THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

STL.OL - Q4 2012 Statoil ASA Earnings & Capital Markets Update Presentation

EVENT DATE/TIME: FEBRUARY 07, 2013 / 12:30PM GMT

OVERVIEW:
STL.OL reported 2012 adjusted EPS of NOK22.

CORPORATE PARTICIPANTS

Hilde Nafstad *Statoil ASA - Head of IR*

Torgrim Reitan *Statoil ASA - CFO*

Svein Skeie *Statoil ASA - SVP, Performance Management and Analysis*

Oystein Michelsen *Statoil ASA - EVP, Development and Production Norway*

Eldar Saetre *Statoil ASA - EVP, Marketing, Processing and Renewable Energy*

CONFERENCE CALL PARTICIPANTS

Brendan Warn *Jefferies - Analyst*

Alejandro Demichelis *Exane BNP Paribas - Analyst*

Paul Spedding *HSBC - Analyst*

Rahim Karim *Barclays - Analyst*

Michael Alsford *Citigroup - Analyst*

Irene Himona *Societe Generale Cross Asset Research - Analyst*

Peter Hutton *RBC - Analyst*

Oswald Clint *Sanford Bernstein - Analyst*

Brandon Mei *Tudor, Pickering, Holt & Co - Analyst*

Jason Kenney *Santander - Analyst*

Anne Gjoen *Handelsbanken - Analyst*

John Olaisen *ABG Sundal Collier - Analyst*

Lars-Henrik Roren *SEB - Analyst*

Mark Hoffler *Macquarie - Analyst*

Neill Morton *Investec - Analyst*

Haythem Rashed *Morgan Stanley - Analyst*

Teodor Nilsen *Swedbank - Analyst*

Jon Rigby *UBS - Analyst*

Theepan Jothilingam *Nomura - Analyst*

Christine Tiscareno *S&P Capital IQ - Analyst*

PRESENTATION

Hilde Nafstad - ***Statoil ASA - Head of IR***

Ladies and gentlemen, welcome to Statoil fourth quarter earnings presentation and capital markets update both to the audience here in the London and to audio and webcast audiences. My name is Hilde Nafstad and I'm the Head of Investor Relations in Statoil.

Before we start, let me say that there are no scheduled fire alarm tests today, so, if the fire alarms do go off, please listen to the announcements and follow the instructions. The fire assembly point is over by St. Paul's Cathedral opposite the Blacks camping store. The venue management team will be on hand to assist. The nearest fire exits to this location are out of the entrance doors behind me. Enter into your left or right. The fire exits are indicated by the green running man sign.

In the event of a medical emergency, please inform the event's management team, who are trained first aiders or, where required, can contact the relevant services.

This morning at 7.30 Central European time Statoil announced the results for the fourth quarter and full year of 2012.

The press release and presentations for today's event were distributed through the wires and through Oslo Stock Exchange. The quarterly reports and the presentations can, as usual, be downloaded from our website statoil.com.

I would kindly ask you to make special note of the information regarding forward-looking statements, which can be found on the last page.

Our CEO, Helge Lund, will not be present today. He is attending a reception in Bergen to receive the casket of our esteemed colleague and country manager for Statoil in Algeria Mr. Victor Sneberg, who was killed in the terror attack in Algeria.

Today's program will start out with Statoil's CFO, Torgrim Reitan, who will go through the earnings, the strategy update and the outlook for the Company. Then, after the break at two o'clock EVP, Oystein Michelsen, will give an update on the Norwegian continental shelf, followed by EVP, Eldar Saetre, who will give a presentation about natural gas.

After the presentations, Q&A sessions will follow. Please note that questions can be posted by means of the telephone but not directly from the web. Dial-in numbers for posting questions can be found on the website. The operator of the conference call will explain the procedure for posting questions over the phone immediately before the Q&A session starts. The event will close around 3.30 UK time.

It is now my privilege to introduce our CFO, Torgrim Reitan. Please, Torgrim.

Torgrim Reitan *- Statoil ASA - CFO*

Thank you, Hilde. At In Amenas in Algeria we are part of two international corporations; three companies from three countries and two continents and suppliers from across the globe, colleagues from Algeria, the UK, Japan, US, Canada, Ireland, Norway and others. And this is what the terrorists so cold-heartedly attacked. More than 40 people from 10 countries were killed. Innocent people with rich lives and in Statoil we lost five of our best. We share the pain and we share the sorrow of all the families who have lost their loved ones. It is difficult to understand, and it is impossible to accept that our colleagues are the victims of deliberate and gruesome violence.

Our response to this evil has been to respond with determination and to reach out with care and support to the victims and their families. In these dark hours, we have also experienced the character of our people.

On behalf of Helge and the rest of the Company, I would like to thank you for the support and the sympathy we have received from partners, from authorities and from the financial community from all over and that means a lot to us.

Terrorism is a global challenge and it needs an international response. Statoil cannot respond alone, but we will work together with authorities and our partners and we will do our part. And we have the responsibility to learn and to improve and to protect our people and our assets and we will not be deterred from doing business around the world. We are going to share our experience. We are going to share our know-how and bringing energy to those who need it.

Today, I will show you the states, or we will show you the states that the state of Statoil is strong. I will start by going through the results and give you an update on our strategy and our outlook. Then, Oystein and Eldar will cover our activities on the Norwegian continental shelf and in the gas markets. And then we look forward to taking your questions and discuss these issues with you.

We have started our fifth decade of growth. Last year, we marked the 40 years anniversary. And in the last few years, we have accelerated that development. From a Norwegian national oil company to a globally competitive oil and gas company, we have achieved necessary scale and now we have operatorships in several of the most attractive basins around the world. From an integrated oil and gas company to a focused upstream company with a clear strategy, selling non-core assets and putting our money where our strategy is, from resource constrained to opportunity rich, we are delivering industry-leading aspirational results and production growth. And we have moved from financially restrained to having significant financial flexibility. We have brought down our net debt to 12% currently.

So, we enter 2013 from a robust position. And then, we do look forward to the next 40 years as well.

2012 was a year of records for Statoil. We delivered strong results across the business. When we broke new barriers, we produced more than 2m barrels per day in 2012. And two years back -- I'm sure you recall -- that we said we will grow with 3% on average from 2010 to 2012. And I am very glad to be here today and tell you that we have delivered on what we have said. That meant production growth of 8% from 2011 to 2012.

We delivered strong earnings and the earnings are growing. Our cash flow from underlying operations is the best ever; more than NOK250b last year.

Then, reserves. Reserve replacement rates is 110% in 2012. When we take into account the divestments that we did, it is 100%.

Exploration was another -- had another great year adding 1.5b barrels from the drill bit. That is their best exploration year since 1997.

And then, our delivery -- dividend policy remains firm and we propose to continue the growth in the dividend, NOK6.75 per share this year and that translates into a direct yield of around 4.5 percentage points.

For 2012 we delivered strong adjusted earnings. It increased 7% and we reported an earnings per share of NOK22. And in the fourth quarter, earnings increased by 5% when we make the adjustments to reflect the underlying operations. And this growth of 5% comes even without the results from Statoil Fuel and Retail and Gasled that has been part of earlier year's results.

Then, I know that tax on adjusted earnings is a bit lower than what you expected. A simple reason behind that. The lower tax rate is mainly due to deferred tax assets in the International business and you will find that -- the tax rate for the year, 71.5% is within the guided range of 70% to 72%.

We can report strong performance across the business, across the segments. Our Norwegian business continued to deliver strong earnings and earnings growth for the year and there is particularly one thing I would like you to see. That even if we have more fields into production oil, costs are stable. We have kept operating costs stable for five quarters in a row. So, our cost focus is paying off and Oystein, he will come back to the NCS later today.

From our operations outside Norway, we see increased earnings. Earnings grew by 20% and production grew by 25%. And we are ramping up production from Peregrino in Brazil, from Pazflor in Angola and Pazflor in -- and Bakken in the US and Pazflor in Angola. And, currently, around one-third of our production comes from outside of Norway and this is profitable production.

The cash flow per barrel is on par between the Norwegian production now and the international production, so, we are growing internationally, and it is a profitable growth.

Marketing, processing and renewables contributes with close to NOK18b last year. That is a 60% growth.

We have record gas sales and we have record gas prices in Europe. So, -- and in addition, our traders were doing well and they achieved better margins and they achieved better margins from our refineries. And, Eldar, he will tell you more about this later today.

