

Financial statements 2004
Norwegian accounting principles

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The annual report 2004
is included in the document
“Annual report and accounts
2004”



Statoil group – NGAAP

CONSOLIDATED STATEMENTS OF INCOME – NGAAP

(in NOK million)	Note	For the year ended December 31,		
		2004	2003	2002
REVENUES				
Sales	3	303,242	248,516	242,507
Equity in net income of affiliates	8	1,207	738	366
Other income	4	1,273	865	1,270
Total revenues		305,722	250,119	244,143
EXPENSES				
Cost of goods sold		(187,623)	(149,746)	(147,867)
Operating expenses		(27,375)	(26,649)	(28,603)
Selling, general and administrative expenses		(6,318)	(5,537)	(5,299)
Depreciation, depletion and amortization	5, 10	(17,459)	(16,327)	(16,860)
Exploration expenses	10	(1,828)	(2,370)	(2,410)
Total expenses before financial items		(240,603)	(200,629)	(201,039)
Income before financial items, other items, income taxes and minority interest		65,119	49,490	43,104
Net financial items	12	5,439	1,237	8,672
Other items	2	0	(6,025)	0
Income before income taxes and minority interest		70,558	44,702	51,776
Income taxes	13	(45,307)	(27,349)	(35,246)
Minority interest		(505)	(289)	(153)
Net income		24,746	17,064	16,377
Net income per common share		11.42	7.88	7.56
Weighted average number of shares outstanding		2,166,142,636	2,166,143,693	2,165,422,239

CONSOLIDATED BALANCE SHEETS – NGAAP

(in NOK million)	Note	At December 31,	
		2004	2003
ASSETS			
Net property, plant and equipment	10	154,985	128,325
Long-term receivables	17, 22	8,179	14,263
Long-term investments	9	9,164	8,080
Investments in affiliates	8	10,337	11,022
Total non-current assets		182,665	161,690
Inventories	7	8,261	5,727
Accounts receivable	11	31,736	28,048
Accounts receivable – related parties	22	0	2,144
Prepaid expenses and other current assets		6,512	4,289
Total inventories and accounts receivables		46,509	40,208
Short-term investments	9	11,621	9,314
Cash and cash equivalents		5,028	7,316
Cash, cash equivalents and short-term investments		16,649	16,630
Total current assets		63,158	56,838
TOTAL ASSETS		245,823	218,528

CONSOLIDATED BALANCE SHEETS – NGAAP

(in NOK million)	Note	At December 31,	
		2004	2003
EQUITY AND LIABILITIES			
Common stock (NOK 2.50 nominal value), 2,189,585,600 shares authorized and issued		5,474	5,474
Treasury shares, 23,452,876 shares and 23,441,885 shares	26	(60)	(59)
Additional paid-in capital		12,421	12,418
Paid-in capital		17,835	17,833
Retained earnings		56,459	46,758
Minority interest in subsidiaries		1,616	1,483
Total equity	23	75,910	66,074
Deferred income taxes	13	44,633	37,948
Other liabilities	17, 18	23,779	20,630
Long-term debt	15	26,482	28,775
Total long-term liabilities		94,894	87,353
Short-term debt	14	7,731	6,045
Accounts payable		19,282	17,977
Accounts payable - related parties	22	5,621	6,114
Withheld, excise and other taxes		4,663	4,721
Income taxes payable	13	19,117	17,676
Accrued liabilities		7,124	6,178
Dividend payable		11,481	6,390
Total current liabilities		75,019	65,101
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		245,823	218,528

CONSOLIDATED STATEMENTS OF CASH FLOW – NGAAP

(in NOK million)	For the year ended	
	2004	December 31, 2003
OPERATING ACTIVITIES		
Consolidated net income	24,746	17,064
<u>Adjustments to reconcile net income to net cash flows provided by operating activities:</u>		
Minority interest in income	505	289
Depreciation, depletion and amortization	17,459	16,327
Exploration expenditures written off	110	256
(Gains) losses on foreign currency transactions	(1,919)	781
Deferred taxes	4,888	(6,275)
(Gains) losses on sales of assets and other items	(1,556)	4,964
<u>Changes in working capital (other than cash and cash equivalents):</u>		
• (Increase) decrease in inventories	(2,201)	450
• (Increase) decrease in accounts receivable	(1,149)	2,054
• (Increase) decrease in prepaid expenses and other current assets	(3,844)	(2,876)
• (Increase) decrease in short-term investments	(2,307)	(4,047)
• Increase (decrease) in accounts payable	(147)	(1,057)
• Increase (decrease) in other payables	1,558	4,695
• Increase (decrease) in taxes payable	1,387	(682)
(Increase) decrease in non-current items related to operating activities	1,277	(1,146)
Cash flows provided by operating activities	38,807	30,797
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(31,800)	(22,075)
Exploration expenditures capitalized	(748)	(331)
Change in long-term loans granted and other long-term items	(2,650)	(7,682)
Proceeds from sale of assets	3,239	6,890
Cash flows used in investing activities	(31,959)	(23,198)

CONSOLIDATED STATEMENTS OF CASH FLOW – NGAAP

(in NOK million)	For the year ended December 31,	
	2004	2003
FINANCING ACTIVITIES		
New long-term borrowings	4,599	3,206
Repayment of long-term borrowings	(6,574)	(2,774)
Amounts paid to minority shareholders	(559)	(356)
Dividends paid	(6,390)	(6,282)
Net short-term borrowings, bank overdrafts and other	(131)	(1,656)
Cash flows used in financing activities	(9,055)	(7,862)
Net increase (decrease) in cash and cash equivalents	(2,207)	(263)
Effect of exchange rate changes on cash and cash equivalents	(81)	877
Cash and cash equivalents at the beginning of the year	7,316	6,702
Cash and cash equivalents at the end of the year	5,028	7,316
Interest paid	1,179	1,336
Taxes paid	38,844	34,230

Changes in working capital items resulting from the disposal of the subsidiary Navion in 2003 are excluded from Cash flows provided by operating activities and classified as Proceeds from sale of assets. Changes in balance sheet items resulting from the acquisition of the Statoil Detaljhandel Skandinavia in 2004 are excluded from Cash flows provided by operating activities and Cash flow used in financing activities, and classified as Additions to property, plant and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

1. ORGANIZATION AND BASIS OF PRESENTATION

Statoil ASA was founded in 1972, as a 100 per cent Norwegian State-owned company. Statoil's business consists principally of the exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products. In 1985, the Norwegian State transferred certain properties from Statoil to the State's direct financial interest (SDFI), which were also 100 per cent owned by the Norwegian State.

In conjunction with a partial privatization of Statoil in June 2001, the Norwegian State restructured its holdings in oil and gas properties on the Norwegian Continental Shelf. In this restructuring, the Norwegian State transferred to Statoil certain SDFI properties with a book value of approximately NOK 30 billion, in consideration for which NOK 38.6 billion in cash plus interest and currency fluctuation from the valuation date of NOK 2.2 billion (NOK 0.7 billion after tax), and certain pipeline and other assets with a net book value of NOK 1.5 billion were transferred to the Norwegian State. The transaction was completed June 1, 2001 with a valuation date of January 1, 2001 with the exception of the sale of an interest in the Mongstad terminal which had a valuation date of June 1, 2001.

The total amount paid to the Norwegian State was financed through a public offering of shares of NOK 12.9 billion, issuance of new debt of NOK 9 billion and the remainder from existing cash and short-term borrowings.

The transfer of properties from SDFI has been accounted for as transactions among entities under common control and the results of operations and financial position have been, with effect from June 1, 2001, accounted for at historical cost. The net book values of the acquired oil and gas properties, and the cash settlement, have been reported as capital contribution and dividend, respectively. The final cash settlement is under review by the Norwegian State, and Statoil has in 2004 recorded its estimated outcome against shareholders' equity. No further material impact is expected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Statoil ASA and its subsidiaries (the Company or the group) are prepared in accordance with Norwegian generally accepted accounting principles (NGAAP). For a reconciliation to United States generally accepted principles (USGAAP) see note 27.

Consolidation

The consolidated financial statements include the accounts of Statoil ASA and subsidiary companies owned directly or indirectly more than 50 per cent. Inter-company transactions and balances have been eliminated. Investments in companies in which Statoil does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20 to 50 per cent ownership), are accounted for by the equity method. Undivided interests in unincorporated joint ventures in the oil and gas business, including pipeline transportation, are consolidated on a pro rata basis.

Foreign currency translation

Each foreign entity's financial statements are prepared in the currency in which that entity primarily conducts its business (the functional currency). For Statoil's foreign subsidiaries the local currency is normally identical with the functional currency, with the exception of some upstream subsidiaries, which have US dollar as functional currency, mainly because most of the revenues and costs are in US dollar.

When translating foreign functional currency financial statements to Norwegian kroner, year-end exchange rates are applied to asset and liability accounts, and average rates are applied to income statement accounts. Adjustments resulting from this process are included in the Accumulated other comprehensive income account in shareholders' equity, and do not affect net income.

Transactions denominated in currencies other than the entity's functional currency are re-measured into the functional currency using current exchange rates. Gains or losses from this re-measurement are included in income.

Revenue recognition

Revenues associated with sale and transportation of crude oil, natural gas, petroleum and chemical products and other merchandise are recorded when title passes to the customer at the point of delivery of the goods based on the contractual terms of the agreements. Revenue is recorded net of customs, excise taxes and royalties paid in kind on petroleum products.

Sales and purchases of physical commodities which are not settled net are presented on a gross basis as Sales and Cost of goods sold in the Income statement. Activities related to the trading of commodity based derivative instruments are reported on a net basis, with the margin included in Sales. Arrangements involving a series of buys and sells entered into in order to obtain a given quantity and quality of a commodity at a given location are recognized net and included in Sales.

Transactions with the Norwegian State

Statoil markets and sells the Norwegian State's share of oil and gas production from the Norwegian continental shelf (NCS). All purchases and sales of SDFI oil production are recorded as Cost of goods sold and Sales. All oil received by the Norwegian State as royalty in kind from fields on the NCS is purchased by Statoil. Statoil includes the costs of purchase and proceeds from the sale of this royalty oil in its Cost of goods sold and Sales respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Statoil is selling, in its own name, but for the Norwegian State's account and risk, the state's production of natural gas. This sale and related expenses refunded by the State, are recorded net in Statoil's financial statements. Refunds include expenses related to activities incurred to secure market access, and investments made to maximise profitability from the sale of natural gas.

Inter-company balances and transactions in connection with activities in licenses are not included in related parties' transactions.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and all other monetary instruments with three months or less to maturity at the date of purchase.

Short-term investments

Short-term investments include bank deposits and all other monetary instruments and marketable equity and debt securities with a maturity of between three and twelve months at the date of purchase. The portfolios of securities are considered trading securities and are valued at fair value (market). The resulting unrealized holding gains and losses are included in Net financial items.

Inventories

Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method. Cost includes raw material, freight, and direct production costs together with share of indirect costs.

Use of estimates

Preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as disclosures of contingencies. Actual results may ultimately differ from the estimates and assumptions used.

The nature of Statoil's operations, and the many countries in which Statoil operates, are subject to changing economic, regulatory and political conditions. Statoil does not believe it is vulnerable to the risk of a near-term severe impact as a result of any concentration of its activities.

Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation, depletion and amortization. Expenditures for significant renewals and improvements are capitalized. Ordinary maintenance and repairs are charged to income when performed. Provisions are made for costs related to significant periodic maintenance programs.

Depreciation of production installations and field-dedicated transport systems for oil and gas is calculated using the unit of production method based on proved reserves expected to be recovered during the concession period. Ordinary depreciation of other assets and of transport systems used by several fields is calculated on the basis of their economic life expectancy, using the straight-line method. The economic life of nonfield-dedicated transport systems is normally the production period of the related fields, limited by the concession period. Straight-line depreciation of other assets is based on the following estimated useful lives:

Machinery and equipment	5 — 10 years
Production plants onshore	15 — 20 years
Buildings	20 — 25 years
Vessels	20 — 25 years

Oil and gas accounting

Statoil uses the "Successful efforts"- method of accounting for oil and gas producing activities. Expenditures to acquire mineral interests in oil and gas properties and to drill and equip exploratory wells are capitalized until it is clarified if there are proved reserves. Expenditures to drill exploratory wells that do not find proved reserves, and geological and geophysical and other exploration expenditures are expensed.

Unproved oil and gas properties are assessed quarterly; unsuccessful wells are expensed. Exploratory wells that have found reserves, but classification of those reserves as proved depends on whether a major capital expenditure can be justified, may remain capitalized for more than one year. The main conditions are that either firm plans exist for future drilling in the license or a development decision is planned in the near future.

Expenditures to drill and equip exploratory wells that find proved reserves are capitalized. Capitalized expenditures of producing oil and gas properties are depreciated and depleted by the unit of production method. Pre-production expenditures are expensed as incurred.

Impairment of long-lived assets

Tangible assets, identifiable intangible assets and goodwill, are written down when events or a change in circumstances during the year indicate that their carrying amount may not be recoverable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Impairment is determined for each autonomous group of assets (oil and gas fields or licenses, or independent operating units) by comparing their carrying value with recoverable amounts. Recoverable amount is the highest of estimated selling price and value in use based upon management's expectations of future economic and operating conditions. Value in use is nominal cash flows discounted with a risk adjusted interest rate before tax.

Should the above comparison indicate that an asset is impaired, the asset is written down to recoverable amount.

Asset retirement obligation

Beginning January 1, 2003, Statoil changed the accounting principle for asset retirement obligation from recognizing according to unit of production method to recognize the total fair value of the obligation at the time the obligations are incurred. The new principle is in accordance with the preferred solution in the Norwegian accounting standard (NRS) 13 Accounting for provisions, contingent liabilities and contingent assets. Legal obligations associated with the retirement of long-lived assets are recognized at their fair value at the time that the obligations are incurred. Fair value is estimated based on existing technology and regulation. Upon initial recognition of a liability, the costs are capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. Changes in asset retirement obligation estimates are capitalized as part of the long-lived asset and charged to income prospectively over the remaining useful life of the asset.

