oil business.

The values which underpinned the organisation of Statoil's Norwegian activities are being maintained in its international operations. But the societies in which the group becomes engaged can offer varying points of departure. Many of the richest petroleum provinces are characterised by incomplete democratisation and weak institutions. Through its business operations, Statoil wants to contribute to greater transparency and a better distribution of resources — participation in economic development is a human right. The group's goal is to document its achievements in this area by presenting a third — "social" — bottom line. This will provide a systematic overview of how successfully Statoil's human rights policy has been implemented, and how well the group discharges its social responsibilities.

Statoil believes that a conscious attitude to human rights and social responsibility is appropriate and necessary — partly because it wants to live up to ethical standards and behave properly, but also because this increases its commercial opportunities. Through its work on human rights, the group wants to contribute to local stability and predictable conditions for the business. Furthermore, investors

increasingly demand that the companies in which they invest take the environment and human rights seriously. Statoil wants to fulfil these expectations. Consumers are also becoming ever more conscious of the attitude taken by producers on human rights and development. In other words, Statoil's ability to deliver results which are not achieved at the expense of respect for the environment and human beings will be crucial to the way it is perceived by the world at large — owners, employees, customers and the general public. The confidence these different players have in the group will affect its future profitability. That calls for a firm attitude as well as clear strategies and guidelines.

As in the environmental arena, the group's approach in this area reflects its experience from the NCS. The Statoil model builds on a recognition that it takes time to master a new discipline. Although the challenge faced is demanding, however, the group believes that it can succeed through conscious and practical problem-solving within its organisation. Its work is characterised by:

- **Strategy and attitudes.** Realising Statoil's ambitious goals on human rights and social responsibility requires a long-term approach. The group works systematically on strategies, guidelines and attitudes relating to human rights and to its non-commercial responsibilities.
- **Internal training.** A policy is not worth much if nobody knows about or comprehends it. Statoil provides training programmes on human rights issues, and employee knowledge of the group's attitudes is measured in its annual working environment and organisation survey. The aim is to ensure that all employees understand the importance of human rights as a foundation for Statoil's commercial operations.
- **Organisational development.** A separate department has been established to analyse and follow up issues relating to human rights, politics and social life. Part of International Exploration & Production, its work forms an element in the group's regular commercial processes. All Statoil's international core assets have staff dedicated to following up human rights and social issues locally. The group has integrated an assessment of human rights and political risk in its commercial decisions, and these considerations will accordingly be taken into account in all relevant decision-making processes on a par with technical and commercial factors.
- **Methodology development.** Statoil initiated a broad methodology development study in 1998

together with four research institutions in order to improve its understanding of the oil industry's significance for social progress. This work was completed in 1999. In parallel with developing a methodology, the group completed the first in a series of country studies through an analysis of Azerbaijan. A similar evaluation is currently being prepared for Angola. This type of impact assessment represents an important part of Statoil's work on human rights. Another element in this continuous commitment is ethical audits to check how Statoil's policies on ethics and human rights are being observed in its international operations. Both country studies and ethical audits form part of the group's work on its "third bottom line". Efforts to improve this reporting will continue in 2000.

- **New partnerships.** In the external arena, Statoil has sought out new partners and established innovative collaboration models to highlight its attitudes through specific projects. In 1998, the group was invited to participate in a dialogue with the UN Development Programme (UNDP) and a number of other companies on new modes of collaboration. The dialogue continued in 1999. Statoil has turned this into specific action through a pilot project in Venezuela, where the group is supporting a joint programme involving the UNDP, Amnesty International and a local non-governmental organisation. The work aims to enhance understanding for and observation of fundamental legal safeguards among Venezuelan judges.
- **Dialogue.** Statoil has chosen to take an active part in the debate over the responsibilities of foreign companies towards their host countries. This discussion is pursued in the media, research communities, voluntary organisations, the authorities and industrial firms. The group currently conducts dialogues with a number of voluntary organisations in Norway and interna-

tionally, including Amnesty International, the Norwegian Forum for Freedom of Speech and the NGO Forum. It also participates in the government's Kompakt consultative body on human rights. In addition, Statoil has good lines of communication with the authorities in Norway and in other countries where it pursues operations. These contacts give the group access to new information for its own work, and it believes others would benefit from listening to its experience in this field.

- **Development work.** In addition to obligations accepted under commercial contracts — such as technology transfer, training, exchange programmes and so forth — Statoil contributes to development measures in countries where it operates. The focus in this area is on cooperative projects which are pursued with professional aid organisations that are rooted in the local community. Priority is given to health, education and development of local businesses. These projects are significant for Statoil's local host communities, and also promote local knowledge and cultural understanding among its own employees. Sustainability is a goal, and projects must be able to continue without support from Statoil.
- **Business ethics.** A good reputation as a commercially-minded, honest and reliable company is essential to Statoil. The group wants to set an example for business ethics and integrity, regardless of where it operates in the world. Its reputation rests to a large extent on the actions and behaviour of the individual employee, and Statoil sets absolute standards for the honesty and business ethics of its personnel. In addition, it wants to contribute to a broad front against corruption by allying with positive forces in the countries where it operates, with industry and with key voluntary and multilateral organisations.

Statoil wants its business operations to meet a high ethical standard. This will allow it to be a company which employees, customers and the world at large can identify with and be proud of. That is the group's contribution to a desirable development, and pursuing these issues also generates energy and team spirit in its own organisation. At the same time, democratisation and social and economic progress in a country will ultimately be in the industry's commercial interest. Progress promotes more stable conditions, greater predictability and, potentially, a market for Statoil's products.

Triple bottom line

This annual report marks a further advance from the 1998 report in terms of integrating the triple bottom line concept. Statoil's operations will be managed and their results measured and reported along the three dimensions of finance, the environment and society. Necessary cost reductions must be achieved without setting aside fundamental values relating to safety and the working environment, the external environment and social considerations.

Management and measurement of results must also embrace indicators relating to environmental and social factors. Statoil has documented its results in the environmental arena for several years.