In 2012 we produced the barrels we promised you at the Capital Markets Day in New York two years ago. Average annual growth from 2010 to 2012 was 3% and the last year, it increased by 8%. In the quarter, it was up 3%. We responded to strong gas markets and increased gas production on the NCS, and we are ramping up production, as I have told you. And we have also reduced the maintenance compared to the same period in 2011.

We are on course to profitably grow our production to above 2.5m barrels per day in 2020. And this means that 3% growth, on average, throughout this decade and our current resource base has a potential well beyond that and I will come back to the details of that later in my presentation.

I'm following the cash flows very carefully and cash flow from underlying operations was record strong more than NOK250b last year. It was up NOK20b from 2011. We sold oil and gas -- more oil and gas to higher prices. And, of course, we had to pay more taxes as well.

Our organic CAPEX was $18b and that was in line with what we told you in advance. And after dividend, we are left with around NOK26b for the year.

Net debt has been reduced from 21% at the start of the year to 12% at the end of the year.

So, let me now move over to give you an update on our strategy. 2012 was a year of strong strategic progress. In Norway, we are growing and we are growing on back of a rich and highly profitable portfolio, and we are on track to grow our production to more than 1.4m barrels per day in 2020.

We are positioning ourselves for the future gas markets in Europe. In 2012, we realized highest gas prices ever in Europe. Negotiations have been concluded for the majority of the volumes and we have agreed on sustainable solutions for all parties. We are actively shaping this market and we are seizing new opportunities.

We are deepening our positions in the offshore basins, and we had another strong year within Exploration with five high impact discoveries. It was Havis in the Barents. It was King Lear in the North Sea. It was Zafarani and Lavani in Tanzania and Pâo de Açúcar in Brazil.

Within unconventional, we will now operate production from all the three US places that we are part of. And we have doubled the production from Bakken since we acquired it a year ago. And we are making money on our unconventionals in today's prices and with the current differentials.

And finally, we will continue with portfolio management as a key part of our strategy. You have seen the successful divestments. We have done from -- for Retail business and we have also realized substantial value from non-core assets and the transactions with Wintershall. In total, we have delivered gains of more than $6b over a short period of time.

So, we will continue to add and subtract to our portfolio, and you will recognize the pattern. We are sharpening the growth, putting our money where our strategy is, securing, influence, and control through Statoil and giving us added financial flexibility.

We are in a robust position to finance our growth and first of all, in the past four years, Statoil has generated strong cash flows. This has provided strength and flexibility to invest in our projects, reducing our net debt from 27% to 12% and at the same time, maintaining a firm dividend policy. And then, we have maintained a solid credit rating -- AA minus.

Over the next four years we aim to follow a similar pattern. We are going to generate significant free cash flow from operations. And we will active manage our portfolio going forward. And then, we will continue with our dividend policy, which is to grow the dividend in line with -- with underlying earnings.

Let me then turn to how we are investing the capital. In 2012, our producing assets generated around $10b in free cash flow. That is after investments. And the producing assets will continue to deliver a solid free cash flow over the next years. That means that if we had selected not to invest in our new assets, we would have paid back the entire Company value by 2020, but we are reinvesting, and we reinvesting to deliver even greater value to our shareholders with a return on capital employed above 15%. Last year, we are in the top quartile compared to our peers and we will invest and we will invest in a controlled way.

This year we expect we invest some $19b on organic investments. And over the coming four years, we see an average yearly CAPEX of around 21b and this is consistent with delivering on the 2.5m barrel per day ambition in 2020.

We have more than 100 projects that has a potential production capacity of 1.9m barrels per day ahead of us; highly attractive and profitable projects that are completing well within the industry.

The average breakeven price for our sanctioned projects is $50 per barrel. And the average payback time -- from production start is, actually, three years for the new projects. So, this money will come back quickly.

And as a last point let me remind you that we operate most of our investments ourselves and 40% of our total new projects has not yet been sanctioned. So, we have the flexibility to adjust and optimize as we choose.

Then, over to Norwegian tax system. 40% of our projects are located in Norway with a tax system that gives a very efficient cash recovery of CAPEX. You know, I get questions about the Norwegian fiscal regime and, yes, 78% is a high tax rate. But what -- what makes this work is that the system is balanced. And due to depreciations and uplift, we get back 93% of our investments as reduced taxes, and that is just over the first six years. So, this means that after tax, CAPEX cost is only 7% of the pre-tax CAPEX. And it's, of course, the after tax investments that will impact our cash flow.

Projects are put into production as planned. Since the strategic reset in 2011, we have delivered the first growth wave; 400,000 barrels per day in new production capacity for Statoil and to put that in context, that is four times the contribution from Gulfaks to Statoil. And the projects that are operated by Statoil have been delivered on schedule and at cost.

Towards 2020 we will add an additional 1.9m barrels per day of new capacity and 900,000 of those will come over the next three years.

Our fast-track portfolio, they will produce 100,000 barrels per day for us in 2014. That is stronger and it is faster than expected so this is substantial value creation and projects with low breakeven prices.

As you understand, we are on track to deliver on 2.5m barrels per day in 2020. And as you know, we will grow with 2 to 3 percentage points from 2012 to 2016.

Then, our investments results in many big projects coming on-stream, and growth will accelerate 3 to 4 percentage points growth per year from 2016 to 2020. And as we have told you, growth will not be leaner. And, in 2013, production will be lower than in 2012.

This comes from decisions we have made ourselves and decisions we have made to create value. The Wintershall transaction will reduce our production by 40,000 barrels per day from closing. We have reduced the rig count in Marcellus to adjust to the price environment there -- so we can produce the gas at a later point in time at higher prices. That will reduce the growth in Marcellus with some 25,000 barrels per day. And then, we have sold more gas in Europe in 2012 meaning that there will be a lower gas production in 2013 around 15,000 barrels per day.

And lastly, the situation at In Amenas will also impact output in 2013. In Amenas produced 23,000 barrels per day for Statoil in 2012. And work needs to be done on the plant and work needs to be done before it can be started up safely. It is too early to say when that can happen so it puts uncertainty into the production for 2013. So, we are on track and we are moving ahead as we discussed earlier.

We have a portfolio with a capacity to produce more than 2.5m barrels per day in 2020. Our current portfolio producing asset is performing well. Decline is 5%, as it has been over the last years and it is as expected. Our new projects will add significant growth on top of that.

We are also increasing the oil share in our production towards 2012. And we expect the NCS gas volumes to stay around the same level throughout the decade. Then, we are growing both internationally and in Norway. All clusters are growing and we are growing on all our continents.

Based on the resources we could continue our production for more than 30 years, but you know our ambition doesn't end there. Our ambition is to consistently deliver an organic RRR above 1. In 2012 it was 110%. We have increased the oil ratio as well and the three-year average RRR is 1.

This result comes from a strong effort by the organization. We have sanctioned four new developments giving more than 200m barrels of new reserves. Dagny and Ivar Aasen on the Norwegian Continental Shelf, Hebron in Canada, and Mariner off the coast here in the UK. And then, increased recovery also provide important reserve additions. So, our large project portfolio will ensure an average RRR above 1 throughout this decade.

Then over to Exploration. Our new exploration strategy is showing results. 2012 was the best exploration year since 1997. 46 wells completed, 23 discoveries adding more than 1.5b barrels from the drill bit.

High-impact discoveries in Norway, in Brazil, in Tanzania and you know the result is even better than 2011 when we discovered the Johan Sverdrup the world's largest oil discovery that year.

And you have seen the Tanzanian announcement today. 7-9 TCFs in recoverable resources from our Block 2, a great reservoir, probably 60% to 80% recovery rates and that forms a good basis for a LNG project.

And we are moving our discover Americas to East Africa and we will work together with Exxon to mature all the prospects there. And there is more to come.

20 high-impact wells is going to be drilled from 2013 to 2015. And this year, we have four exciting campaigns with a number of wells to watch. First, the Barents Sea. We will drill four wells in the Skrugard/Havis. The first one is Nunatak so that is -- we should pay attention to. Then, we have the Hoop area further north. There we have the first well called Apollo. That is a potential play opener.

Moving to East Africa in Tanzania and Mozambique, Zafarani 2 was announced today. And then, we have Tangawizi. That's a new prospect looking promising that should be watched.