The discount rate used when estimating the fair value of the asset retirement obligation is credit-adjusted risk-free rate with the same expected maturity as the removal obligation.

Leased assets

Capital leases, which provide Statoil with substantially all the rights and obligations of ownership, are classified as assets under Property, plant and equipment and as liabilities under Long-term debt valued at the present value of minimum lease payments. The assets are subsequently depreciated over their expected economic life, and the liability is reduced for lease payments less the effective interest expense.

Employee retirement plans

Contribution plans, plans where the company's obligation is to contribute a defined amount to the employee, is allocated to net income in the period the contribution covers. Defined benefit plans where the employees have the right of a defined amount of pension, is allocated to net income over the service period.

Prior service costs, due to plan amendments, are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 per cent of the greater of the benefit obligation or the fair value of assets are amortized over the remaining service period of active plan participants.

Research and development

Research and development expenditures are expensed as incurred.

Income taxes

Deferred income tax expense is calculated using the liability method. Under this method, deferred tax assets and liabilities are determined by applying the enacted statutory tax rates applicable to future years to the temporary differences between the carrying values of assets and liabilities for financial reporting and their tax basis. Deferred income tax expense is the change during the year in the deferred tax assets and liabilities relating to the operations during the year. Effects of changes in tax laws and tax rates are recognized at the date the tax law changes.

Deferred tax benefit is reduced by a valuation allowance if it is unlikely that the benefit can be used. Uplift benefit is reflected in the accounts when the deduction impacts taxes payable.

Derivative financial instruments and commodities derivatives

The following accounting policies are applied for the principal financial instruments and commodity-based derivatives:

- **Currency swap agreements**

For long-term debt exchanged from the original foreign currency to another (open) currency at an agreed rate of exchange, the open currency position is applied when translating the debt to NOK.

- **Forward currency contracts**

Unrealized gains or losses on hedging contracts are offset against losses or gains on the items hedged. The interest element is accrued and amortized over the contract period. Unrealized gains or losses on trading contracts are recorded in the income statement as incurred.

- **Interest swap agreements**

The net effect of income and expenses related to interest swap agreements is allocated over the contract period.

- **Commodity based derivatives**

Commodity-based derivatives traded on organized exchanges are valued at market value and the resulting gains and losses are charged to income. Other commodity-based derivatives are valued according to the lower of cost or market principle.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Stock based compensation

Statoil recognizes stock based compensation as expense and uses a fair value based method in connection with measuring the compensation cost. Compensation cost is measured at the grant date based on the value of the awarded shares and recognized over the service period. The awarded shares is accounted for as compensation cost in the income statement and recorded as an equity transaction (included in Additional paid-in capital).

Reclassifications

Statoil has adjusted the formula for calculating the inter-segment price for deliveries of natural gas from Exploration and Production Norway to Natural Gas, see note 3.

Certain reclassifications have been made to prior years' figures to be consistent with current year's presentation.

New accounting principles and changes in regulations

Application of new accounting principle at January 1, 2003 for assets retirement obligation resulted in an increase in net property, plant and equipment of NOK 2.8 billion, an increase in accrued asset retirement obligation of NOK 7.1 billion, a reduction in deferred tax assets of NOK 1.5 billion, and a long-term receivable of NOK 5.8 billion. The receivable represented the expected refund by the Norwegian State of an amount equivalent to the actual removal costs multiplied by the effective tax rate over the productive life of the assets. Removal costs on the Norwegian continental shelf were, unlike decommissioning costs, not deductible for tax purposes. The implementation effect of NOK 33 million after tax is expensed as Operating expenses in the segment Other. If the accounting principle had been applied as of the beginning of 2002 the effect on net income and shareholders' equity for the year ended 2002 would have been immaterial.

The Norwegian Parliament decided in June 2003 to replace governmental refunds for removal costs on the Norwegian continental shelf with ordinary tax deduction for such costs. Previously, removal costs were refunded by the Norwegian State based on the company's percentage for taxes payable over the productive life of the removed installation. As a consequence of the changes in legislation, Statoil has charged the receivable of NOK 6.0 billion against the Norwegian State related to refund of removal costs to income under Other items in the second quarter of 2003. Furthermore, the resulting deferred tax benefit of NOK 6.7 billion has been taken to income under Income taxes.

Adoption of International Financial Reporting Standards (IFRS)

The EU regulation requires that companies adopt IFRS by 2005 for the Consolidated Financial Statement. There is an option for the member states authorities to allow adoption from 2007 in certain circumstances. Norway has used this option. The main criterion is that the company uses internationally accepted accounting standards, for the purpose of a non-EU stock exchange listing, as their primary financial statements. Statoil uses USGAAP as the primary financial statement. Statoil will use this option and adopt IFRS in 2007.

The first time application of IFRS will lead to some implementation effects which will be recognized directly to equity. In addition there will be some difference between IFRS and USGAAP. Based on our preliminary evaluation we are not in a position to describe such effects.

3. SEGMENTS

Statoil operates in four segments; Exploration and Production Norway, International Exploration and Production, Natural Gas and Manufacturing and Marketing.

Operating segments are determined based on differences in the nature of their operations, geographic location and internal management reporting. The composition of segments and measure of segment profit are consistent with that used by management in making strategic decisions.

A new method for calculating the inter-segment price for deliveries of natural gas from Exploration and Production Norway to Natural Gas was adopted from January 1, 2003. The price is adjusted quarterly by the average USD oil price over the last six months in proportion to USD 15. The new price applies to all volumes, while previously the price was calculated on a field-by-field basis, and the formula used differentiated between gas fields and fields delivering associated gas. The new method is partly a result of the Norwegian Gas Negotiating Committee being abolished, and replaced by company-based sales. Prior periods have been adjusted to reflect the new pricing formula. The inter-segment price in 2004 has been NOK 0.71 per standard cubic meter.

Natural Gas has as of January 1, 2004 taken over certain activities from International Exploration and Production. The activities consist of gas sale activities in some foreign countries, construction of a pipeline for transportation of natural gas from Azerbaijan to Turkey and sale of Statoil's natural gas processed at the Cove Point terminal in the USA. Prior periods' figures have been adjusted to reflect the new structure.

At January 1, 2004 the Kollsnes activity was transferred from Exploration and Production Norway to Natural Gas. At February 1, 2004 the Kollsnes gas processing plant was transferred to Gassled. The transfer did not lead to significant changes in Statoil's existing rights, obligations or book values of the Kollsnes assets. The operatorship was taken over by Gassco. Assets related to Kollsnes were transferred from Exploration and Production Norway to Natural Gas at net book value of NOK 4.2 billion. Prior periods' figures have been adjusted to reflect the new structure.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Segment data for the years ended December 31, 2004, 2003 and 2002 is presented below:

(in NOK million)	Exploration and Production Norway	International Exploration and Production	Natural Gas	Manufacturing and Marketing	Other and eliminations	Total
Year ended December 31, 2004						
Revenues third party	1,570	3,261	32,629	265,696	1,359	304,515
Revenues inter-segment	72,403	6,504	447	58	(79,412)	0
Income (loss) from equity investments	77	0	222	937	(29)	1,207
Total revenues	74,050	9,765	33,298	266,691	(78,082)	305,722
Depreciation, depletion and amortization	12,381	2,215	652	1,719	492	17,459
Income before financial items, other items, income taxes and minority interest	51,029	4,188	6,731	3,991	(820)	65,119
Imputed segment income taxes	(37,904)	(1,429)	(4,344)	(871)	1	(44,547)
Segment net income	13,125	2,759	2,387	3,120	(819)	20,572
Year ended December 31, 2003						
Revenues third party	2,275	2,156	24,890	218,662	1,398	249,381
Revenues inter-segment	60,170	4,458	445	120	(65,193)	0
Income (loss) from equity investments	74	0	222	475	(33)	738
Total revenues	62,519	6,614	25,557	219,257	(63,828)	250,119
Depreciation, depletion and amortization	12,009	1,784	619	1,409	506	16,327
Income before financial items, other items, income taxes and minority interest	37,840	1,780	6,104	4,079	(313)	49,490
Imputed segment income taxes	(28,054)	(693)	(4,240)	(902)	(6)	(33,895)
Segment net income	9,786	1,087	1,864	3,177	(319)	15,595
Year ended December 31, 2002						
Revenues third party	1,818	5,749	24,351	210,757	1,102	243,777
Revenues inter-segment	57,075	1,020	168	194	(58,457)	0
Income (loss) from equity investments	(1)	0	132	305	(70)	366
Total revenues	58,892	6,769	24,651	211,256	(57,425)	244,143
Depreciation, depletion and amortization	11,765	2,355	728	1,646	366	16,860
Income before financial items, other items, income taxes and minority interest	34,276	1,129	6,249	1,787	(337)	43,104
Imputed segment income taxes	(25,487)	(394)	(4,394)	(359)	(110)	(30,744)
Segment net income	8,789	735	1,855	1,428	(447)	12,360

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Borrowings are managed at a corporate level and interest expense is not allocated to segments. Income tax is calculated on income before financial items and minority interest. Additionally, income tax benefit on segments with net losses is not recorded. As such, Imputed segment income tax and Segment net income can be reconciled to Income taxes and Net income per the Consolidated Statements of Income as follows:

(in NOK million)	2004	2003	2002
Segment net income	20,572	15,595	12,360
Net financial items	5,439	1,237	8,672
Other items (see note 2)	0	(6,025)	0
Change in deferred tax due to new legislation (see note 2)	0	6,712	0
Tax on financial items and other tax adjustments	(2,160)	(166)	(4,502)
Change in deferred tax on undistributed earnings in foreign companies*	1,400	0	0
Minority interest	(505)	(289)	(153)
Net income	24,746	17,064	16,377
Imputed segment income taxes	44,547	33,895	30,744
Change in deferred tax due to new legislation (see note 2)	0	(6,712)	0
Tax on financial items and other tax adjustments	2,160	166	4,502
Change in deferred tax on undistributed earnings in foreign companies*	(1,400)	0	0
Income taxes	45,307	27,349	35,246

* Due to changes in Norwegian tax legislation in 2004, dividend from companies, with some exceptions, will not be taxable in Norway. Consequently, NOK 1.4 billion in deferred taxes related to retained earnings in subsidiaries and affiliates have been reversed in 2004.

The Exploration and Production – Norway and International Exploration and Production Segments explore for, develop and produce crude oil and natural gas, and extract natural gas liquids, sulfur and carbon dioxide. The Natural Gas segment transports and markets natural gas and natural gas products. Manufacturing and Marketing is responsible for petroleum refining operations and the marketing of all refined petroleum products except gas.

Inter-segment revenues are sales to other business segments within Statoil and are at estimated market prices. These inter-company transactions are eliminated for consolidation purposes. Imputed segment income taxes are calculated on the basis of Income before financial items and minority interest

Long-term deferred tax asset, included in Other long-term assets, is not allocated to business segments, but included in the segment Other.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

(in NOK million)	Addition to long-lived assets	Investments in affiliates	Other long- term assets
At December 31, 2004			
Exploration and Production Norway	16,776	258	81,371
International Exploration and Production	18,987	0	37,956
Natural Gas	2,368	2,984	14,551
Manufacturing and Marketing	4,162	7,022	23,004
Other	551	73	15,446
Total	42,844	10,337	172,328
At December 31, 2003			
Exploration and Production Norway	13,136	1,324	75,144
International Exploration and Production	8,019	0	31,875
Natural Gas	860	2,006	14,008
Manufacturing and Marketing	1,546	7,655	15,539
Other	530	37	14,102
Total	24,091	11,022	150,668
At December 31, 2002			
Exploration and Production Norway	10,926	1,284	71,687
International Exploration and Production	5,032	0	19,594
Natural Gas	1,525	1,423	13,733
Manufacturing and Marketing	1,771	6,746	20,448
Other	800	54	11,153
Total	20,054	9,507	136,615
Non-current assets by segments			
(in NOK million)	2004	At December 31, 2003	2002
Exploration and Production Norway	81,629	80,681	77,041
Exploration and Production International	37,956	32,879	20,368
Natural Gas	17,535	10,797	10,312
Manufacturing and Marketing	30,026	23,194	27,194
Other	15,519	14,139	11,207
Total non-current assets	182,665	161,690	146,122

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Revenues by geographic areas

(in NOK million)	For the year ended December 31,		
	2004	2003	2002
Norway	288,324	223,761	215,560
Europe (excluding Norway)	29,499	30,152	31,449
United States	26,913	26,524	27,655
Other areas	13,252	8,014	9,253
Eliminations	(53,473)	(39,070)	(40,140)
Total revenues (excluding equity in net income of affiliates)	304,515	249,381	243,777

Non-current assets by geographic areas

(in NOK million)	At December 31,		
	2004	2003	2002
Norway	122,331	112,557	113,004
Europe (excluding Norway)	44,415	39,845	28,550
United States	678	638	25
Other areas	24,901	21,563	11,586
Eliminations	(9,660)	(12,913)	(7,043)
Total non-current assets	182,665	161,690	146,122

4. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

In 2002, Statoil sold its interests in the Siri and Lulita oil fields on the Danish continental shelf. The sale resulted in a gain included in the International Exploration and Production segment of NOK 1.0 billion before tax and NOK 0.7 billion after tax.

Effective January 1, 2003 Statoil sold 100 per cent of the shares in Navion ASA to Norsk Teekay AS, a wholly-owned subsidiary of Teekay Shipping Corporation. The operations of Navion were shuttle tanking and conventional shipping. The sales price for the fixed assets of Navion, excluding *Navion Odin* and Navion's 50 per cent share in the *West Navigator* drillship which were not included in the sale, was approximately USD 800 million. The sale was accounted for in the Manufacturing and Marketing segment and the profit and loss effect from the sale was a gain of NOK 0.7 billion before tax.

Statoil and BP signed an agreement in June 2003 whereby Statoil acquired 49 per cent of BP's interests in the In Salah gas project and 50 per cent of BP's interest in the In Amenas gas condensate project, both in Algeria. The purchase price was USD 740 million, and Statoil has in addition covered the expenditures incurred after January 1, 2003 related to the acquired interests. After the receipt of necessary governmental approvals in 2004, the two projects were transferred from Long-term receivables to Property, plant and equipment in the Consolidated Balance Sheets. The projects are included in the segment International Exploration and Production.