Moving over to Canada, there we will have three wells. The one to look out for there is called Harpoon West. And then in Gulf of Mexico, a program of five wells and a prospect called Sake is worth mentioning.

And finally, in Indonesia, we have a potential play opener there called Cikar West.

And back home in the North Sea, the Lupin prospect should be watched. So, it's a long list and that is the whole point.

Then, next year we will also start drilling in the Kwanzaa Basin in Angola.

As we have seen today, we are in an investment cycle. We are building truly legacy assets and for the future and the growth will be strictly governed. Our projects will give a strong cash flow and a cash flow growth and we have the luxury to pick our best projects.

Balancing all of this will ensure that we deliver our competitive growth on top of a robust balance sheet and while we are providing a competitive dividend yield.

So, in conclusion, we are delivering strong results across the business. We are executing our strategy and we are on track to meet our targets. So, thank you very much for your attention.

QUESTION AND ANSWER

Hilde Nafstad - ***Statoil ASA - Head of IR***

We will then turn to the Q&A session. And for this session, Torgrim will be joined by the Senior Vice President for Performance Management and Analysis, Svein Skeie. We will take questions from the audience here at the London Stock Exchange and also over the telephone.

I will first ask the operator to explain the procedures asking questions over the telephone.

Operator

Thank you. (Operator Instructions)

Hilde Nafstad - ***Statoil ASA - Head of IR***

Thank you, Operator. We will start with questions from the audience here at the London Stock Exchange. May I ask you to please state the name, your name, and the name of your company and also please limit yourselves to one question. The Q&A will end at 1.35. We will pass the microphone here in the audience in London.

So, we'll start out here with Brendan here please.

Brendan Warn - ***Jefferies - Analyst***

Thank you. It's Brendan Warn from Jefferies. Just my one question. In terms of value over volume you've given us the impact to 2013 by producing the gas in 2012. What was the EBIT? Or can you give us an idea of the value you got from the reduction in volume in 2013 please?

Torgrim Reitan - ***Statoil ASA - CFO***

It's a good question and I think we should save it Mr. Gas, Mr Eldar Saetrewhich is here. But, record sales, record prices -- yes, large earnings impact.

Hilde Nafstad - ***Statoil ASA - Head of IR***

All right. Yes? Next, please.

Alejandro Demichelis - ***Exane BNP Paribas - Analyst***

Okay. Alejandro Demichelis from Exane BNP Paribas. Yes, my one question is you talked about subsidizing cost across the portfolio. Maybe you can give us some indication of how you see that evolving both in the international business but also in Norway?

Torgrim Reitan – Statoil ASA - CFO

Excuse me, could you repeat the start of the question?

Alejandro Demichelis *- Exane BNP Paribas - Analyst*

You talk about stabilizing costs in your upstream business. Maybe you can see give us some indication on how you see that going forward?

Torgrim Reitan – Statoil ASA - CFO

Yes. Thank you. I'm very glad to see the development on the cost side in 2012, stable operational costs.

I do expect cost control to be strict going forward as well. And the way we work with these elements is, first of all, on simplification. And I think the fast-track concept is a very good example of addressing costs. Standardizing the way that we build these projects. The one project team can take care of more than one project and the probably have to use these type of equipment. It has reduced the time from discovery to production by 50% and reduced costs by 30%, so that is getting more out of scares resources.

Then, it's about working with suppliers, long-term frame agreement. It is a scale effect working with cost. Take advantage of them. And then, it's -- the last point is about the culture and the people and the attention that our leaders is on cost. So it is under control but, you know it is a tight market in many places. We need to have full focus on this going forward as well.

Hilde Nafstad *- Statoil ASA - Head of IR*

Another question?

Paul Spedding *- HSBC - Analyst*

Paul Spedding from HSBC. Your production profile that you show on slide 15 shows a relatively flat gas profile. I am curious as to whether you include anything in there for gas from East Africa or whether that could be providing some upside to that profile.

Torgrim Reitan *- Statoil ASA - CFO*

Yes, thank you. You are right. The gas profile is rather flat on that profile. When you consider East Africa, still large uncertainty when that will be put into production. We are very encouraged with what we see and the potential. The block is large and there are further things that we want to mature and will, so that is what we focus on now. And then we have to come to back any potential start-up and decision in East Africa. So you are right, it is not part of the gas profile in that chart.

Hilde Nafstad *- Statoil ASA - Head of IR*

Yes, Haythem.

Haythem Rashed *- Morgan Stanley - Analyst*

Hi. Good afternoon. Haythem Rashed from Morgan Stanley. Thanks for the presentation. One question with two parts if possible. Just around your financial framework I just wanted to ask firstly, on the CAPEX guidance that you have over the coming years, how comfortable you feel with that and whether you think it's enough given some of these projects that you are considering sanctioning like Tanzania, for example, coming over the next couple of years? I am particularly interested given the -- when you look at the operating cash flow that you are guiding for and the CAPEX sort of how much flexibility you have there, obviously, assuming you actively continue to actually manage your portfolio in that regard.

And the second part to it is just on your reference oil price. I just -- I wanted to get your thoughts around that. The $110 looks relatively high compared to some of your peers in terms of reference conditions. I just wondered, given some of the agency -- agencies we've seen around the world talk about spare capacity increasing quite substantially over the coming years, what your thoughts are around sort of that oil price going forward. Thank you.

Torgrim Reitan *- Statoil ASA - CFO*

Okay. Thank you Haythem for a long and complex question and I counted three or four questions so, thank you.

On the CAPEX, I am whole comfortable. The key point on the CAPEX pricing is that it is consistent with a 2.5m barrels per day production in 2020. And the project portfolio can produce more than that. If we bring on all the projects that we are working on as soon as we can, we can produce more than that. And that will also lead to a higher CAPEX than we have guided on. So, it takes a strict prioritization, picking the best projects, picking the most profitable projects and that is what we are doing. And that is what we have done over the last years as well. So, it is a consistence in that respect.

You touched upon Tanzania and sanctioning and upsides, so if there are an increase into the growth outlook, it will need more CAPEX in a way, so it sort of hangs together. But this is a consistent data set that's built into 2.5m.

Then about the operating cash flow and flexibility and divestments and so on, over the last two years we have brought in proceeds of around $13b creating capital gains of $6b on those transactions. We haven't stated anything going forward on what will happen with the portfolio and that is deliberate. I see that some of the peers, are more explicit on numbers than what but we are not doing that. But what I can say is that, there will be changes in the portfolio going forward as well. We will sharpen the growth. There are assets that will be sold. There are assets that will be acquired. So, that will of course distort the picture and the guiding in a way, but we'll have to come back to any adjustment in that respect.

And then your last point on just on the oil price. I think $110 per barrel, the reason why we use that is that that is the current price. These are just on the same prices as today. This is the development. This is not what we do for planning purposes, so we use different prices as such.

You sort of fed that into development of the oil price outlook. Hard to tell. I think the world is also at a good start this year. Macroeconomics showing strength. I do think it's very vulnerable, but let's hope that Europe can come back in growth modus, then that will sort of strength the picture.

Then political risk, there is a political risk premium into the current price environment. Maybe 10-15 dollar per barrel, an escalation or extension of the Syrian issue, Hormuz Strait issues and so on could add to the price and then we have the general macro issues.

I think it's important to remind ourselves that we see more than $100 per barrel while with the world is at the state it is. And it is a strong oil price. So there are some strong fundamentals here that sort of support strong oil price in the long-term but we need to be prepared for significant volatilities in the short-term. So, it's sort of to me more of a short-term concern than a long-term concern.

Okay, long question, long answer, sorry.

Hilde Nafstad *- Statoil ASA - Head of IR*

Yes.

Rahim Karim *- Barclays - Analyst*

Rahim Karim from Barclays Capital. I just wanted to touch back on this issue around financial framework and perhaps around the growth of the international business. You seem to be suggesting that you are putting a constraint in terms of capital that you want to deploy as a Group as a whole and that's why not going to perhaps deliver more than 2.5m barrel per day by 2020. If I've understood that correctly, we should be getting towards the point in the middle of the decade where the international business becomes free cash flow positive. Am I thinking about that correctly? And if not, what I am missing and at what point should we start to see that international upstream business start to generate free cash flow rather being an absorber of CAPEX?