In January 2004 Statoil acquired 11.24 per cent of the Snøhvit field, of which 10 per cent from Norsk Hydro and 1.24 per cent from Svenska Petroleum. Following these transactions, Statoil has an ownership share of 33.53 per cent in the Snøhvit field, which is included in the segment Exploration and Production Norway. Reference is made to note 10 for additional information.

In January 2004 Statoil sold its 5.26 per cent shareholding in the German company Verbundnetz Gas, generating a gain of NOK 619 million before tax (NOK 446 million after tax). The gain has been classified as Other income in the Consolidated Statements of Income, and is included in the segment Natural Gas.

Statoil has acquired the retailer group ICA's 50 per cent holding in Statoil Detaljhandel Skandinavia AS (SDS), and now owns 100 per cent of SDS. Following approval under the EU merger control regulations on July 1, the transaction was completed on July 8, 2004. Based on Statoil's ownership share, SDS has been accounted for in accordance with the equity method up to and including the second quarter of 2004. SDS is consolidated as a subsidiary from the third quarter 2004. SDS is included in the Manufacturing and Marketing segment. Reference is made to Note 10 for additional information.

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In October 2004 Statoil sold its 50 per cent interest in the joint venture "Partrederiet West Navigator DA", which owns the deepwater drill ship *West Navigator*, to Smedvig. The interest in the joint venture was included in the segment Exploration and Production Norway. The agreed purchase price was USD 175 million for the vessel adjusted for Statoil's share of the cash flow from the operation of the vessel from May 1, 2004. The effect on Income before financial items, other items, income taxes and minority interest was immaterial, while there was a positive tax effect of NOK 0.3 billion.

5. ASSET IMPAIRMENTS

In 2002 a charge of NOK 0.8 billion before tax (NOK 0.6 billion after tax) was recorded in Depreciation, depletion and amortization in the International Exploration and Production segment to write down the Company's 27 per cent interest in the oil field LL652 in Venezuela to fair value. The write-down was mainly due to reductions in the projected volumes of oil recoverable during the remaining contract period of operation. Fair value was calculated based on discounted estimated future cash flows.

6. PROVISION FOR RIG RENTAL CONTRACTS

Statoil provides for estimated losses on long-term fixed price rental agreements for mobile drilling rigs. The losses are calculated as the difference between estimated market rates and the fixed price rental agreements.

(in NOK million)	2004	2003	2002
Provision at January 1	1,360	960	734
Increase (decrease) during the year	(702)	454	231
Cost incurred during the year	(298)	(54)	(5)
Provision at December 31	360	1,360	960

7. INVENTORIES

Inventories are valued at the lower of cost or market determined under the first-in, first-out method.

(in NOK million)	At December 31,	
	2004	2003
Crude oil	3,664	2,192
Petroleum products	3,344	2,470
Other	1,253	1,065
Total inventories	8,261	5,727

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

8. SUMMARY FINANCIAL INFORMATION OF UNCONSOLIDATED EQUITY AFFILIATES

Statoil's investment in affiliates includes a 50 per cent interest in Borealis A/S, a petrochemical production company, and included up to July 8, 2004 a 50 per cent interest in Statoil Detaljhandel Skandinavia AS (SDS), a group of retail petroleum service stations. As from July 8, SDS became a subsidiary of Statoil ASA.

Summary of financial information for affiliated companies accounted for by the equity method is shown below. Statoil's investment in these companies is included in Investments in affiliates. Statoil has given a long-term sub-ordinated loan of EUR 30 million to Borealis A/S.

Equity method affiliates - gross amounts

(in NOK million)	Borealis A/S			SDS		
	2004	2003	2002	2004	2003	2002
At December 31,						
Current assets	8,321	7,286	5,909	N/A	2,799	2,798
Non-current assets	17,548	19,085	17,432	N/A	6,787	6,029
Current liabilities	8,502	7,058	6,063	N/A	3,717	3,288
Long-term debt	2,323	6,140	5,787	N/A	1,951	2,488
Other liabilities	2,785	2,375	2,187	N/A	444	0
Net assets	12,259	10,798	9,304	N/A	3,474	3,051
Year ended December 31,						
Gross revenues	38,504	30,936	25,617	13,244	24,615	23,112
Income before taxes	2,205	126	215	60	210	423
Net income	1,689	135	43	46	148	302
Capital expenditures	1,805	1,002	978	237	779	721

No dividends have been received from Borealis for 2004, 2003 and 2002. Statoil received NOK 100 million and NOK 65 million in dividend from SDS in 2004 and 2003, respectively. No dividend has been received from SDS for the year 2002.

Equity method affiliates - detailed information

	Currency	(amounts in million)		Ownership	(amounts in NOK million)	
		Par value	Share capital		Book value	Profit share
Borealis A/S	EUR	268	536	50%	6,129	844
South Caucasus Pipeline Holding Company Limited	USD	182	715	25.5%	1,121	0
Other companies					3,087	363
Total					10,337	1,207

Ownership corresponds to voting rights.

South Caucasus Pipeline Holding Company Limited constructs a gas pipeline from Baku in Azerbaijan to Turkey.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

9. INVESTMENTS

(in NOK million)	At December 31,	
	2004	2003
Short-term deposits	53	1,358
Certificates	9,735	7,848
Bonds	0	35
Liquidity fund	1,662	0
Other	171	73
Total short-term investments	11,621	9,314

The cost price of short-term investments for the years ended December 31, 2004 and 2003 was NOK 11,876 and 9,284 million, respectively. All short-term investments are considered to be trading securities and are recorded at fair value with unrealized gains and losses included in income.

(in NOK million)	At December 31,	
	2004	2003
Shares in other companies	2,206	1,850
Certificates	1,810	2,005
Bonds	2,891	2,291
Marketable equity securities	2,257	1,934
Total long-term investments	9,164	8,080

Included in Shares in other companies is Statoil BTC Caspian AS' investment in 8.71 per cent of the shares in BTC Pipeline Company. The investment had a book value of NOK 1,543 million and NOK 930 million as at year-end 2004 and 2003, respectively.

Investments in bonds

The market value of the groups investments in bonds by debtor category and foreign currency is shown in the following tables:

(in NOK million)	Market value at December 31, 2004
By debtor type	
Government outside Norway	1,238
Central and local government administration	1,302
Banks and credit institutions, Norway	351
Total market value	2,891

(in NOK million)	Market value at December 31, 2004
By currency	
Canadian dollar (CAD)	24
Great British pounds (GBP)	29
US dollar (USD)	477
Euro (EUR)	602
Norwegian kroner (NOK)	1,706
Other	53
Total market value	2,891

The cost price of the investments in bonds amounts to NOK 2,858 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

10. PROPERTY, PLANT AND EQUIPMENT

(in NOK million)	Machinery, equipment and transportation equipment	Production plants oil and gas, incl pipelines	Production plants onshore	Buildings and land	Vessels	Construction in progress	Capitalized exploration expenditures	Total
Cost as at January 1	9,987	231,528	32,790	7,352	682	21,718	3,792	307,849
Accumulated depreciation, depletion and amortization at January 1	(6,639)	(152,769)	(19,370)	(2,453)	(87)	(3)	0	(181,321)
Additions and transfers *	1,438	19,090	7,733	4,525	72	16,112	(628)	48,342
Disposal at booked value	(126)	(265)	(80)	(241)	0	(855)	(9)	(1,576)
Expensed exploration expenditures capitalized earlier years	0	0	0	0	0	0	(110)	(110)
Depreciation, depletion and amortization for the year	(874)	(14,466)	(1,627)	(83)	(74)	0	0	(17,124)
Foreign currency translation	(4)	(923)	(1,059)	(126)	0	(873)	(159)	(3,144)
Balance specified at December 31, 2004	3,782	82,195	18,387	8,974	593	36,099	2,886	152,916
Intangible assets								2,069
Net property, plant, equipment and intangible assets at December 31, 2004								154,985
Estimated useful life (years)	5-10	**	15-20	20-25	20-25			

* Additions and transfers include the effect on property, plant and equipment of Statoil's purchase of 11.24 per cent of the Snøhvit field in 2004, and also reflects Statoil's purchase of 50 per cent of Statoil Detaljhandel Skandinavia AS (SDS).
In addition to amounts reflected in the above table, NOK 0.5 billion of the cost price for SDS has been allocated to goodwill and NOK 0.7 billion to intangible assets, mainly consisting of franchise and merchant agreements. Goodwill and intangible assets are included in Other assets in the Consolidated Balance Sheets. Intangible assets are depreciated in average over 10 years.

** Depreciation according to Unit of production, see note 2.

In 2004, 2003 and 2002, NOK 829 million, NOK 442 million and NOK 382 million, respectively, of interests were capitalized. In addition to depreciation, depletion and amortization specified above intangible assets have been amortized by NOK 335 million in 2004.

Exploration expenditures

(in NOK million)	2004	2003	2002
Incurred during the year	2,466	2,445	2,507
Capitalised share of current year's exploration activity	(748)	(331)	(651)
Expensed, previously capitalised exploration expenditures	110	256	554
Expensed during the year	1,828	2,370	2,410

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Capitalized exploratory drilling expenditures that are pending the booking of proved reserves

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

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

In addition to capitalized signature bonuses and other acquired exploration rights of NOK 609 million, capitalized exploratory drilling expenditures at year-end 2004 consisted of the following capitalized exploratory drilling expenditures that are pending the booking of proved reserves at December 31:

Capitalized exploratory drilling expenditures that are pending the booking of proved reserves December 31, 2004

	Amount in NOK million	Number of wells
Wells in areas requiring major capital expenditures before production can begin, where additional drilling efforts are underway or firmly planned for the near future	798	12
Wells in areas not requiring a major capital expenditure before production can begin, where less than one year has elapsed since the completion of drilling	224	4
Wells in areas requiring major capital expenditures before production can begin, where additional drilling efforts are not underway or firmly planned for the near future;		
Wells awaiting a development decision in 2005	511	10
Wells with economic reserves, development decision planned in near future	206	12
Wells with economic reserves, development decision planned in near future, subject to transportation discussions with government and partners in joint venture	394	5
Wells in areas not requiring major capital expenditures before production can begin, where more than one year has elapsed since the completion of drilling;		
Wells waiting a development decision in 2005		
Completed in 1998	33	1
Wells where final evaluation depend on outcome of wells firmly planned in 2005		
Completed in 2001	59	2
Completed in 2003	52	2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

11. PROVISIONS

Provisions against assets (other than property, plant and equipment and intangible assets) recorded during the past three years are as follows:

(in NOK million)	Balance at January 1,	Expense	Recovery	Write-off	Other 1)	Balance at December 31,
Year 2004						
Provisions against other long-term assets	0	0	0	0	0	0
Provisions against accounts receivable	275	29	(39)	(22)	12	255
Year 2003						
Provisions against other long-term assets	0	0	0	0	0	0
Provisions against accounts receivable	153	59	(5)	(5)	73	275
Year 2002						
Provisions against other long-term assets	16	0	(16)	0	0	0
Provisions against accounts receivable	212	47	(59)	(33)	(14)	153

1) Other is primarily related to provisions for accounts receivable in acquired companies.

12. FINANCIAL ITEMS

(in NOK million)	For the year ended December 31,		
	2004	2003	2002
Dividends received	271	179	457
Gain (loss) on sale of securities	286	205	(228)
Interest and other financial income	775	1,057	1,311
Currency exchange adjustments, short-term items	3,313	76	1,318
Currency exchange adjustments, long-term items	1,718	22	7,691
Interest and other financial expenses	(1,446)	(1,481)	(1,895)
Unrealized gain (loss) on securities	(307)	737	(364)
Capitalized interest	829	442	382
Net financial items	5,439	1,237	8,672

13. INCOME TAXES

The tax expense consists of

(in NOK million)	For the year ended December 31,		
	2004	2003	2002
Current taxes payable	40,419	33,624	33,708
Change in deferred tax 1)	4,888	437	1,538
Change in deferred tax due to new legislation (see note 2)	0	(6,712)	0
Income tax expense	45,307	27,349	35,246
Uplift benefit for the year	3,793	3,738	3,564
Foreign portion of the tax expense	2,592	789	2,723

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Reconciliation of Norwegian nominal statutory tax rate of 28 per cent to effective tax rate

(in NOK million)	For the year ended December 31,		
	2004	2003	2002
Income before tax	70,558	44,702	51,776
Calculated income taxes at statutory rate	19,756	12,517	14,497
Petroleum surtax at statutory rate	27,855	21,758	21,260
Uplift benefits	(1,897)	(1,869)	(1,782)
Other, net	(407)	1,655	1,271
Change in deferred tax due to new legislation (see note 2)	0	(6,712)	0
Income tax expense	45,307	27,349	35,246

1) Due to changes in Norwegian tax legislation in 2004, dividend from companies, with some exceptions, will not be taxable in Norway. Consequently, NOK 1.4 billion in deferred taxes related to retained earnings in subsidiaries and affiliates have been reversed in 2004.

Revenue from oil and gas activities on the NCS is taxed according to the Petroleum tax law. This stipulates a surtax of 50 per cent after deducting uplift, a special investment tax credit, in addition to normal corporate taxation. Uplift credits are deducted as the credits arises, 5 per cent each year for six years, as from initial year of investment. Uplift credits not utilized of NOK 9.9 billion can be carried forward indefinitely.

At the end of 2004, Statoil had tax losses carry forwards of NOK 3.8 billion, primarily in the US and Ireland. Only a minor part of the carry-forward amounts expire before 2019.

Significant components of deferred tax assets and liabilities were as follows

(in NOK million)	At December 31,	
	2004	2003
Net operating loss carry-forwards	1,160	1,612
Decommissioning	10,289	12,203
Other	5,021	4,398
Valuation allowance	(1,923)	(1,775)
Total deferred tax assets	14,547	16,438
Property, plant and equipment	43,045	39,521
Capitalized exploration expenditures and interest	8,367	8,236
Other	7,768	6,629
Total deferred tax liabilities	59,180	54,386
Net deferred income tax	44,633	37,948

A valuation allowance has been provided as Statoil believes that available evidence creates sufficient uncertainty as to the realizability of certain deferred tax assets. Statoil will continue to assess the valuation allowance and to the extent it is determined that such allowance is no longer required, the tax benefit of the remaining net deferred tax assets will be recognized in the future.