Torgrim Reitan *- Statoil ASA - CFO*

Okay. First of all, international business is contributing strongly to fund the investment. The cash flow per barrel on par with our Norwegian production and one-third of the total production. So, it is contributing well.

Then sort of the way we look at the investments going forward, it is not allocating x billion to international and y billion to Norway. These projects have to compete side-by-side with equal measures and then we prioritize the best ones. So, it's a strong competition for investments funds in Statoil today and all the projects knows that and they know that they have to deliver. That is the way it works. So, I can't give you a specific guiding on the totality on the international business. as one unit.

Hilde Nafstad *- Statoil ASA - Head of IR*

I think it was Michael Alsford first here.

Michael Alsford *- Citigroup - Analyst*

Good afternoon. This is Michael Alsford from Citigroup. Just a quick questions on the financials while we wait for the latest presentations. But just on tax, obviously a few one-offs in the fourth quarter, but can you give us some guidance on 2013 tax rates for the Group and perhaps by division would be helpful. Thank you.

Torgrim Reitan *- Statoil ASA - CFO*

Okay, thank you. So, leave that to you Svein. So please --

Svein Skeie *- Statoil ASA - SVP, Performance Management and Analysis*

Thank you, Torgrim. Yes, as you said the fourth quarter tax rate was a bit lower than expected. If you look at our international segment, it's especially related to that one and we announced earlier on there is a new law in Norway saying something about the availability done for getting tax deductions for international activity. So, that's this an effect that we will have now in fourth quarter which we have accounted for. In addition to that we also have done some restructuring in the Group which we have done -- have the opposite effect from the costs that we had related to today, to the future international depreciation. So we have an offsetting in the Group related and mainly to restructuring to our US business.

If we look at DPN Norway, by itself -- high prices, the effect of the uplift related to the investment is a bit lower. But we are in the similar segments at similar level as we have guided on earlier on also for that one. And in MPR, we have said that there will be volatility in that especially when we don't have gasled any more.

So, looking forward it's about then again, similar level as we have said earlier on. DPI also at a similar level as we have said earlier on. But then when we get more and more then from -- from the -- from US and lower tax regime then it will be a bit lower as we have guided on earlier on as well.

Hilde Nafstad *- Statoil ASA - Head of IR*

Next question. Lars, can you please pass the mice?

Irene Himona *- Societe Generale Cross Asset Research - Analyst*

Thank you, sir. Irene Himona, Societe Generale. You renegotiated about half your portfolio gas contracts last year. Can you please update us on the current balance of oil versus spot gas link and what do you expect to happen to your margin as you lose the benefit of the oil link but gain volume flexibility? Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

Okay. Thank you. Eldar is coming on the stage later today addressing especially this issue and are ready to take that question. I think it's better that Eldar -- that Eldar answers it than I do. Thank you.

Mark Knoffler - ***Macquarie - Analyst***

Hi, there. Hi, there. It's Mark Knoffler from Macquarie. I just had a quick question on the reserve additions for 2012. I noticed you talked about I think it was four distinct geographies within that [110%] replacement ratio. I was just wondering how much of that was US?

Torgrim Reitan - ***Statoil ASA - CFO***

The resource addition in the US, Svein.

Svein Skeie - ***Statoil ASA - SVP, Performance Management and Analysis***

I will not give a specific number there, but what we see is that we have the onshore part in US is having a high contribution than for and being important than for the booking of the reserves which adds significantly then to our reserve replacement ratio. It's still a large contribution as it also was in 2011.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Next question please.

Peter Hutton - ***RBC - Analyst***

Hi, Peter Hutton from RBC. I'm just wondering if you can give any kind of guidance of what you see as the optimum gearing level for a company like Statoil. You've gone to 12. Your guidance is for 15 at the end of '13. If we look at the slides in terms of Op cash dividends, CAPEX, your free cash flow is negative about $1.5b, so creeping up. So, you are between 15 and 20 over the medium-term. Is that the right level, or is that a big conservative, or what do you think?

Torgrim Reitan - ***Statoil ASA - CFO***

Okay. A very good question. From a purely financial perspective, it is probably low. I mean we are on the low side. I mean debt is very low priced currently. So I guess there are good arguments to be increasing the yield from that perspective. When that is said, to us it is extremely important and strategically important to run with a strong balance sheet and a lot of liquidity because we must be able to take long-term decisions even if there is short-term volatility and trouble in the short-term. We need to be able to live safely through strong volatility in oil and gas prices. And that is -- it is in those periods you can actually create much additional value. So, running with a solid balance sheet is very important to us. Strong rating and a lot of liquidity and you will see that going forward as well. So, I am not prepared to give a specific range and so on. But, current rating is -- the current net debt level is of course very comfortable, but a very solid balance sheet going forward will be the key. Thank you.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Next question please.

Neill Morton - ***Investec - Analyst***

Thank you. It's Neill Morton at Investec. Could I just follow on from that comment and just go back to portfolio management with regards to gearing? As you sharpen the portfolio further in the future, can we assume that in dollar amounts acquisitions are offset by disposals and also, just in terms of acquisitions, perhaps just give us a clue as to what the criteria are? Are you looking at conventional, unconventional existing areas with synergies or new areas etc.?

Torgrim Reitan *- Statoil ASA - CFO*

Some years there will be more divestments than acquisitions and then some years the other way around. It's based on the opportunities that arise and the market conditions and so on. I think if you -- to better understand the future, I think we need to look back on what has happened over the last 10 years, divesting out of shipping, petrochemicals, Statoil Fuel and Retail a lot of other assets as well and then acquiring into things that can be something big going forward. So, that will be sort of the things for the future as well. So, I am not prepared to give any specifics on what will happen with the portfolio. You just have to be prepared that there will be changes to the portfolio going forward as well. So, thank you.

Oswald Clint *- Sanford Bernstein - Analyst*

Hi, Oswald Clint from Sanford Bernstein. Just maybe a question on the Gulf of Mexico. Some of your projects there Jack, St. Malo, Julia, and FIDR are close to it but you haven't quite given the volumes yet -- the capacity of those projects. Could you say what's happening there in terms of what you expect volumes to be? May be also just an update on what's happening in terms of your Gulf of Mexico portfolio. Thank you.

Torgrim Reitan *- Statoil ASA - CFO*

Okay, thank you. On St. Malo we have said that we assume production start in 2014 and from Jack, St. Malo and Julia, the capacity combined we expect to be around 170,000 barrels per day to as such. We haven't -- we haven't split it, so there are quite a few interesting developments in Gulf of Mexico coming on. We are going to continue our exploration efforts. There are several wells this year. And then we've quite a bit of acreage in the licensing round the last time and we have quite a few interesting prospects that we really would like to try out. So, we are positive with outlook on it and looking forward to get going with more production.

Hilde Nafstad *- Statoil ASA - Head of IR*

Do we have any further questions here in London? I can't see any hands? Then, I think we'll turn to the audio audience. Operator, would you be please be so kind as to introduce the first question over the telephone.

Operator

Certainly. We'll take our first questions from Teodor Nilsen from Swedbank First Securities. Please go ahead.

Teodor Nilsen *- Swedbank - Analyst*

Good afternoon. Just a question on CAPEX related to the recent attack In Amenas and the Arab Spring in general. Has the recent terror attacks changed the way you think on which areas you will allocate CAPEX to, like in the long-term from let's say 2015 and onwards will you allocate more CAPEX to less or areas with low political risk?

Torgrim Reitan *- Statoil ASA - CFO*

Okay, thank you Teodor. First of all, safety for our people is the absolute most important one. So, we will not bring back our people into Algeria until we know it is safe. And that is the way going forward as well. But it's important to remind ourselves that risk management and security assessment is a key judgment with any investment decision and it's constantly evaluated because we need to be very comfortable with where we send our people.

We are committed to our assets in Algeria. They are important to us. They contribute well to production. And then there is work to -- that needs to be done on the asset before it can be started safely. But and then we have started an investigation or agreed with the Board that we will start an investigation that will establish the facts and chain of events. It will see to that it takes out learning from what has happened and that we -- and then we improve our business. We need to wait for that investigation report to evaluate the consequences of what we are going to do.

Teodor Nilsen - ***Swedbank - Analyst***

Okay. Is it likely that you will change the way you think around the gas discoveries in Eastern Africa following the recent events?

Torgrim Reitan - ***Statoil ASA - CFO***

It is too early to conclude, Teodor.

Teodor Nilsen - ***Swedbank - Analyst***

Okay, thank you.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Next question please, operator

Operator

We will take our next question from Brandon Mei from Tudor, Pickering & Holt. Please go ahead.

Brandon Mei - ***Tudor, Pickering, Holt & Co - Analyst***

Hi. I just noticed in the Marcellus, it looks like you had a pretty significant ramp up there despite a lower rig count. Looks like about plus 12,000 barrels a day in the quarter versus plus 5 in 3Q. So, I just wondering if you could talk about what's going on there as far as rig count, wells drilled in the quarter and then wells drilled but not turned on.

Torgrim Reitan - ***Statoil ASA - CFO***

Okay, thank you. So you are right, production from Marcellus has increased. And that comes from a large inventory of drilled wells that has not yet been produced -- put into production. So that inventory is being capitalized on currently, stepping up production in Marcellus. So you are right, it is increasing even if we have reduced the rig counts.

Interestingly, this Marcellus gas will not be sold in the Marcellus area. It will go to Toronto. We have taken on capacity as you know there. The oil capacity in that pipeline and oil gas is now realizing a much higher price there in that area than the alternative was. So we are earning money in Marcellus currently.

Brandon Mei - ***Tudor, Pickering, Holt & Co - Analyst***

Can you put some numbers around how many wells are drilled but not turned on now?

Torgrim Reitan - ***Statoil ASA - CFO***

Svein, do you have it?

Svein Skeie - ***Statoil ASA - SVP, Performance Management and Analysis***

Just I think I need to come back because it's developing day-by-day.

Torgrim Reitan - ***Statoil ASA - CFO***

I suggest we take that with investor relations afterwards.

Brandon Mei - ***Tudor, Pickering, Holt & Co - Analyst***

Thank you.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Next question please operator.

Operator

We'll take our next question from Jason Kenney from Santander. Please go ahead.

Jason Kenney - ***Santander - Analyst***

Hi, there. Just a point of clarification please. I know you answered Paul earlier on the volumes from East Africa and whether they were in volume profile or not. And I think one other question revolved around will you need more CAPEX if you decide FID Tanzania. So, I was just really wanting you to clarify is CAPEX in the 2013-2016 plan for East Africa or not?

Torgrim Reitan - ***Statoil ASA - CFO***

It is the same answer that earlier, we have more wells to be drilled, there more interesting prospects that will be matured in that block and they are no firm plans for an investment decision related to this.

Jason Kenney - ***Santander - Analyst***

Okay.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Do we have another question, operator?

Operator

Yes. We have a question from Anne Gjoen from Handelsbanken. Please go ahead.

Anne Gjoen - ***Handelsbanken - Analyst***

Thank you. I wonder when it comes to the 2020 production guiding of 2.5m barrels a day how much of that is related to projects yet to start? And when it comes to projects yet to start, how much of that remains to be sanctioned? Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

I think there is one slide in my package which elaborates the various fields and when they are starting. There it is on page 13. Today you can see where we -- when we -- which ones are sanctioned, when we expect them to start up and the capacity they provide, so I hope that can be useful to answer your question on that.

Anne Gjoen - ***Handelsbanken - Analyst***

Okay, thank you.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Do we have any further question?

Operator

We have a question from John Olaisen from ABG. Please go ahead.

John Olaisen - ***ABG Sundal Collier - Analyst***

Hey, good afternoon in London. I wonder if you can give us a split of the E&P spending, the CAPEX spending and the Exploration spending split into Norway and international please?

Torgrim Reitan - ***Statoil ASA - CFO***

Okay. Thank you, John. Svein?

Svein Skeie - ***Statoil ASA - SVP, Performance Management and Analysis***

Torgrim referred to the supplementary information that we have provided in the details that we have provided. If you look at the investments going forward, we have said that around 40% will come -- will be at the Norwegian Continental Shelf, and then the split of what is then going in to the North American and the rest of the international portfolio is splitted out.

Also, we have said that 10% of the CAPEX in the future is then expected to be in the MPR segment. And there we have also then -- it's on slide 16 by the way on supplementary information. Here we have also then giving the split into how much is going into the liquids and then how much is not sanctioned.

Also, in the supplementary information at slide 13, we have then also then provided the exploration activity in 2012, the split between the Norwegian part of it and the international part of it.

John Olaisen - ***ABG Sundal Collier - Analyst***

That's very useful. Thank you. And a follow-up on that, given your guidance is based on a dollar amount, can you tell us a little bit about the cost inflation in this? With flat exploration spending, does that mean lower volume? I guess the rig rates are going up and seismic data -- day rates are going up and everything. Can you give us indication what's the volume -- how much is volume going down in Exploration and in CAPEX?

Svein Skeie - ***Statoil ASA - SVP, Performance Management and Analysis***

First of all, I think it's -- what we have done experienced now in 2012 is a very good Exploration result. We have spent $3.6b in exploration drilling down 46 wells in 2012 and then adding on $1.5b. What we have said then for 2013 is that we expect around 50 wells and then being at a similar level. What we will then also see then now in 2013 is that we will drill quite a lot of appraisal wells to ensure that we are maturing our resources in to reserves so that we -- that we have then -- have the ability then to develop them into profitable projects. So appraisal will be more important then in 2013.

John Olaisen - ***ABG Sundal Collier - Analyst***

But given the exploration success you had lately and all the interesting exploration acreage you have available, why don't you boost exploration more?

Torgrim Reitan – Statoil ASA - CFO

Thank you, John. It is a tempting question and so lot of opportunities -- exploration opportunities out there. This is an optimization exercise based on all the rigs that we have available and all the prospects and all the discoveries that we have made. The more discoveries you have, the more appraisal you need to do. So, that's why there is quite a bit of appraisal this year. But I'll bring back home your advice, John. So, thank you.

John Olaisen - ***ABG Sundal Collier - Analyst***

Finally -- final big question. Will we see a well in Angola for you guys in '13?

Svein Skeie - ***Statoil ASA - SVP, Performance Management and Analysis***

I think we need to move on to the next question now, John. We'll take one more before the break and that is Lars-Henrik Roren from SEB. Please go ahead, Lars.

Lars-Henrik Roren - ***SEB - Analyst***

Good afternoon. Do you hear me?

Hilde Nafstad - ***Statoil ASA - Head of IR***

Yes, we do. Just –one question please.

Lars-Henrik Roren - ***SEB - Analyst***

Thank you. Just a clarification on your operating cash flow guidance from 2013 to 2016. As far as I understand, this is based on $110. But you also said that you have an operating budget price or internal planning price. Can you confirm that and can you also tell us what kind of price that is?

Torgrim Reitan - ***Statoil ASA - CFO***

, Thank you. Thank you. Yes we have another planning price. If I can tell it, no. So, sorry about that but we use different prices. We use a very low price where we sort of test all our projects and the profitability and the sustainability of the Company. Then we have a bit higher prices and then we use one price that is even higher than what we see today, because there is an upside as well.

Lars-Henrik Roren - ***SEB - Analyst***

Okay --

Torgrim Reitan - ***Statoil ASA - CFO***

It's very important to us to see to that we can sail safely through any scenario.

Lars-Henrik Roren - ***SEB - Analyst***

Yes. But if you have an internal planning price, that is -- can I ask the question?

Hilde Nafstad - ***Statoil ASA - Head of IR***

Well, I think we actually have to round off for the break now, Lars.

Lars-Henrik Roren - ***SEB - Analyst***

But this was just beginning of the question, okay.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Okay, Go ahead finish it up

Lars-Henrik Roren - ***SEB - Analyst***

Okay. But just to understand, because if you use your sensitivities and say that that dollar -- oil price will be $10 lower and with the current and not US dollar price then you will add on for it in the next four years approximately $6m to $8m in finance deficit. That will increase your net debt rate by 10 to 12 percentage points. Is that what you also included in your internal planning? That you plan for a higher debt ratio than your sensitivities or that you show us.

Torgrim Reitan - ***Statoil ASA - CFO***

Yes. On this issue, we expect net debt to grow slightly during 2013. Then we are investing and if prices drop significantly, we have of course to borrow money. I have no problems with borrowing money. It's actually a very tempting market out there. And but everything needs to be balanced. To add some debts when you are growing, I think that is -- that's perfectly fine. But the point is that, we will run this Company based on a very solid balance sheet. And I think you need to take a bit comfort from the history here.