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Income taxes payable in the balance sheet consists of the following

(in NOK million)	At December 31, 2004
Current taxes payable	40,419
Taxes paid in instalments	(21,203)
Other	(99)
Income taxes payable	19,117

The movement in deferred income tax liability can be specified as follows

(in NOK million)	2004
Deferred income tax liability at January 1	37,948
Charged to the income statement	4,888
Acquisitions, sales and other	1,797
Deferred income tax liability at December 31	44,633

14. SHORT-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31,	
	2004	2003
Bank loans and overdraft facilities	1,541	1,071
Current portion of long-term debt	2,971	3,168
Margin call	3,001	1,758
Other	218	48
Total	7,731	6,045
Weighted average interest rate (per cent)	2.78	3.23

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

15. LONG-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31,	
	2004	2003
Unsecured debentures bonds		
US dollar (USD)	23,379	24,835
Euro (EUR)	255	768
Other currencies	11	19
Total	23,645	25,622
Unsecured bank loans		
US dollar (USD)	2,108	3,018
Secured bank loans		
US dollar (USD)	3,332	2,638
Other currencies	13	26
Other debt	355	639
Grand total debt outstanding	29,453	31,943
Less current portion	(2,971)	(3,168)
Total long-term debt	26,482	28,775
Weighted average interest rate (per cent)	4.68	3.87

Statoil has an unsecured debenture bond agreement for USD 500 million with a fixed interest rate of 6.5 per cent, maturing in 2028, callable at par upon change in tax law. At December 31, 2004 and 2003, NOK 2,981 million and NOK 3,293 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for EUR 500 million, with a fixed interest rate of 5.125 per cent, maturing in 2011. At December 31, 2004 and 2003, NOK 4,081 million and NOK 4,166 million were outstanding, respectively. This bond has been swapped to USD dollars with a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for USD 375 million, with a fixed interest rate of 5.75 per cent, maturing in 2009. At December 31, 2004 and 2003, NOK 2,252 million and NOK 2,486 million were outstanding, respectively. Net after buyback this amounts to NOK 1,955 million and NOK 2,156 million at year-end exchange rates.

In 2004 Statoil issued USD 500 million of unsecured bonds with a fixed interest rate of 5.125 per cent maturing in 2014. At December 31, 2004 NOK 3,017 million were outstanding. The interest rate has been swapped to a LIBOR-based floating interest rate.

Statoil utilizes currency swaps to manage foreign exchange risk on its long-term debt. The swaps are reflected in the table above. The stated interest rate on the majority of the long-term loans are fixed. Interest rate swaps are utilized to manage interest rate exposure.

Substantially all unsecured debenture bond and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders.

Statoil's secured bankloans in USD have been secured by guarantee commitments amounting to USD 108 million, mortgage in shares in a subsidiary and investments in other companies with a combined book value of NOK 2,878 million, a bank deposit with a book value of NOK 1,346 million, and Statoil's pro-rata share of income from certain applicable projects.

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Statoil has 23 debenture bond agreements outstanding, which contain provisions allowing Statoil to call the debt prior to its final redemption at par if there are changes to the Norwegian tax laws or at certain specified premiums. The agreements are, net after buyback, at the December 31, 2004 closing rate valued at NOK 24,760 million.

Reimbursements of long-term debt fall due as follows:

(in NOK million)	
2005	2,971
2006	1,111
2007	1,716
2008	1,748
2009	2,973
Thereafter	18,934
Total	29,453

Statoil has an agreement with an international bank syndicate for committed long-term revolving credit facility totalling USD 2.0 billion, all undrawn. Commitment fee is 0.058 per cent per annum.

As of December 31, 2004 and 2003 respectively, Statoil had no committed short-term credit facilities available or drawn.

16. FINANCIAL INSTRUMENTS AND DERIVATIVES

Statoil uses derivative financial instruments to manage risks resulting from fluctuations in underlying interest rates, foreign currency exchange rates and commodity (such as oil, natural gas and refined petroleum products) prices. Because Statoil operates in the international oil and gas markets and has significant financing requirements, it has exposure to these risks, which can affect the cost of operating, investing and financing. Statoil has used and intends to use financial and commodity-based derivative contracts to reduce the risks in overall earnings and cash flows. Derivative instruments creating essentially equal and offsetting market exposures are used to help manage certain of these risks. Management also uses derivatives to establish certain positions based on market movements although this activity is immaterial to the consolidated financial statements.

Interest and currency risks constitute significant financial risks for the Statoil group. Total exposure is managed at portfolio level in accordance with the strategies and mandates issued by the Enterprise-Wide Risk Management Program and monitored by the Corporate Risk Committee. Statoil's interest rate exposure is mainly associated with the group's debt obligations and management of the assets in Statoil Forsikring AS. Statoil mainly employs interest rate swap and currency swap agreements to manage interest rate and currency exposure.

Statoil uses swaps, options, futures, and forwards to manage its exposure to changes in the value of future cash flows from future purchases and sales of crude oil and refined oil products. The term of the oil and refined oil products derivatives is usually less than one year. Natural gas and electricity swaps, options, forwards, and futures are likewise utilized to manage Statoil's exposure to changes in the value of future sales of natural gas and electricity. These derivatives usually have terms of approximately three years or less. Most of the derivative transactions are made in the over-the-counter (OTC) market.

Fair Value of Financial Instruments

The following table contains estimated fair values of financial derivative instruments and estimated fair value of long-term debts. Commodity contracts capable of being settled by delivery of commodities (oil & oil products, natural gas, electricity) are excluded from the summary.

(in NOK million)	Net fair market value at December 31,	
	2004	2003
Debt-related instruments	5,011	4,200
Non-debt-related instruments	1,967	351
Long-term fixed interest debt	(27,702)	(29,188)
Crude oil and Refined products	694	36
Gas and Electricity	(45)	50

Fair values are estimated using quoted market prices, estimates obtained from brokers, prices of comparable instruments, and other appropriate valuation techniques. The fair value estimates approximate the gain or loss that would have been realized if the contracts had been closed out at year-end, although actual results could vary due to assumptions utilized.

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Credit risk management

Statoil manages credit risk concentration with respect to financial instruments by holding only investment grade securities distributed among a variety of selected issuers. A list of authorized investment limits by commercial issuer is maintained and reviewed regularly along with guidelines which include an assessment of the financial position of counter-parties as well as requirements for collateral. As at year-end 2004, we had called and received a total of NOK 3 billion in cash as collateral for unrealized gains on OTC derivatives.

Credit risk related to commodity-based instruments is likewise managed by maintaining, reviewing and updating lists of authorized counterparties by assessing their financial position and requiring collateral when appropriate.

The credit risk concentration with respect to receivables is limited due to the large number of counter-parties spread worldwide in numerous industries.

The credit risk from Statoil's OTC derivative contracts derives from the counter-party to the transaction, typically a major bank or financial institution, a major oil company or a trading company. Statoil does not anticipate non-performance by any of these counter-parties, and no material loss would be expected from any such unexpected non-performance. The following table contains the fair market value of OTC commodity and financial derivative assets, net of netting agreements and collateral as at December 31, 2004, split by our assessment of the counter-party's credit risk:

(in NOK million)	Fair Market Value
Counter-party rated	
Investment grade, rated A or above	4,724
Other investment grade	167
Non investment grade or not rated	250

Futures contracts and exchange-traded options have a negligible credit risk as they are principally traded on the New York Mercantile Exchange or the International Petroleum Exchange of London.

Consequently, Statoil does not consider itself exposed to a significant concentration of credit risk.

Quantitative and Qualitative Disclosure about Market Risk

Statoil has established an Enterprise-Wide Risk Management Program that establishes guidelines for entering into contractual arrangements (derivatives) to manage its commodity price, foreign currency rate, and interest rate risk. Our Corporate Risk Committee meets on a regular basis to review the existing policies and implementation of the guidelines. These procedures establish control over the use of derivatives, routine monitoring and reporting requirements, as well as counter-party credit approval processes.

Commodity Risk

The following table contains the fair market value and related price risk sensitivity of our commodity based derivatives:

(in NOK million)	Net fair market value	10% Sensitivity
At December 31, 2004		
Crude oil and Refined products	636	508
Gas and Electricity	(14)	7
At December 31, 2003		
Crude oil and Refined products	43	21
Gas and Electricity	83	38

Price risk sensitivities for 2004 and 2003 were calculated by assuming a hypothetical across-the-board 10 per cent adverse change in all commodity prices regardless of the term or historical relationships between the contractual price of the instrument and the underlying commodity prices. In the event of an actual 10 per cent change in all underlying prices, the change in the fair value of the derivative portfolio at the two respective year-ends would typically be different from that shown above due to expected correlations between risk categories. In addition, there would be expected offsetting effects from changes in the fair value of our corresponding physical positions, contracts and anticipated transactions, which are not required to be recorded at market, and which are not reflected in the above table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

The fair market values of the futures and exchange traded option contracts are based on quoted market prices obtained from the New York Mercantile Exchange or the International Petroleum Exchange of London. The fair values of swaps and other over-the-counter arrangements are estimated based on quoted market prices, estimates obtained from brokers and other appropriate valuation techniques. The fair value estimates approximate the gain or loss that would have been realized if the contracts had been closed out at year-end, although actual results could vary due to certain assumptions used.

The following table contains the net fair market value of non-exchange traded (i.e., over-the-counter) commodity and financial derivatives as at December 31, 2004, based on maturity of contracts and the source of determining the fair market value of contracts, respectively:

(in NOK million)	Maturity less than 1 year	Maturity 1 – 3 years	Maturity 4-5 years	Maturity in excess of 5 years	Total net fair value
Commodity based derivatives					
Prices actively quoted	54	4	0	0	58
Prices provided by other external sources	291	43	6	2	342
Prices based on models or other valuation techniques	0	0	0	0	0
Total commodity based derivatives	345	47	6	2	400
Financial derivatives					
Prices actively quoted	2,405	1,026	401	3,146	6,978
Prices provided by other external sources	0	0	0	0	0
Prices based on models or other valuation techniques	0	0	0	0	0
Total financial derivatives	2,405	1,026	401	3,146	6,978

In the above table, other external sources for commodities mainly relate to broker quotes. The fair market values of interest and currency swaps and other financial derivatives are computed internally by means of standard financial system models and based consistently on quoted market yield and currency curves.

The following table contains a reconciliation of changes in the fair market values of all commodity and financial derivatives, including exchange traded derivatives in the books at either December 31, 2004, or December 31, 2003, net of margin calls. Derivatives entered into and subsequently terminated during the course of the year 2004 have not been included in the table:

(in NOK million)	Commodity derivatives	Financial derivatives
Net fair value of derivative contracts outstanding as at December 31, 2003	126	4,551
Contracts realized or settled during the period	(91)	(783)
Fair value of new contracts entered into during the period	607	2,000
Changes in fair value attributable to changes in valuation techniques or assumptions	0	1,210
Other changes in fair values	(19)	0
Net fair value of derivative contracts outstanding as at December 31, 2004	623	6,978

Interest and Currency Risk

The estimated loss associated with a 10 per cent adverse change in Norwegian kroner currency rates would result in a loss of fair value of approximately NOK 5.3 billion and NOK 3.9 billion as of December 31, 2004 and 2003 respectively. A hypothetical one percentage point adverse change in interest rates would result in a loss of NOK 0.3 billion and NOK 0.4 billion related to interest bearing liabilities, investments in debt securities and related financial instruments as of December 31, 2004 and 2003 respectively. These estimated currency and interest rate sensitivities are based on an uncorrelated loss scenario and actual results could vary due to assumptions used and offsetting account correlations not reflected within this analysis.

Statoil's cash flows are largely in US dollars and euro but also significant amounts in Norwegian kroner, Swedish kroner, Danish kroner and UK pounds sterling. The currencies in the debt portfolio are managed in connection with our expected future net cash flows per currency. Statoil's debt, after considering currency swaps, is mainly in US dollars.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Equity Securities

Equity securities, mainly of the portfolio for Statoil Forsikring AS, are recorded at fair value and have exposure to price risk. The fair value of equity securities is based on quoted market prices. Risk is estimated as the potential loss in fair value resulting from a hypothetical 10 per cent adverse change in quoted market prices. Actual results may vary due to assumptions utilized and other risk correlations.

Fair values

(in NOK million)	At December 31,	
	2004	2003
Equity securities	2,257	1,934
10 per cent change in share prices	226	193

17. EMPLOYEE RETIREMENT PLANS

Pension benefits

Statoil and many of its subsidiaries have defined benefit retirement plans, which cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution plans.

Net periodic pension cost

(in NOK million)	For the year ended December 31,		
	2004	2003	2002
Benefit earned during the year	1,062	849	738
Interest cost on prior years' benefit obligation	938	791	719
Expected return on plan assets	(902)	(843)	(856)
Amortization of loss	175	54	34
Amortization of prior service cost	34	34	37
Defined benefit plans	1,307	885	672
Defined contribution plans	34	27	19
Multiemployer plans	0	0	4
Total net pension cost	1,341	912	695

Change in projected benefit obligation (PBO)

(in NOK million)	2004	2003
Projected benefit obligation at January 1	17,642	13,025
Benefits earned during the year	1,062	849
Interest cost on prior years' benefit obligation	938	791
Actuarial loss (gain)	(388)	3,310
Benefits paid	(350)	(332)
Acquisitions	117	(95)
Foreign currency translation	0	94
Projected benefit obligation at December 31	19,021	17,642

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Change in pension plan assets

(in NOK million)	2004	2003
Fair value of plan assets at January 1	15,143	12,480
Actual return on plan assets	1,157	1,684
Company contributions*	1,154	1,129
Benefits paid	(188)	(169)
Acquisitions	53	(61)
Foreign currency translation	0	80
Fair value of plan assets at December 31	17,319	15,143

* Include paid-up policies transferred from external companies

Status of pension plans reconciled to Consolidated Balance Sheets

(in NOK million)	2004	2003
Defined benefit plans		
Funded status of the plans at December 31	(1,702)	(2,499)
Unrecognized net loss	2,685	4,248
Unrecognized prior service cost	295	329
Total net prepaid pension recognized at December 31	1,278	2,078

Amounts recognized in the Consolidated Balance Sheets:

(in NOK million)	2004	2003
Prepaid pension at December 31	4,633	4,881
Accrued pension liabilities	(3,355)	(2,803)
Net amount recognized at December 31	1,278	2,078

Weighted-average assumptions for the year ended (Profit and Loss items)

	2004	2003
Discount rate	5.5%	6.0%
Expected return on plan assets	6.0%	6.5%
Rate of compensation increase	3.5%	3.0%

Weighted-average assumptions at end of year (Balance sheet items)

	2004	2003
Discount rate	5.5%	5.5%
Expected return on plan assets	6.5%	6.0%
Rate of compensation increase	3.5%	3.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

18. DECOMMISSIONING AND REMOVAL LIABILITIES

The asset retirement obligation (ARO) is related to future well closure-, decommissioning- and removal costs. The accretion expense is classified as Operating expenses.

(in NOK million)	2004	2003
Asset retirement obligation at January 1	16,494	15,049
Liabilities incurred/revision in estimates	1,515	962
Accretion expense	771	539
Disposals	(22)	0
Incurred removal cost	(89)	(56)
Currency exchange adjustments	(67)	0
Asset retirement obligation at December 31	18,602	16,494
Long-lived assets related to ARO at January 1	2,757	2,451
Net assets incurred/revision in estimates	1,470	962
Depreciation	(821)	(656)
Currency exchange adjustments	(18)	0
Long-lived assets related to ARO at December 31	3,388	2,757

19. RESEARCH AND DEVELOPMENT EXPENDITURES

Research and Development (R&D) expenditures were NOK 1,027 million, NOK 1,004 million and NOK 736 million in 2004, 2003 and 2002, respectively. R&D expenditures are partly financed by partners of Statoil-operated activities.

20. LEASES

Statoil leases certain assets, notably shipping vessels and drilling rigs.

In 2004, rental expense was NOK 4,367 million. In 2003 and 2002 rental expenses were NOK 4,893 and NOK 5,595 million, respectively.

The information in the table below shows future minimum lease payments under non-cancelable leases at December 31, 2004. In addition, Statoil has entered into subleases of certain assets amounting to a total future rental income of NOK 1,603 million, of which NOK 557 for 2005.

Statoil has entered into a number of general or field specific long-term frame agreements mainly related to loading and transport of crude oil. The main contracts expire in 2007 or later, up until the end of the respective field lives. Such contracts are not included in the below table of future lease payments unless they entail specific minimum payment obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

Amounts related to capital leases include future lease payments for assets in the books at year-end 2004.

(in NOK million)	Operating leases	Capital leases
2005	3,381	44
2006	1,841	33
2007	838	25
2008	748	6
2009	679	4
Thereafter	3,893	9
Total future lease payments	11,380	121
Interest component		(17)
Net present value		104

Property, plant and equipment include the following amounts for leases that have been capitalized at December 31, 2004 and 2003.

(in NOK million)	At December 31,	
	2004	2003
Vessels and equipment	190	119
Accumulated depreciation	(97)	(86)
Capitalized amounts	93	33

21. OTHER COMMITMENTS AND CONTINGENCIES

Contractual commitments

(in NOK million)	In 2005	Thereafter	Total
Contractual commitments related to investments and property, plant and equipment	13,203	7,551	20,754

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

Statoil has entered into agreements for pipeline transportation for most of its prospective gas sale contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to pay for booked capacity. In addition the group has entered into certain obligations for entry capacity fees and terminal, processing, storage and vessel transport capacity commitments. The following table outlines nominal minimum obligations for future years. Corresponding expense for 2004 was NOK 3,701 million. Obligations payable by the group to unconsolidated equity affiliates are included gross in the table below. Where the group however reflects both ownership interests and transport capacity cost for a pipeline in the consolidated accounts, the amounts in the table include the transport commitments that exceed Statoil's ownership share.

Transport capacity and other obligations at December 31, 2004:

(in NOK million)	
2005	4,222
2006	4,289
2007	4,066
2008	4,117
2009	3,945
Thereafter	27,556
Total	48,195

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

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

Guarantees

In 2004 Statoil, as an owner in BTC Co Ltd, has entered into guarantee commitments for financing of the development of the BTC pipeline. At year-end 2004 these guarantee commitments amount to USD 110 million (NOK 0.66 billion).

Statoil Detaljhandel Skandinavia has issued guarantees amounting to a total of NOK 0.5 billion at year-end 2004, the main part of which relates to guarantee commitments to retailers.

The group has in addition provided other guarantees for a total of NOK 66 million for contractual commitments at year-end 2004.

Contingent liabilities and insurance

Like any other licensee, Statoil has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. The Company has taken out insurance to cover this liability up to about USD 0.8 billion (NOK 4.8 billion) for each incident, including liability for claims arising from pollution damage. Most of the group's production installations are covered through Statoil Forsikring a.s, which reinsures a major part of the risk in the international insurance market. About 29 per cent is retained.

Statoil Forsikring a.s is a member of two mutual insurance companies, Oil Insurance Ltd and sEnergy Insurance Ltd. Membership of these companies means that Statoil Forsikring is liable for its proportionate share of any losses which might arise in connection with the business operations of the companies. Members of the companies have joint and several liability for any losses that arise to the pool.

Other commitments and contingencies

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

During the normal course of its business Statoil is involved in legal proceedings, and several unresolved claims are currently outstanding. The ultimate liability in respect of litigation and claims cannot be determined at this time. Statoil has provided in its accounts for these items based on the Company's best judgment. Statoil does not expect that either the financial position, results of operations nor cash flows will be materially adversely affected by the resolution of these legal proceedings.

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has conducted an investigation concerning an agreement which Statoil entered into in 2002 with Horton Investments Ltd for consultancy services in Iran. On June 28, 2004 Økokrim informed Statoil that it had concluded that Statoil violated section 276c, first paragraph (b) of the Norwegian Penal Code, which became effective from July 4, 2003 and prohibits conferring on or offering to a middleman an improper advantage in return for exercising his influence with a decision-maker, without the decision-maker receiving any advantage, and imposed a penalty on Statoil of NOK 20 million. The Board of Statoil ASA decided on October 14, 2004 to accept the penalty without admitting or denying the charges by Økokrim.

The U.S. Securities and Exchange Commission (SEC) is also conducting a formal investigation into the Horton consultancy arrangement to determine if there have been any violations of U.S. federal securities laws, including the Foreign Corrupt Practices Act. The U.S. Department of Justice is conducting a criminal investigation of the Horton matter jointly with the Office of the United States Attorney for the Southern District of New York. The SEC Staff informed Statoil on September 24, 2004 that it is considering recommending that the SEC authorize a civil enforcement action in federal court against Statoil for violations of various U.S. federal securities laws, including the anti-bribery and books and records provisions of the Foreign Corrupt Practices Act. Statoil is continuing to provide information to the U.S. authorities to assist them in their ongoing investigations.

Iranian authorities have been carrying out inquiries into the matter. In April 2004 the Iranian Consultative Assembly initiated an official probe into allegations of corruption in connection with the Horton matter with Iran. The probe was finalized for the parliamentary session at the end of May. It was reported in the international press that at such time no evidence of wrongdoing by the subjects of the probe in Iran had been revealed by the probe.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

22. RELATED PARTIES

Total purchases of oil and natural gas liquid from the Norwegian State amounted to NOK 81,487 million (319 million barrels oil equivalents), NOK 68,479 million (336 million barrels oil equivalents), and NOK 72,298 million (374 million barrels oil equivalents), in 2004, 2003 and 2002, respectively. Purchases of natural gas from Norwegian State amounted to NOK 237 million, NOK 255 million and NOK 119 million in 2004, 2003 and 2002, respectively. Amounts payable to the Norwegian State for these purchases are included as Accounts payable - related parties in the Consolidated Balance Sheets. The prices paid by Statoil for the purchased from the Norwegian State are estimated market prices.

Statoil is, in its own name, but for the Norwegian State's account and risk, selling the State's natural gas production. This sale, as well as related expenditures refunded by the State, is shown net in Statoil's Financial Statements. Refunds include expenses incurred related to activities and investments necessary to obtain market access and to optimize the profit from sale of natural gas.

23. EQUITY AND SHAREHOLDERS

Change in equity

(in NOK million)	2004	2003
Shareholders' equity January 1	66,074	52,583
Net income	24,746	17,064
Ordinary dividend	(11,481)	(6,390)
Change in minority interest	133	(67)
Settlement with the Norwegian state related to SDFI properties (see note 1)	(458)	0
Treasury shares bought	(1)	0
Value of stock compensation plan	3	0
Foreign currency translation adjustment	(3,106)	2,884
Shareholders' equity December 31	75,910	66,074

For more information regarding equity and shareholders see note 23 to the Financial Statements for the parent company Statoil ASA.

24. AUDITORS' REMUNERATION

(in NOK million)	For the year ended December 31,	
	2004	2003
Audit fees	23.8	27.0
Audit-related fees	4.5	2.8
Tax fees	5.1	14.5
All other fees	0	0.9
Total	33.4	45.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

25. REMUNERATION

Payroll costs are included in Operating expenses and Selling, general and administrative expenses as follows:

(in NOK million, except number of employees)	For the year ended December 31, 2004
Salaries	9,717
Payroll taxes	1,627
Other social benefits (included pension cost)	2,316
Total payroll costs	13,660
Average number of work-years	19,929

Payroll costs are partly charged to partners of Statoil-operated activities.

Statoil Detaljhandel Group is included in salary and work-years for half a year.

26. STOCK-BASED COMPENSATION

In 2004 Statoil introduced a Share Saving Plan for all permanent Statoil employees both in full and part time positions. Because of differences in legal and tax regulations between participating jurisdictions, and with the need for specific technical solutions for the Share Saving Plan, the program will be launched at different times in the different countries/companies within the Statoil Group. As of December 31, 2004 only some of the companies in the group have launched the program. Thirty per cent of all employees in the group participate in the program as of December 31, 2004.

Statoil's Share Saving Plan gives the employees the opportunity to purchase Statoil shares through monthly salary deduction. The employees may save up to five per cent of their annual gross salary. Statoil will, for employees in some of the companies in the group, give a contribution to the employees of 20 per cent of the saved amount, at a maximum of NOK 1,500 per employee per year. Terms may vary between participating entities in the group.

If the shares are kept for two full calendar years of continued employment the employees will be allocated one bonus share for each two they have bought. The same kind of allocation is planned to be carried out for future yearly programs.

Due to uncertainty with respect to future share prices, the number of shares to be purchased by employees under the programs is unknown. Consequently, the number of bonus shares to be purchased by Statoil must be estimated in connection with the valuation of the cost of the program. The fair value of the bonus shares is estimated at the date of grant using a one-factor capital asset pricing model with adjustments for dividend payments assumed according to the corporate dividend policy in the vesting period.

Significant assumptions for 2004 used in connection with estimating the fair value are shown in the table below.

Risk free interest rate	2.5%
Risk premium	5.5%
Beta	1.0
Expected return/discount rate	8.0%

The model requires the input of highly subjective assumptions. Because changes in the subjective input assumptions can affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of fair value of Statoil's Share Saving plan.

The basis for purchases of bonus shares is the combined amount of salary deductions and Statoil contributions. For the 2004 and 2005 programs (granted in 2004), this amounts to NOK 54 and NOK 111 million, respectively.

Estimated compensation cost including contribution and social security related to the 2004 and 2005 program for Statoil amounts to NOK 35 million and NOK 65 million respectively. At December 31, 2004 the amount of compensation cost yet to be expensed throughout the vesting period is NOK 91 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

27. RECONCILIATION BETWEEN USGAAP AND NGAAP

The consolidated financial statements of Statoil are prepared in accordance with Norwegian generally accepted accounting principles (NGAAP). The following tables reconcile the NGAAP accounts to United States generally accepted accounting principles (USGAAP):

(in NOK million)	2004	2003	2002
Net income for the year per USGAAP	24,916	16,554	16,846
a) Inventory adjustment, from LIFO to FIFO, before tax	556	(101)	32
b) Other adjustments, before tax	(844)	513	643
c) Tax impact of the above adjustments, and other tax adjustments	118	98	(1,144)
Net income for the year per NGAAP	24,746	17,064	16,377
At December 31,			
Shareholders' equity per USGAAP	85,030	70,174	57,017
Minority interests per USGAAP	1,616	1,483	1,550
a) Inventory adjustment, from LIFO to FIFO, before tax	1,290	734	835
b) Other adjustments, before tax	(395)	452	51
c) Tax impact of the above adjustments, and other tax adjustments	(375)	(496)	(706)
d) Change in minimum pension obligations and derivatives (after tax) deferred as other comprehensive income	225	117	118
e) Accrued dividends payable	(11,481)	(6,390)	(6,282)
Shareholders' equity per NGAAP	75,910	66,074	52,583

- a) Per NGAAP the inventories are valued using the FIFO principle. Under USGAAP the inventory is partly valued using LIFO.
- b) Other adjustment is mainly unrealized gains on commodity trading. Other adjustments in earlier periods also include the excess value over book value pertaining to the acquisition of the minority interests in Navion. Under USGAAP this excess value was reflected as additions to fixed assets and under NGAAP it was recorded to equity. The sale of Navion reflects a corresponding larger gain of NOK 634 million in the 2003 NGAAP accounts.
- c) Changes in deferred tax expense and deferred tax liability primarily consist of taxes on the above adjustments.
- d) Other adjustments include certain gains and losses regarding pensions and unrealized gains and losses on hedge positions subject to special accounting which are recognized directly against equity under USGAAP.
- e) Per NGAAP dividends relating to current year's net income is reflected as a liability as of year-end. Under USGAAP dividends are not accrued until approved by the shareholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – NGAAP