Over the last 10 years we have seen oil prices between $17 and $147. We have paid a dividend, 50% in that period. We run with a AA minus rating and we had had a production growth of more than 100%. So things are changing and that is the art of running an oil and gas company. You need take into all of these uncertainty and just see to that, just sail safely and you are able to grow and you are able to create value.

So we are in an investment cycle. We intend to do it. And then we have a lot of tools, then we have also a lot of flexibility in the investment program to address the situation.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Thank you very much. That will have to conclude this Q&A session. We'll have a short break. There will be refreshments outside at the gallery and we will reconvene again at 2pm. So I'll ask everybody to please be on time in respect of the audio and the webcast audiences. Thank you.

PRESENTATION

Hilde Nafstad *- Statoil ASA - Head of IR*

Welcome back everybody. We will now have the Executive Vice President for Development & Production, Norway, Oystein Michelsen present the development of the Norwegian Continental Shelf for us. So please welcome Oystein.

Oystein Michelsen *- Statoil ASA - EVP, Development and Production Norway*

In June 2011 I shared my perspective on the NCS with the investment community in New York. My main message then was the NCS is not the sunset region. In 2011 I said that we planned to develop more than 500,000 barrels per day of new high value production towards 2020 and we planned to produce more than 1.4m barrels per day in total in 2020, and we even see exploration potential in addition to this.

But now today my key messages are the following. Our operational performance has improved. Our portfolio has been high graded through asset transactions. New projects are maturing on schedule and at cost, and the exploration success to date provides additional volumes and optionality. So, in short, Statoil on the NCS delivers according to plan and most importantly we are on track to meet the 2020 ambition.

Our Company has worked systematically on safety and efficiency over a number of years. The serious incident frequency has been consistently reduced. Production efficiency has improved due to more efficient maintenance and we have reduced unplanned losses, regained shut in wells and increased our drilling and completion capacity. And according to the North Sea Benchmark Study our unit lifting cost has improved relative to the industry average. And I am convinced that safety, efficient operations and a minimized CO_2 footprint are all prerequisites to maximize value creation. So this is why we have a continuous focus on improvement in these areas.

As you may know, we have undertaken several portfolio transactions since June 2011. The two largest were the UK company Centrica and secondly the Germany company Wintershall. I am pleased to see that we have managed to reach an agreement on transfer of operatorship to Wintershall, a highly competent newcomer on the NCS. We see this as a win-win outcome for the two parties. The rationale behind these transactions was to enhance value creation and growth. So we want to high grade our portfolio by exiting non-core assets to strengthen our position and define growth areas, and to recycle capital into new growth opportunities.

As shown on this graph, these transactions represent a net divestment of approximately 60,000 to 70,000 barrels per day of production over the coming years. But let me underline that these transactions are not driven by lack of belief in the NCS. It must be seen within the context of an increasing number of business opportunities there and our strategy to concentrate our efforts on the NCS. So we are reallocating our resources from the opportunities of the past to business opportunities of the future. So our policy of active portfolio high grading will continue.

And in addition to exploration and production, the core task of an oil and gas company, as I see it, is project maturitization. And this graph shows the progress since June 2011. The top left graph is the new project portfolio that I presented then. Since 2011 we have made progress in three respects.

That is, one, we have completed five projects. This represents approximately 90,000 barrels per day of new production in 2014. During the coming three months we will add another 60,000 barrels per day from projects now close to production start. And, two, we have sanctioned 11 new projects. In total this will add 240,000 barrels per day in 2017. And, three, we have added six new projects to the new project portfolio, among them Skrugard and Johan Sverdrup. According to our current plan these will produce 200,000 barrels per day in 2020.

I would like to underline that this is the result of a consistent field development strategy over a number of years. In 2011 I said that we planned to develop more than 500,000 barrels per day of high value new production towards 2020. Today I believe we will develop more than 650,000 barrels per day of new production. Due to this positive development in our new project portfolio we are on track to fulfill our 2020 ambition.

We are fully aware that the challenge going forward is project planning and execution, and we have already taken steps to prepare ourselves. On the external side we have modified our supplier strategy. We have gradually increased our use of global supply market and thus expanded the supply capacity and the competition for our projects. On the internal side we have taken active steps to improve the planning and monitoring process. We have increased the focus upfront planning, we have strengthened the monitoring of project cost and project progress, and we have simplified and thus increased efficiency in the monitoring of our contractors.

The project execution on Gudrun and Valemon has been excellent. That is on schedule and within cost. We are well positioned to tackle the project execution challenge going forward.

In addition to our portfolio of large projects, we have a number of smaller projects ongoing, typically subsea tie-in projects. As you may remember we introduced a fast track initiative in 2010. The objective is to expedite project execution and reduce investment cost through simplification and standardization. At present we have 12 fast track projects ongoing. Each project may be small. However, in total they contribute significantly to our portfolio of new production, more than 100,000 barrels per day towards 2014.

And even more importantly the value creation is higher. As shown on this graph, the average breakeven price for our fast track portfolio is below $50 per barrel. And the net present value of the current fast track portfolio is slightly larger than the Skrugard project, a highly profitable project in the south. And, as I see it, this clearly demonstrates that our fast track initiative is a success. A systematic exploration program in the vicinity of existing platforms will create additional business opportunities going forward. The fast track initiative is an important part of our strategy and it will be continued.

Now to value creation. So let me highlight three different value creation aspects of our portfolio. First the cash flow characteristics of 2012. We are currently, as I've shown earlier, investing in new production capacity. Our present cash flow from operations, despite substantial tax payments, allows us to self-finance all investments in new NCS business opportunities and in addition we provide NOK40b in net cash to Statoil corporate.

Secondly, let us look at the value of our new project portfolio. The average breakeven price of our total new project portfolio is $50 per barrel. In other words, our project profitability criteria are met even at a $50 price level. To me this illustrates that our new projects are profitable and robust.

Third, the external market assessment of NCS assets. And the two major deals we made recently imply an average transaction multiple of $15 per barrel. And I am certainly aware of the fact that for a number of reasons that you all know very well, this multiple cannot be used as a yardstick to assess the value of the total NCS reserves. But if I were to apply this multiple to the Wood Mac estimate of our NCS commercial reserves it would imply a value of approximately $130b.

So my observations from these three variables are, one, the strength of our value machine, our currently-producing assets, is impressive. And, two, our new project portfolio is robust. And, three, the transaction market recognizes the underlying value of the NCS.

In 2012 we launched an increased oil recovery, IOR, initiative. Our ambition is to increase the average oil recovery of our NCS operated fields from the present level of 50% to 60%. In order to avoid any misunderstanding, I would like to be clear on three basic issues connected to this ambition. First, the ambition is value driven not volume driven. We will not engage in IOR projects that do not add value and our IOR projects are highly profitable. Second, this is a long term goal. We expect gradual increases via incremental steps. Please note our 2020 ambition of 1.4m barrels per day is not dependent on reaching a 60% average recovery rate. And third, the major part of this ambition will be realized after 2020 and 60% recovery will require continued technology development.

As part of this ambition we are currently building an IOR Research and Test Center in Trondheim. The Center is due for completion towards the end of this year. Statoil is a technology-based upstream company. We do believe that technological progress creates value and this is why we see value in increased oil recovery.

So let me now turn to the larger picture, the main industrial steps going forward, that is the further industrialization of the NCS. Due to our history on the NCS, the industrial architect capability is one of our core competencies. This is a continuous process in which we pursue a number of different industrial tasks in parallel. We actively explore for new reserves close to existing installations. We tie in smaller discoveries to existing platforms, typically fast track projects. We identify the best area development solution for larger new discoveries. And we find the optimal joint export solution from a new area. And we secure best practice project execution.

I am convinced that this is a process in which we can create high value both for shareholders and the larger public.

Now we'll start in the North Sea, the most mature part of the NCS. The recent discoveries in the Utsira area, Edvard Grieg, Ivar Aasen and Johan Sverdrup, and the ongoing development of Gudrun and Dagny, have definitely revitalized this part of the North Sea. We now see the emergence of Sleipner/Utsira area in which our production will increase from the current level of 160,000 barrels per day to more than 200,000 barrels per day in 2020, and beyond this we see interesting exploration potential in Sleipner/Utsira.