28. OIL AND GAS RESERVES (UNAUDITED)

(Oil and NGL in million barrels) (Gas in billion cubic meters)	Oil and NGL			Gas			Reserves in million barrels oil equivalents
	Norway	Outside Norway	Total	Norway	Outside Norway	Total	
2002							
Proved reserves January 1	1,398	565	1,963	360.3	7.6	367.9	4,277
Revisions and improved recovery	108	(25)	83	6.7	0.0	6.7	125
Extensions and discoveries	31	73	104	26.7	0.0	26.7	272
Purchase of reserves-in-place	4	0	4	1.0	0.0	1.0	10
Sales of reserves-in-place	(13)	(2)	(16)	(2.1)	0.0	(2.1)	(29)
Production	(242)	(29)	(271)	(18.3)	(0.3)	(18.6)	(388)
Proved reserves December 31	1,286	580	1,867	374.4	7.2	381.6	4,267
Proved developed reserves	919	137	1,056	264.1	0.8	264.9	2,722
2003							
Proved reserves January 1	1,286	580	1,867	374.4	7.2	381.6	4,267
Revisions and improved recovery	110	41	151	8.8	0.0	8.8	206
Extensions and discoveries	27	15	43	14.2	8.6	22.8	186
Purchase of reserves-in-place	0	0	0	0.0	0.0	0.0	0
Sales of reserves-in-place	0	0	0	0.0	0.0	0.0	0
Production	(239)	(31)	(271)	(19.7)	(0.2)	(19.8)	(395)
Proved reserves December 31	1,184	605	1,789	377.7	15.7	393.4	4,264
Proved developed reserves	876	163	1,039	271.4	0.7	272.1	2,751
2004							
Proved reserves January 1	1,184	605	1,789	377.7	15.7	393.4	4,264
Revisions and improved recovery	111	(4)	107	(0.3)	9.5	9.2	165
Extensions and discoveries	23	20	44	0.4	0.0	0.4	46
Purchase of reserves-in-place	10	47	57	13.5	16.5	30.0	246
Sales of reserves-in-place	(13)	0	(13)	(2.5)	0.0	(2.5)	(29)
Production	(226)	(37)	(263)	(21.3)	(0.9)	(22.1)	(402)
Proved reserves December 31	1,089	632	1,720	367.6	40.7	408.4	4,289
Proved developed reserves	782	170	952	263.9	6.6	270.5	2,654

The totals in the table may not equal the sum of the amounts due to rounding differences.

Statoil's oil and gas reserves have been estimated by the Company's experts in accordance with industry standards under the requirements of the United States Securities and Exchange Commission (SEC). Reserves are net of royalty oil paid in kind (Norway), and quantities consumed during production. Proved oil and gas reserves are the estimated volumes of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under prevailing economic and operating conditions.

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

The principles for booking of proved gas reserves are limited to include contracted gas sales and gas with access to a market. New sales on the Norwegian continental shelf are booked as Extensions and discoveries.

In 2002, Statoil entered into a buy-back contract in Iran. Statoil also participates in a number of production sharing agreements (PSA). Reserves from such agreements are based on the volumes to which Statoil has access (cost oil and profit oil), limited to available market access.

Statoil is booking as proved reserves volumes equivalent to our tax liabilities payable in-kind under negotiated fiscal arrangements (production sharing agreements or income sharing agreements).

Statoil ASA – NGAAP

STATEMENTS OF INCOME STATOIL ASA - NGAAP

(in NOK million)	Note	For the year ended December 31,	
		2004	2003
REVENUES			
Sales		272,780	218,970
Equity in net income of subsidiaries	8	8,118	4,737
Equity in net income of affiliates	8	111	300
Other income	4	886	658
Total revenues		281,895	224,665
EXPENSES			
Cost of goods sold		(175,762)	(134,909)
Operating expenses	3	(24,959)	(23,191)
Selling, general and administrative expenses	3	(2,760)	(2,972)
Depreciation, depletion and amortization	10	(13,458)	(13,037)
Exploration expenses	10	(1,102)	(1,656)
Total expenses before financial items		(218,041)	(175,765)
Income before financial items, other items and income taxes		63,854	48,900
Net financial items	12	5,379	48
Other items	2	0	(6,025)
Income before income taxes		69,233	42,923
Income taxes	13	(44,487)	(25,859)
Net income		24,746	17,064
Allocations			
Group Contribution		2,640	915
Tax on group contribution		(739)	(256)
Dividend		11,481	6,390
Change in Reserve for valuation variances		(1,286)	3,637

BALANCE SHEETS STATOIL ASA - NGAAP

(in NOK million)	Note	At December 31,	
		2004	2003
ASSETS			
Net property, plant and equipment	10	97,372	90,161
Other long-term receivables	17, 22	4,760	4,951
Long-term receivables from subsidiaries		0	458
Long-term investments	8	77	310
Investments in subsidiaries	8	90,343	69,980
Investments in affiliates	8	1,288	2,566
Total non-current assets		193,840	168,426
Inventories	7	3,231	2,439
Accounts receivable	11	20,427	20,823
Accounts receivable - related parties	22	76	150
Short-term receivables from subsidiaries		5,078	4,252
Prepaid expenses and other current assets	17	4,465	2,665
Total inventories and accounts receivables		33,277	30,329
Short-term investments	9	11,457	9,196
Cash and cash equivalents	1	1,162	3,020
Cash, cash equivalents and short-term investments		12,619	12,216
Total current assets		45,896	42,545
TOTAL ASSETS		239,736	210,971

BALANCE SHEETS STATOIL ASA - NGAAP

(in NOK million)	Note	At December 31,	
		2004	2003
EQUITY AND LIABILITIES			
Common stock (NOK 2.50 nominal value), 2,189,585,600 shares authorized and issued		5,474	5,474
Treasury shares, 23,452,876 shares and 23,441,885 shares	25	(60)	(59)
Additional paid-in capital		12,421	12,418
Paid-in capital		17,835	17,833
Reserve for valuation variances		2,351	3,637
Retained earnings		54,108	43,121
Total equity	23	74,294	64,591
Deferred income taxes	13	37,295	31,037
Other liabilities	17, 18	21,866	18,015
Long-term debt to subsidiaries		2,056	4,628
Long-term debt	15	21,938	24,103
Total long-term liabilities		83,155	77,783
Short-term debt	14	6,777	4,797
Accounts payable		18,973	13,921
Accounts payable - related parties	22	552	6,049
Short-term payable to subsidiaries		19,358	14,130
Withheld, excise and other taxes		1,699	1,914
Income taxes payable	13	18,619	17,166
Accrued liabilities		4,828	4,230
Dividend payable		11,481	6,390
Total current liabilities		82,287	68,597
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		239,736	210,971

STATEMENTS OF CASH FLOW STATOIL ASA - NGAAP

(in NOK million)	For the year ended December 31,	
	2004	2003
OPERATING ACTIVITIES		
Net income	24,746	17,064
<u>Adjustments to reconcile net income to net cash flows provided by operating activities:</u>		
Depreciation, depletion and amortization	13,458	13,037
Exploration expenditures written off	61	256
(Gains) losses on foreign currency transactions	(1,892)	(606)
Deferred taxes	5,012	(7,026)
(Gains) losses on sales of assets and other items	(3,752)	803
<u>Changes in working capital (other than cash):</u>		
• (Increase) decrease in inventories	(792)	804
• (Increase) decrease in accounts receivable	(356)	12,751
• (Increase) decrease in prepaid expenses and other current assets	(2,798)	(1,411)
• (Increase) decrease in short-term investments	(2,261)	(7,540)
• Increase (decrease) in accounts payable	(1,343)	(5,817)
• Increase (decrease) in other payables	4,940	6,852
• Increase (decrease) in taxes payable	2,192	(751)
Increase (decrease) in other non-current obligations	1,810	1,147
Cash flows provided by operating activities	39,025	29,563
INVESTING ACTIVITIES		
Net cash flows used in investing activities	(32,549)	(18,764)
FINANCING ACTIVITIES		
New long-term borrowings	3,461	3,201
Repayment of long-term borrowings	(7,021)	(2,695)
Ordinary dividend paid	(6,390)	(6,282)
Net short-term borrowings, bank overdrafts and other	1,616	(2,227)
Cash flows used in financing activities	(8,334)	(8,003)
Net increase (decrease) in cash and cash equivalents	(1,858)	2,796
Cash and cash equivalents at the beginning of the year	3,020	224
Cash and cash equivalents at the end of the year	1,162	3,020
Interest paid	933	1,134
Taxes paid	37,135	33,379

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

1. ORGANIZATION AND BASIS OF PRESENTATION

Statoil ASA was founded in 1972, as a 100 per cent Norwegian State-owned company. Statoil's business consists principally of the exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products. In 1985, the Norwegian State transferred certain properties from Statoil to the State's direct financial interest (SDFI), which were also 100 per cent owned by the Norwegian State.

In conjunction with a partial privatization of Statoil in June 2001, the Norwegian State restructured its holdings in oil and gas properties on the Norwegian Continental Shelf. In this restructuring, the Norwegian State transferred to Statoil certain SDFI properties with a book value of approximately NOK 30 billion, in consideration for which NOK 38.6 billion in cash plus interest and currency fluctuation from the valuation date of NOK 2.2 billion (NOK 0.7 billion after tax), and certain pipeline and other assets with a net book value of NOK 1.5 billion were transferred to the Norwegian State. The transaction was completed June 1, 2001 with a valuation date of January 1, 2001 with the exception of the sale of an interest in the Mongstad terminal which had a valuation date of June 1, 2001.

The total amount paid to the Norwegian State was financed through a public offering of shares of NOK 12.9 billion, issuance of new debt of NOK 9 billion and the remainder from existing cash and short-term borrowings.

The transfer of properties from SDFI has been accounted for as transactions among entities under common control and the results of operations and financial position have been, with effect from June 1, 2001, accounted for at historical cost. The net book values of the acquired oil and gas properties, and the cash settlement, have been reported as capital contribution and dividend, respectively. The final cash settlement is under review by the Norwegian State, and Statoil has in 2004 recorded its estimated outcome against shareholders' equity. No further material impact is expected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statement of Statoil ASA are prepared in accordance with Norwegian generally accepted accounting principles (NGAAP) and uses the same accounting principle as the group. Shareholdings and interests in subsidiaries and affiliates are recorded using the equity method. For a description of other accounting policies, reference is made to note 2 of the NGAAP group accounts.

Certain reclassifications have been made to prior years' figures to be consistent with current year's presentation.

An overview of oil and gas reserves is shown in note 28 of the NGAAP group accounts.

3. REMUNERATION

Total payroll costs is included in Operating expenses and Selling, general and administrative expenses as follows:

(in NOK million, except number of work-years)	For the year ended December 31,	
	2004	2003
Salaries	7,595	7,388
Payroll taxes	1,346	1,264
Other social benefits (included pension cost)	1,988	1,523
Total payroll costs	10,929	10,175
Number of work-years at December 31	10,813	10,643

Payroll costs are partly charged to partners of Statoil-operated activities.

At December 31, 2004 loans to employees amounted to NOK 556 million. In addition, Statoil ASA has guaranteed for bank loans for employees totaling maximum NOK 10 million.

Total remuneration of NOK 533,000 was paid to the members of the corporate assembly and NOK 2,068,000 to the board of directors.

In 2004 Statoil ASA has had three chief executive officers (CEO). The former acting CEO Inge Hansen received NOK 2,119,000 in salary and other remuneration (including performance pay for the year 2003, vacation pay and pension premium paid) until his resignation on March 8, 2004. The former acting CEO Erling Øverland received NOK 2,389,000 in salary and other remuneration (including performance pay for the year 2003, vacation pay and pension premium paid) from March 8 until his temporary position ended on August 16, 2004.

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

CEO Helge Lund took office on August 16, 2004 and has received NOK 1,936,000 in salary and other remuneration (including pension premium paid) in 2004. According to his contract, Helge Lund is entitled to severance pay equivalent to two annual salaries, excluding term of notice of six months, when the resignation is a request from the board. In addition, Helge Lund is entitled, under specific terms, to a pension amounting to 66 per cent of pensionable salary after reaching the age of 62. The full service period is 15 years and the benefits are independent of any future changes in National Insurance (Folketrygden). Based on performance, the board will assess a performance payment for Helge Lund. This payment may amount to a maximum of 30 per cent of base salary. The first assessment related to performance payment for Helge Lund, will take place in January 2006, for the year 2005.

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

If resigning at the request of the company, members of the corporate executive committee, other than the CEO, are on a general basis entitled to severance pay equivalent to 12 months salary, including term of notice. The pension rights follow the general system in Statoil ASA. Executive vice president Peter Mellbye is entitled to severance pay including term of notice equivalent to 24 months salary, if resigning at the request of the company. Peter Mellbye is entitled, under specific terms, to a pension after reaching the age of 60. The pension will amount to 66 per cent of the pensionable salary.

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

For information regarding shares owned by the corporate executive committee, the board of directors and the corporate assembly refer to note 23.

4. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

Effective January 1, 2003 and in relation to the Statoil group's sale of Navion ASA, Statoil ASA sold its 80 per cent shareholding in Navion ASA to Norsk Teekay AS, a wholly-owned subsidiary of Teekay Shipping Corporation. The operations of Navion were shuttle tanking and conventional shipping. The profit and loss effect from the sale in Statoil ASA's books was a gain of NOK 0.5 billion before tax.

In January 2004 Statoil acquired 11.24 per cent of the Snøhvit field, of which 10 per cent from Norsk Hydro and 1.24 per cent from Svenska Petroleum. Following these transactions, Statoil has an ownership share of 33.53 per cent in the Snøhvit field.

In January 2004 Statoil sold its 5.26 per cent shareholding in the German company Verbundnetz Gas, generating a gain of NOK 619 million before tax (NOK 446 million after tax). The gain has been classified as Other income in the Statements of Income.

Statoil has acquired the retailer group ICA's 50 per cent holding in Statoil Detaljhandel Skandinavia AS (SDS), and now owns 100 per cent of SDS. Following approval under the EU merger control regulations on July 1, the transaction was completed on July 8, 2004.