Due to this positive development in the Sleipner/Utsira area and the significant remaining reserves identified further north, we believe that the present production from the North Sea of 880,000 barrels per day will be maintained at a similar level in 2020. Therefore, as I underlined in 2011, we do not see a sunset future even in the most mature part of the NCS, the North Sea, towards 2020.

Turning now to the Norwegian Sea. As you may know, in January we submitted a plan for development and operation of the Aasta Hansteen project. Aasta Hansteen is a 47b cubic meter gas field located in the deep sea part of the Norwegian Sea. The planned production start date is 2017. It will add 100,000 barrels per day to our production. Polarled, the 480,000 kilometer gas pipeline to the Omen Lange facilities at Nyhamna, will link this new gas discovery to the European gas market and add gas export capacity from the Norwegian Sea. Our Norwegian Sea production will consequently be maintained at the present level, around 400,000 barrels per day also in 2020.

I would like to underline that these two projects represent the opening of a new gas province in the Norwegian Sea. I will not speculate on the result of future explorations in the Norwegian Sea, but it is a fact that the Aasta Hansteen development and the construction of a new gas pipeline opens new industrial opportunities. Further discoveries in the vicinity of Aasta Hansteen field and along the new pipeline will become more attractive.

The Barents Sea has for a number of years been part of our exploration frontier and I would say it still is even though there remains uncertainty as to the resource potential in the Barents Sea. The oil discoveries Skrugard and Havis in 2011 and 2012 are promising. These are located 240 kilometer north west of Hammerfest and the water depth is in the range of 360 to 400 meters. We are studying two main development alternatives, that is one with offshore loading of oil and one with oil transportation to an offshore/onshore terminal, and we will make a decision on the development concept this month. According to our current plan we foresee a production start in late 2018 and it will add up to 90,000 barrels per day to our production at plateau.

I would like to underline that the area has further prospectivity. We are in the middle of the planning process with regards to industrializing a new oil province in the Barents Sea and so far we have drilled three exploration and appraisal wells on Skrugard/Havis. We plan to drill eight new prospects this year in the Barents Sea, four of them on Skrugard. Based on our present reserves, our production in the Barents Sea is expected to increase from 40,000 barrels per day up to 140,000 barrels per day in 2020. Beyond 2020 the ongoing exploration and future license awards may add to this.

In the future we expect the Arctic will be of increasing importance for our industry and the Norwegian Barents Sea is the most ice-free part of the Arctic. It is closer to existing markets than other parts of the Arctic and there is no other area in the Arctic that offers more attractive framework conditions for exploration. Further large oil and gas discoveries in the Barents Sea would provide a new energy region for Europe and Statoil has more experience in the Barents Sea than any other company. This means that we are strongly positioned to move further north into the Arctic.

To conclude, the NCS, the backbone of Statoil, is on track to meet the 2020 ambition. Our efforts to improve safety and efficiency do work and we have made two major steps in high grading our portfolio. This will continue. We are maturing new projects according to schedule and cost, and we have taken action to continue this success going forward. We have a robust portfolio that creates high value. We consider IOR to be an important value creation competence, especially in the longer term. And we see the emergence of three new oil and gas industrial regions on the NCS. And the NCS is a strong base for Statoil and will continue to be for decades to come. Thank you for your attention.

Then I have the pleasure of introducing my good colleague, Eldar Saetre, responsible for Marketing, Processing and Renewable Energy in Statoil.

Eldar Saetre - ***Statoil ASA - EVP, Marketing, Processing and Renewable Energy***

Thank you Oystein. Good afternoon ladies and gentlemen. It is really good to see you all and also good to see quite a lot of familiar faces still actually. As some of you might know, I was the CFO of this Company for quite a few years before handing over the position to Torgrim two years ago more or less exactly now. And I know and I can see today, Torgrim, that you are enjoying yourself in this new role. That's very good. And I think you have had really good reasons to do so. It has been actually a tremendous achievement and tremendous results that have been delivered from the Company since then.

Then I have a confession to make and that is that I have also enjoyed myself, a lot actually, being responsible for the quite sizeable but also extremely dynamic mid and downstream part of this business. It has been, as I said, truly exciting, and the gas part of the business, which is my subject today, represents actually a big part of this excitement.

So on this background, again my key messages today are the following. First of all that Statoil has, and it has been said before today, delivered record gas sales and earnings in 2012. Secondly that we actually believe in a strong, robust outlook for the European gas market. And thirdly, going forward that Statoil is well positioned, well equipped to capture value from the ongoing changes that are taking place in our, in some of our gas markets. So my main focus today will be on Europe, but I will also touch upon our US gas business towards the end.

2012 was a very good year for Statoil's gas business, record gas sales, very strong gas prices and actually the highest earnings ever in relation to the gas marketing and trading activities. As such our total gas sales increased by approximately 10% compared to the volumes that we saw in 2011. And this was achieved in a market that was actually declining compared to the year before, implying, as you can understand, an increased market share for Statoil. In addition the average global realized the global realized gas price we achieved last year was the second highest ever. And in Europe, if you look at Europe alone, we saw actually the highest gas price that we have ever seen, in Norwegian krone that is.

So I believe this demonstrates the sustainability of our business model while at the same time we are also adapting to the changes and the structure changes that is actually happening in our markets.

Most of the value is passed on from my business to the upstream business areas through the transfer pricing mechanism and I know Oystein is very happy about that. But, as Torgrim mentioned earlier, our adjusted earnings for gas marketing and trading, the money that is left in my P&L, was the highest ever at NOK14.7b compared to NOK13.2b the year before. And then you should note that this happens despite the fact that we have divested a significant part of the gas led infrastructure, from 29% to 5%, which typically represents NOK4b to NOK5b in income loss from that divestment annually.

Then you might ask, so I will ask the questions so you don't have to ask it later, if this is a sustainable level of earnings. My response to that would be that we do have, I think we have proven and I know we have a solid competence base, skilled and a professional team, and also a very solid and flexible asset base. And that combination is very strong. Then you should obviously be prepared to see variations in the results as the volatility and opportunities varies. Last year was in many ways a reasonably good year for my P&L in that respect.

Then, as you say, to this question that I am also confident that we will be able to deliver solid contributions from our gas marketing and trading over time. And the justification for such a statement is actually, we use the word backbone, of what I am going to talk about in this presentation. But first I will say a few words about the European gas markets and our perspectives on the gas market.

We believe in a robust, we use that word, outlook for the European gas market as Europe needs new gas supplies actually in competition with other regional markets. The outlook for the overall European gas demand is somewhat uncertain at least in the short term, but growth is expected to resume as we move towards 2020, that's our views. Energy policies currently provide limited support for gas demand growth and you know also economic growth in general is stagnating. However, we expect demand to rebound and increase by almost 100 bcm from now until 2030.

The key feature on the supply side is that indigenous gas production in Europe, excluding Norway is in decline and that this trend is actually set to continue, as you can see here. Between 2008 and 2012 indigenous gas production came down by some 50 bcm. So this leaves Europe with a large supply gap that needs to be filled from new and more costly supply sources. And this gap can be as high as 250 bcm, big number, by 2030 according to our estimates. This supply gap can be filled with new pipe and gas from Russia and from Norway, as mentioned by Oystein, and also from the Caspian region, which I will revert to.

And in addition Europe will need continued and increasing supplies of LNG. Generally speaking, new LNG projects will not be dedicated for Europe. This implies that gas buyers in Europe will have to compete with buyers in other import regions. The cost of developing new gas value chains into Europe, in particular LNG value chains, underpins a strong price outlook. This also goes for potential future LNG exports from the United States as the delivered cost from US LNG to European hubs would not be particularly low.

So, in conclusion, the price level for gas in Europe will over time have to, over time have to allow for new and profitable development of the required supply, both pipeline gas and LNG. Potential downsides or risks to the demand level are driven by, as you can see here, unfavorable energy and climate policies and obviously also lower economic activity. But on the other hand the price risk for natural gas is balanced due to the potential tightness in supply that I just talked about.

Within this framework of a robust market outlook, let me reflect a little bit on the structural changes that are taking place in our markets. We do see that regulatory efforts to stimulate the development of gas commodity markets on the continent have worked in some markets. Ensuring access to traded hubs for all players has increased the level of trading activity. For instance, the volumes being traded at the NCG and the gas pool hubs in Germany have both increased by over 300% during the last three to four years.