5. ASSET IMPAIRMENT

There have been no material write-downs of properties owned by Statoil ASA in 2004 or 2003.

6. PROVISION FOR RIG RENTAL CONTRACTS

Statoil provides for estimated losses on long-term fixed price rental agreements for mobile drilling rigs. The losses are calculated as the difference between estimated market rates and the fixed price rental agreements.

(in NOK million)	2004	2003
Provision at January 1	1,360	960
Increase (decrease) during the year	(702)	454
Cost incurred during the year	(298)	(54)
Provision at December 31	360	1,360

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

7. INVENTORIES

Inventories are valued at the lower of cost or market determined under the first-in, first-out method.

(in NOK million)	At December 31,	
	2004	2003
Crude oil	1,754	1,347
Petroleum products	885	595
Other	592	497
Total inventories	3,231	2,439

8. SHARES AND LONG-TERM INVESTMENTS

Subsidiaries and affiliates by equity method

(in NOK million)	Subsidiaries	Affiliates
Investment at January 1, 2004	69,980	2,566
Net income subsidiaries and affiliates	8,118	111
Translation adjustment	(3,120)	14
Change in paid-in equity	17,783	(1,182)
Group contribution (after tax)	1,901	0
Ordinary dividend	(4,319)	(221)
Investment at December 31, 2004	90,343	1,288

Ownership in certain subsidiaries in per cent

AS Eesti Statoil	100	Statoil Innovation AS	100
Latvija Statoil SIA	100	Statoil Iran AS	100
Offshore Technology AS	100	Statoil Ireland Ltd	100
Offtech Invest AS	100	Statoil Kazakstan AS	100
P/F Statoil Føroyar	100	Statoil Latin America AS	100
SDS Holding AS	100	Statoil Marine Holding AS	100
Statholding AS	100	Statoil Nigeria AS	100
Statoil AB	100	Statoil Nigeria Deep Water AS	100
Statoil Angola Block 15 AS	100	Statoil Norge AS	100
Statoil Angola Block 17 AS	100	Statoil North Africa Gas AS	100
Statoil Angola AS	100	Statoil North Africa Oil AS	100
Statoil Apsheron AS	100	Statoil North America Inc.	100
Statoil Asia Pacific Pte. Ltd.	100	Statoil Orient Inc	100
Statoil Azerbaijan Alov AS	100	Statoil Pernis Invest AS	100
Statoil Azerbaijan AS	100	Statoil Plataforma Deltana AS	100
Statoil BTC Finance AS	100	Statoil Russia AS	100
Statoil Coordination Center N.V.	100	Statoil Sincor AS	100
Statoil Danmark A/S	100	Statoil UK Ltd	100
Statoil Detaljhandel Skandinavia AS*	50	Statoil Venezuela AS	100
Statoil Deutschland GmbH	100	UAB Lietuva Statoil	100
Statoil do Brasil Ltda	100	Statoil Metanol ANS	82
Statoil Dublin Bay AS	100	Mongstad Refining DA	79
Statoil Exploration Ireland Ltd	100	Statoil Mongstad Terminal DA	65
Statoil Forsikring AS	100	Tjeldbergodden Luftgassfabrikk DA	51

*The remaining shares in Statoil Detaljhandel Skandinavia AS are owned by SDS Holding AS. Voiting rights correspond to ownership interests.

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

Ownership in certain equity method affiliates

Nova Naturgas AB	30%
Vestprosess DA	17%
Etanor DA	16%

9. INVESTMENTS

(in NOK million)	At December 31,	
	2004	2003
Short-term deposits	8	1,310
Certificates	9,693	7,846
Liquidity Fund	1,662	0
Other	94	40
Total short-term investments	11,457	9,196

The cost price of short-term investments is NOK 11,712 million and NOK 9,166 million as at year-end 2004 and 2003, respectively.

All short-term investments are considered held for trading and are recorded at fair value with unrealized gains and losses included in income.

10. PROPERTY, PLANT AND EQUIPMENT

(in NOK million)	Machinery, equipment and transportation equipment	Production plants oil and gas, including pipelines	Production plants onshore	Buildings and land	Vessel	Construction in progress	Capitalized exploration expenditures	Total
Cost at January 1, 2004	2,087	216,947	4,245	2,460	107	12,511	1,768	240,125
Additions and transfers	305	14,652	35	91	0	7,368	(579)	21,872
Disposal at cost	(1)	(261)	0	(18)	0	(858)	(9)	(1,147)
Expensed exploration expenditures capitalized earlier years	0	0	0	0	0	0	(61)	(61)
Accumulated depreciation, depletion and amortization	(1,916)	(157,553)	(2,928)	(955)	(91)	0	0	(163,443)
Net property, plant and equipment at December 31, 2004	475	73,785	1,352	1,578	16	19,021	1,119	97,346
Other intangible assets								26
Book value at December 31, 2004								97,372
Depreciation, depletion and amortization for the year	328	12,903	157	65	5	0	0	13,458
Estimated useful life (years)	5-10	*	15-20	20-25	20-25			

* Depreciation according to Unit of production, see note 2.

The book value of vessels consist of financial leases. In 2004 and 2003 NOK 452 million and NOK 275 million respectively, of interests were capitalized.

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

Exploration expenditures

(in NOK million)	2004	2003
Incurring during the year	1,417	1,506
Capitalized share of current year's exploration activity	(376)	(106)
Expensed, previously capitalized exploration expenditures	61	256
Expensed during the year	1,102	1,656

11. PROVISIONS

Provisions against assets (other than property, plant and equipment and intangible assets) recorded during the past two years are as follows:

(in NOK million)	Balance at January 1,	Expense	Recovery	Write-off	Balance at December 31,
Year 2004					
Provisions against accounts receivable	44	0	(5)	0	39
Year 2003					
Provisions against accounts receivable	44	0	0	0	44

12. FINANCIAL ITEMS

(in NOK million)	For the year ended December 31,	
	2004	2003
Dividends received	5	36
Gain (loss) on sale of securities	(280)	52
Interest and other financial income	527	726
Currency exchange adjustments, short-term items	3,390	521
Currency exchange adjustments, long-term items	2,839	71
Interest and other financial expenses	(1,554)	(1,633)
Capitalized interest	452	275
Net financial items	5,379	48

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

13. INCOME TAXES

Income tax expense consists of

(in NOK million)	For the year ended December 31,	
	2004	2003
Current taxes payable	39,475	32,885
Change in deferred tax 1)	5,012	(314)
Change in deferred tax due to new legislation (see note 2 to the Consolidated Financial Statment)	0	(6,712)
Income tax expense	44,487	25,859
Uplift benefits for the year	3,793	3,738

1) Due to changes in Norwegian tax legislation in 2004, dividend from companies, with some exceptions, will not be taxable in Norway. Consequently, NOK 1.4 billion in deferred taxes related to retained earnings in subsidiaries and affiliates have been reversed in 2004.

Revenue from oil and gas activities on the NCS is taxed according to the Petroleum tax law. This stipulates a surtax of 50 per cent after deducting uplift, a special investment tax credit, in addition to normal corporate taxation. Uplift credits are deducted as they arise, 5 per cent each year for six years, as from initial year of investment. Uplift credits not utilized of NOK 9.9 billion can be carried forward indefinitely.

Significant components of deferred income tax liability

(in NOK million)	For the year ended December 31,	
	2004	2003
Decommissioning	9,709	11,801
Other	3,028	2,671
Total deferred tax assets	12,737	14,472
Property, plant and equipment	40,756	37,176
Capitalized exploration expenditures and interest	7,407	7,338
Other	1,869	995
Total deferred tax liabilities	50,032	45,509
Net deferred tax liability	37,295	31,037

Income taxes payable in the balance sheet consists of the following

(in NOK million)	2004
Current tax in the income statement	39,475
Taxes paid in instalments	(20,000)
Current tax on group contribution	(739)
Other	(117)
Income taxes payable at December 31	18,619

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

The movement in deferred income tax liability can be specified as follows

(in NOK million)	2004
Deferred income tax liability at January 1	31,037
Charged to the income statement (see footnote 1 above)	5,012
Acquisitions, sales and other	1,246
Deferred income tax liability at December 31	37,295

14. SHORT-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31,	
	2004	2003
Bank loans and overdraft facilities	1,518	10
Current portion of long-term debt	2,156	3,029
Margin call	2,995	1,758
Other	108	0
Total	6,777	4,797
Weighted average interest rate (per cent)	4.03	3.39

15. LONG-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31,	
	2004	2003
Unsecured debentures bonds		
US dollar (USD)	23,379	24,835
Euro (EUR)	214	729
Other currencies	12	18
Total	23,605	25,582
Other debt	489	1,550
Grand total debt outstanding	24,094	27,132
Less current portion	(2,156)	(3,029)
Total long-term debt	21,938	24,103
Weighted average interest rate (per cent)	5.03	4.14

Statoil has an unsecured debenture bond agreement for USD 500 million with a fixed interest rate of 6.5 per cent, maturing in 2028, callable at par upon change in tax law. At December 31, 2004 and 2003, NOK 2,981 million and NOK 3,293 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for EUR 500 million, with a fixed interest rate of 5.125 per cent, maturing in 2011. At December 31, 2004 and 2003, NOK 4,081 million and NOK 4,166 million were outstanding, respectively. EUR 200 million of the bond has been swapped through an interest rate swap agreement to a LIBOR-based floating interest rate.

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

Statoil has also an unsecured debenture bond agreement for USD 375 million, with a fixed interest rate of 5.75 per cent, maturing in 2009. At December 31, 2004 and 2003, NOK 2,252 million and NOK 2,486 million were outstanding, respectively. Net after buyback this amounts to NOK 1,955 million and NOK 2,156 million at year-end exchange rates.

In 2004 Statoil issued USD 500 million of unsecured bonds with a fixed interest rate of 5.125 per cent maturing in 2014. At December 31, 2004 NOK 3,017 million were outstanding. The interest rate has been swapped to a LIBOR-based floating interest rate.

Statoil utilizes currency swaps to manage foreign exchange risk on its long-term debt. The swaps are reflected in the table above. The stated interest rate on the majority of the long-term loans are fixed. Interest rate swaps are utilized to manage interest rate exposure.

Substantially all unsecured debenture bond and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders.

Parent company guarantee commitments concerning Statoil's secured bank loans amount to USD 108 million.

Statoil has 23 debenture bond agreements outstanding, which contain provisions allowing Statoil to call the debt prior to its final redemption at par if there are changes to the Norwegian tax laws or at certain specified premiums. The agreements are net after buyback at the December 31, 2004 closing rate valued at NOK 24,760 million.

Reimbursements of long-term debt fall due as follows:

(in NOK million)	
2005	2,156
2006	923
2007	1,539
2008	1,563
2009	2,777
Thereafter	15,136
Total	24,094

Statoil has an agreement with an international bank syndicate for committed long-term revolving credit facility totalling USD 2.0 billion, all undrawn. Commitment fee is 0.058 per cent per annum.

As of December 31, 2004 and 2003 respectively, Statoil had no committed short-term credit facilities available or drawn.

16. FINANCIAL INSTRUMENTS AND DERIVATIVES

Statoil ASA's exposure to and management of commodity risk, interest and currency risk and market risk for financial investments in equity and debt securities is akin to the exposure to and management of risks in the Statoil group. The combined use of commodity based derivatives and financial instruments is an integral part of the risk management process and is common for group entities. Reference is made to note 16 in the consolidated accounts for a more detailed description of risks and the use of derivatives.

Interest rate and currency risks constitute the most important financial risks for Statoil. Total exposure is managed at portfolio level in accordance with the strategies and mandates adopted. Interest rate risk, currency risk and share risk are assessed against mandates and based on a scenario of 10 per cent currency devaluation, one percentage point change in interest rates and 10 per cent change in share prices. The table below illustrates an uncorrelated loss scenario.

(in NOK million)	At December 31,	
	2004	2003
Currency risk	5,283	3,602
Share risk	0	0
Interest rate risk	454	561

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

17. EMPLOYEE RETIREMENT PLANS

Pension benefits

The company has defined benefit retirement plans. Plan benefits are generally based on years of service and final salary levels. The retirement plans are covered by Statoil's pension funds. These funds are organized as independent trusts. The major part of their assets are invested in Norwegian and foreign bonds and shares, as well as real estate in Norway.

Net periodic pension cost

(in NOK million)	For the year ended December 31,	
	2004	2003
Benefit earned during the year	973	780
Interest cost on prior period benefit obligation	837	683
Expected return on plan assets	(811)	(734)
Amortization of loss / prior service cost	185	67
Total net pension cost	1,184	796

Change in projected benefit obligation (PBO)

(in NOK million)	2004	2003
Projected benefit obligation at January 1	15,347	10,995
Benefits earned during the year	973	780
Interest cost on prior period benefit obligation	837	683
Actuarial gain (loss)	(492)	3,119
Benefits paid	(255)	(230)
Projected benefit obligation at December 31	16,410	15,347

Change in pension plan assets

(in NOK million)	2004	2003
Fair value of plan assets at January 1	13,231	10,871
Actual return on plan assets	966	1,454
Company contributions*	1,054	1,005
Benefits paid	(119)	(99)
Fair value of plan assets at December 31	15,132	13,231

* Include paid-up policies transferred from external companies

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

Status of pension plans reconciled to Balance Sheets

(in NOK million)	2004	2003
Funded status of the plans at December 31	(1,278)	(2,116)
Unrecognized net loss	2,318	3,773
Unrecognized prior service cost	266	299
Total net prepaid pension recognized at December 31	1,306	1,956
Amounts recognized in the Balance Sheets:		
Prepaid pension	4,416	4,644
Accrued pension liabilities	(3,110)	(2,688)
Total at December 31	1,306	1,956

Weighted-average assumptions for the year ended December 31 (Profit and Loss items)

Discount rate	5.5%	6.0%
Expected return on plan assets	6.0%	6.5%
Rate of compensation increase	3.5%	3.0%

Weighted-average assumptions at December 31 (Balance Sheet items)

Discount rate	5.5%	5.5%
Expected return on plan assets	6.5%	6.0%
Rate of compensation increase	3.5%	3.5%

18. DECOMMISSIONING AND REMOVAL LIABILITIES

The asset retirement obligation (ARO) is related to future well closure-, decommissioning- and removal costs. The accretion expense is classified as Operating expenses.

(in NOK million)	2004	2003
Asset retirement obligation at January 1	15,171	13,954
Liabilities incurred/revision in estimates	1,424	782
Accretion expense	715	491
Disposals	(22)	0
Incurred removal cost	(76)	(56)
Asset retirement obligation at December 31	17,212	15,171
Long-lived assets related to ARO at January 1	2,352	2,087
Net assets incurred/revision in estimates	1,380	782
Depreciation	(721)	(517)
Long-lived assets related to ARO at December 31	3,011	2,352

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

19. RESEARCH AND DEVELOPMENT EXPENDITURES

Research and Development (R&D) expenditures were NOK 994 million and NOK 971 million in 2004 and 2003, respectively. R&D expenditures are partly financed by partners of Statoil-operated activities.

20. LEASES

Statoil leases certain assets, notably shipping vessels and drilling rigs.

Rental expense was NOK 4,094 million and NOK 4,088 million in 2004 and 2003, respectively.

The information in the table below shows future minimum lease payments under non-cancelable leases at December 31, 2004. In addition, Statoil has entered into subleases of certain assets amounting to a total future rental income of NOK 1,277 million, of which NOK 534 million for 2005.

Statoil has entered into a number of general or field specific long-term frame agreements mainly related to loading and transport of crude oil. The main contracts expire in 2007 or later, up until the end of respective field lives. Such contracts are not included in the below table of future lease payments unless they entail specific minimum payment obligations.

Amounts related to capital leases include future lease payments for assets in the books at year-end 2004.

(in NOK million)	Operational leases	Capital leases
2005	2,693	16
2006	1,372	16
2007	391	16
2008	359	0
2009	330	0
Thereafter	1,626	0
Total future lease payments	6,771	48
Interest component		(8)
Net present value		40

Property, plant and equipment include the following amounts for leases that have been capitalized at December 31, 2004 and 2003:

(in NOK million)	At December 31,	
	2004	2003
Vessel	107	107
Accumulated depreciation	(91)	(86)
Net	16	21

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

21. OTHER COMMITMENTS AND CONTINGENCIES

Contractual commitments

(in NOK million)	In 2005	Thereafter	Total
Contractual commitments related to investments and property, plant and equipment	5,691	5,537	11,228

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

Statoil has entered into agreements for pipeline transportation for most of its prospective gas sale contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to pay for booked capacity. In addition the Company has entered into certain processing and storage capacity commitments. The following table outlines nominal minimum obligations for future years. Corresponding expense for 2004 was NOK 3,082 million. Obligations payable by the Company to affiliates are included gross in the table below. Where the Company however reflects both ownership interests and transport capacity cost for a pipeline in the accounts, the amounts in the table include the transport commitments that exceed Statoil's pipeline ownership share.

Transport capacity and other obligations at December 31, 2004:

(in NOK million)	
2005	3,563
2006	3,595
2007	3,262
2008	3,327
2009	3,352
Thereafter	23,445
Total	40,544

Guarantees

In 2004 Statoil has entered into guarantee commitments for financing of the development of the BTC pipeline. At year-end 2004 these guarantee commitments amount to USD 110 million (NOK 0.66 billion). In addition, the Company has provided other third party guarantees which are immaterial at year-end 2004.

The Company has provided parent company guarantees to Statoil Forsikring AS and to subsidiaries with operations in Belgium, Sweden, Angola, Brazil, Venezuela, Azerbaijan, Great Britain, Ireland, Iran, Algeria, the Faroe Islands, South Africa and USA. The Company has also counter-guaranteed certain bank guarantees to subsidiaries in Brazil, Algeria and Venezuela.

Contingent liabilities and insurance

Like any other licensee, Statoil has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. The Company has taken out insurance to cover this liability up to about USD 0.8 billion (NOK 4.8 billion) for each incident, including liability for claims arising from pollution damage. Most of Statoil's production installations are covered through Statoil Forsikring AS, which reinsures a major part of the risk in the international insurance market. About 29 per cent is retained.

Other commitments and contingencies

As a condition for being awarded oil and gas exploration and production licenses, participants may be committed to drill a certain number of wells. At the end of 2004, Statoil was committed to participate in 13 wells off Norway, with an average ownership interest of approximately 49 per cent. Statoil's share of estimated expenditures to drill these wells amounts to approximately NOK 1.2 billion. Additional wells that Statoil may become committed to participate in depending on future discoveries in certain licences are not included in these numbers.

During the normal course of its business Statoil is involved in legal proceedings, and several unresolved claims are currently outstanding. The ultimate liability in respect of litigation and claims cannot be determined at this time. Statoil has provided in its accounts for these items based on the Company's best judgment. Statoil does not expect that either the financial position, results of operations nor cash flows will be materially adversely affected by the resolution of these legal proceedings.

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has conducted an investigation concerning an agreement which Statoil entered into in 2002 with Horton Investments Ltd for consultancy services in Iran. On June 28, 2004 Økokrim informed Statoil that it had concluded that Statoil violated section 276c, first paragraph (b) of the Norwegian Penal Code, which became effective from July 4, 2003 and prohibits conferring on or offering to a middleman an improper advantage in return for exercising his influence with a decision-maker, without the decision-maker receiving any advantage, and imposed a penalty on Statoil of NOK 20 million. The Board of Statoil ASA decided on October 14, 2004 to accept the penalty without admitting or denying the charges by Økokrim.

The U.S. Securities and Exchange Commission (SEC) is also conducting a formal investigation into the Horton consultancy arrangement to determine if there have been any violations of U.S. federal securities laws, including the Foreign Corrupt Practices Act. The U.S. Department of Justice is conducting a criminal investigation of the Horton matter jointly with the Office of the United States Attorney for the Southern District of New York. The SEC Staff informed Statoil on September 24, 2004 that it is considering recommending that the SEC authorize a civil enforcement action in federal court against Statoil for violations of various U.S. federal securities laws, including the anti-bribery and books and records provisions of the Foreign Corrupt Practices Act. Statoil is continuing to provide information to the U.S. authorities to assist them in their ongoing investigations.

Iranian authorities have been carrying out inquiries into the matter. In April 2004 the Iranian Consultative Assembly initiated an official probe into allegations of corruption in connection with the Horton matter with Iran. The probe was finalized for the parliamentary session at the end of May. It was reported in the international press that at such time no evidence of wrongdoing by the subjects of the probe in Iran had been revealed by the probe.

22. RELATED PARTIES

Total purchases of oil and natural gas liquid from the Norwegian State amounted to NOK 81,487 million (319 million barrels oil equivalents) and NOK 68,479 million (336 million barrels oil equivalents) in 2004 and 2003, respectively. Purchases of natural gas from Norwegian State amounted to NOK 237 million and NOK 255 million in 2004 and 2003, respectively. Amounts payable to the Norwegian State for these purchases are included as Accounts payable - related parties in the Consolidated Balance Sheets. The prices paid by Statoil for the purchased from the Norwegian State are estimated market prices.

Statoil is, in its own name, but for the Norwegian State's account and risk, selling the State's natural gas production. This sale, as well as related expenditures refunded by the State, is shown net in Statoil's Financial Statements. Refunds include expenses incurred related to activities and investments necessary to obtain market access and to optimize the profit from sale of natural gas.

23. EQUITY AND SHAREHOLDERS

Change in equity

(in NOK million)	2004	2003
Shareholders' equity January 1	64,591	51,033
Net income	24,746	17,064
Ordinary dividend	(11,481)	(6,390)
Settlement with the Norwegian state related to SDFI properties (see note 1)	(458)	0
Treasury shares bought	(1)	0
Value of stock compensation plan	3	0
Foreign currency translation adjustment	(3,106)	2,884
Shareholders' equity December 31	74,294	64,591

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

Common stock

	Number of shares	Par value	Common stock
Authorized and issued	2,189,585,600	2.50	5,473,964,000
Treasury shares	(23,452,876)	2.50	(58,632,190)
Total outstanding shares	2,166,132,724	2.50	5,415,331,810

There exists only one class of shares and all shares have voting rights.

In 2001, 25,000,000 treasury shares were issued. During 2002 and 2003 a number of 1,558,115 of the treasury shares were distributed as bonus shares in favor of retail investors in the initial public offering in 2001. Distribution of treasury shares requires approval by the general meeting.

The board of directors is authorized on behalf of the company to acquire Statoil shares in the market. The authorization may be used to acquire Statoil shares with an overall nominal value of up to NOK 10 million. The board will decide the manner in which the acquisition of Statoil shares in the market will take place. Such shares acquired in accordance with the authorization may only be used for sale and transfer to employees of the Statoil group as part of the group's share investment plan approved by the board. The lowest amount which may be paid per share is the nominal value; the highest amount which may be paid per share is a maximum of 50 times the nominal value. The authorization will apply until November 2005. As per December 31, 2004 Statoil has 10,991 shares according to this authorization.

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

* Client account and similar

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

Members of the board of directors, corporate executive committee and corporate assembly holding shares as of December 31, 2004:

Board of Directors		Corporate Executive Committee	
Jannik Lindbæk (the chairman of the board of directors)	0	Helge Lund (chief executive officer)	1,500
Lill-Heidi Bakkerud	165	Rune Bjørnson	0
Stein Bredal	245	Jon Arnt Jacobsen	1,219
Kaci Kullman Five	1,000	Jens R Jenssen	500
Finn A. Hvistendahl	2,947	Morten Loktu	0
Grace Skaugen	0	Peter Mellbye	3,250
Morten Svaan	410	Terje Overvik	825
Eli Sætersmoen	0	Eldar Sætre	990
Knut Åm	14,594	Erling Øverland	2,693
		Margareth Øvrum	2,280
		Corporate Assembly (in total)	668

24. AUDITORS' REMUNERATION

(in NOK million)	For the year ended December 31,	
	2004	2003
Audit fees	7.3	7.6
Audit-related fees	3.8	1.4
Tax fees	0.7	3.5
Total	11.8	12.5

NOTES TO FINANCIAL STATEMENTS STATOIL ASA – NGAAP

25. STOCK-BASED COMPENSATION

In 2004 Statoil introduced a Share Saving Plan for all permanent Statoil employees both in full and part time positions. Sixty per cent of all employees in Statoil participate in the program as of December 31, 2004.

Statoil's Share Saving Plan gives the employees the opportunity to purchase Statoil shares through monthly salary deduction. The employees may save up to five per cent of their annual gross salary. Statoil will give a contribution to the employees of 20 per cent of the saved amount, at a maximum of NOK 1,500 per employee per year.

If the shares are kept for two full calendar years of continued employment the employees will be allocated one bonus share for each two they have bought. The same kind of allocation is planned to be carried out for future yearly programs.

Due to uncertainty with respect to future share prices, the number of shares to be purchased by employees under the programs is unknown. Consequently, the number of bonus shares to be purchased by Statoil must be estimated in connection with the valuation of the cost of the program. The fair value of the bonus shares is estimated at the date of grant using a one-factor capital asset pricing model with adjustments for dividend payments assumed according to the dividend policy in the vesting period.

Significant assumptions for 2004 used in connection with estimating the fair value are shown in the table below.

Risk free interest rate	2.5%
Risk premium	5.5%
Beta	1.0
Expected return/discount rate	8.0%

The model requires the input of highly subjective assumptions. Because changes in the subjective input assumptions can affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of fair value of Statoil's Share Saving plan.

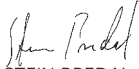
The basis for purchases of bonus shares is the combined amount of salary deductions and Statoil contributions. For the 2004 and 2005 programs (granted in 2004), this amounts to NOK 52 and NOK 107 million, respectively.

Estimated compensation cost including contribution and social security related to the 2004 and 2005 program for Statoil amounts to NOK 33 million and NOK 63 million respectively. At December 31, 2004 the amount of compensation cost yet to be expensed throughout the vesting period is NOK 87 million.

Oslo, March 9, 2005


THE BOARD OF DIRECTORS OF STATOIL ASA


JANNIK LINDBÆK
CHAIR


STEIN BREDAL


LILL-HEIDI BAKKERUD


MORTEN SVAAN


KACI KULLMANN FIVE


FINN A HVISTENDAHL


GRACE R SKAUGEN


ELI SÆTERSMOEN


KNUT ÅM


HELGE LUND
PRESIDENT AND CEO

To the Annual Shareholders' Meeting of Statoil ASA

Auditor's report for 2004

We have audited the annual financial statements of Statoil ASA as of 31 December 2004, showing a net income of NOK 24,746 million for the parent company and a net income of NOK 24,746 million for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheets, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and President and chief executive officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the group as of 31 December 2004, and the results of the operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Stavanger, March 9, 2005

ERNST & YOUNG AS



Jostein Johannessen

State Authorized Public Accountant
(Norway)

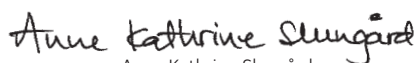
RECOMMENDATION OF THE CORPORATE ASSEMBLY

Resolution:

At its meeting of March 17, 2005 Statoil's corporate assembly discussed the 2004 annual accounts of Statoil ASA and the Statoil group, and the board of directors' proposal for the allocation of net income.

The corporate assembly recommends that the general meeting adopts the annual accounts and the allocation of net income, in accordance with the proposals presented by the board of directors.

Kårstø, March 17, 2005



Anne Kathrine Slungård

Chair of the corporate assembly

Corporate assembly

Anne Kathrine Slungård, Wenche Meldahl, Kjell Bjørndalen, Kirsti Høegh Bjørneset,
Erlend Grimstad, Per-Inge Søreng, Anne Britt Norø, Asbjørn Rolstadås, Arvid Færaas,
Hans M Saltveit, Per Helge Ødegård, Åse Karin Staupe

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STATOIL ASA
NO-4035 STAVANGER
NORWAY
TELEPHONE: +47 51 99 00 00
www.statoil.com