However, today we see what we call here and illustrate to you a three-speed Europe. In Northern Europe, as I touched upon, we see some real changes taking place while Southern Europe has adapted liberalization legislation as such, but are in reality lagging behind in this development, and Eastern Europe countries are the least liberalized markets. So for us this means that also our adaption to these more market-based terms and conditions will materialize at different speeds, implying that the old market structures are still most relevant for markets that are in an early phase of this process of maturation.

So these different regional and market dynamics will also create trading opportunities all along the value chain for a company like Statoil. Market players that have a diversity of assets including a lot of flexibility will be able to capitalize on this. And the liberalization process provides Statoil with new opportunities to enter into new growth markets to diversify the composition of our sales channels and also getting direct access to new customers. I will come back to this. And finally these changes also have some quite obvious implications for gas price formation and product bundling in the most mature markets and that is actually my next subject.

So we all know that restructuring and adaption to more market based gas pricing requires both the existence of transparent price quotations at sufficiently liquid hubs and open access to infrastructure to attract market participants sufficiently to create the liquidity that is needed and sufficient competition. When these conditions are fulfilled and we are facing a fully liberalized market the historical oil indexation is likely to be less used.

The graph shown here compares the input prices to Germany, the so-called BAFA price, which typically was the proxy for oil indexation, representing contracts to Germany, versus a gas market price contract which is illustrated here by the NBP in the UK. These two price formation mechanisms for exactly the same, exactly the same product is not likely to coexist in the long run in a fully liberalized market environment.

When it comes to new sales in such a market environment, I'm talking about new sales, both oil indexation and other non-gas indices may still be an option for certain customers for various risk management purposes. This kind of pricing could, however, entail hedging of such and there would typically be a cost associated to that kind of risk management services for the customer.

And then bear in mind that the pricing in traditional oil index contract and a market-based sales contract is not comparable as these two actually represents very different products. Hub-based sales equals flat volume sales whereas the traditional oil indexed contract were a bundled product within an all-inclusive price for the commodity as such and also for the -- including a significant off-take flexibility. With a flat and hub-based sales the seller, Statoil in this case, regains control of this flexibility and can sell it as a separate product or use it as a trading tool in our trading activities, and we are doing both.

So now let me elaborate on Statoil's approach to these market developments. We seek to address these changes in an opportunity-driven manner. The liberalization process, which breaks up old and often inefficient monopolistic value chains, creates a new dynamic where both old and new players have access to the same markets on equal terms. Germany represents a very good example actually of a market that is going through this process. Suppliers get access to new customers such as trading companies, regional and local distribution companies, industrial end users big and small, and also power companies.

And Statoil is very much an active participant in these market developments and we have expanded our commercial relationship over the last few years quite considerably. From 2009 until last year the volumes sold through the traded markets and through direct sales activities to end users almost tripled from around 10 bcm to more than 25 bcm last year. And going forward this part of our business is going to grow even further, as indicated also on this graph. This means that we are developing new commercial relationships with large end users, utilities and local distribution companies like, in this case, the German Stadtwerke.

In addition we expect to continue to grow our short term gas trading activities with our liquid hubs, which today, as you can see, represents around 25% of our total equity volumes. Long term contracts will continue to be an important part of our business but they will most likely take different shapes and forms reflecting the various underlying market characteristics.

In this context we will continue obviously to develop our relationships with our legacy customers, strong and important relationships. At the same time we will develop new relationships and our recent sale to Wintershall in Germany is a good example of our ability to do that, a new type of relationship and a strong long term partnership. Our strategy is to mature the total capacity of our sales channels, which will be more diverse than they have been before, but to expand the total capacity to be beyond the physical production capacity that we have. And that enables us to shape the portfolio structure and the sales channels mix in a way that maximize value creation over time.

Let me then say a few words about our price risk profile. We have actively managed our gas business and modernized our contract portfolio over the last few years. Through commercial negotiations with our existing long term customers we have gradually adapted to these new market realities to the extent this has been justified.

The upper chart on this slide illustrates the development of our price exposure in the global gas sales portfolio, showing approximately 55% at hub price, hub-related price last year, 45% oil indexed. And the increasing share of hub, gas hub pricing is a result of several factors. It includes increasing sales and production in the US and also growing sales to the UK market, both markets which have been fully liberalized for many years, and gradual adaption to gas hub pricing in continental markets whenever this has been considered relevant.

In the contract negotiations we have also been seeking what we call structural solutions, which typically could be outside of the formal price review process. Examples of such structural solutions is access to markets and access to hubs, access to flexibility that I just talked about, and in some cases also volume reductions that we have agreed upon.

In addition we have reduced the level of price review exposure in our long term contract portfolio, as shown on the lower chart here. Negotiations have now been concluded for the majority of the volumes, which has been up for renegotiation in gas year 2011 and 2012, and we have agreed on sustainable solutions with all parties.

Let me then remind you briefly of our unique NCS position. Our competitive features includes the following elements. Huge gas reserves, flexible production assets, quite unique, and access to an integrated and very cost-efficient transportation system which is directly tied into attractive markets, short distance. To monetize these positions we capitalize on commercial competence and operational skills that has been developed for over 30 years.

An important part of this strategy is to build on our huge upstream flexibility and the beneficial cost position. The Troll and Oseberg fields give us access to physical upstream production flexibility based on both day-to-day and seasonal demand variations. We will also continue to use the integrated transportation system to access to different markets to optimize and maximize value creation. And our LNG business will continue to create arbitrage value by diverting LNG cargoes to premium markets around the world -- I'm talking really around the world -- whenever we see opportunities to do that.

So before leaving Europe, you can see on the slide on the right hand corner of the map there is an arrow coming in there, I would like to give you the latest status on our growing gas position in Azerbaijan. The Shah Deniz II project is one of the biggest of its kind and we have a 25.5% stake in that, material stake. And it's really key to opening up the Southern Gas Corridor from the Caspian to Europe. The project is now progressing towards final investment decision late this year and first gas in mid-2018.

In addition to the upstream investments in relation to this project, the project also requires significant investment in midstream infrastructure. We are talking about more than 4,000 kilometers of new pipelines that need to be put in place. This includes the expansion of existing pipeline capacity in Azerbaijan and Georgia; it includes a new pipeline through Turkey, and Turkey is a long country; and also onward capacity from the border of Turkey into Europe, which would be either the trans-Adriatic pipeline or the Nabucco West. And Statoil has an option to become shareholder in actually the entire value chain, from source to market.

The gas sales negotiations are very important with the EU buyers were resumed last month. And the Shah Deniz consortium target's final selections of buyers, and that would also have to be combined with the selection of pipeline route into Europe, ahead of the final investment decision to be made this year.

Then let me spend some time on our growing position, gas position in the US. The United States is the largest growth market for Statoil outside of Europe. We currently market 4 bcm to 5 bcm of equity volumes in the US, which is mainly production from the Marcellus region. As we are all aware of, the gas prices in the US remain at the low level. We were hoping for a development but it didn't materialize. In the short term prices will continue to be driven by weather, obviously temperatures, coal prices and short term drilling economics as such.

However, we believe that as demand growth continues, mainly from structural shifts to more use of natural gas in the power generation sector, that prices should slowly trend upwards. For our Marcellus volumes we have secured access to growth in premium markets in both the Greater Toronto area and in New York City, and this has enabled us to achieve materially higher prices for our gas compared to the local markets in the production area. The price graph that you can see here illustrates the price difference between Dominion South Point, which is the best proxy for the local markets, Toronto and New York and it's all relative to Henry Hub. And as you can see, there is a significant value uplift for sales to Greater Toronto and also to New York markets.

One additional point, we also add value to our Marcellus production by means of ethane extraction and sales, realizing a significant premium compared to the alternative of actually blending this ethane into the sales gas. So we do all we can to extract and maximize value.

Going forward we will use our competence and resources to develop similar types of thinking, value chain thinking, premium markets. It's important to cater for growing production also in the liquid-rich Southern Marcellus and I think our latest acquisition in this region will give us even more leverage in that respect.

Finally Hilde, to conclude my presentation, I always like to repeat and I would leave you with these three main messages of today. During 2012 we have seen record gas sales, record gas prices into Europe and also record earnings, and I think this demonstrates the sustainable business model. We do see a continued strong outlook for the European gas market and we are convinced that Statoil is fundamentally well positioned, well equipped to continue to capture value also in a more liberalized market environment as it emerges.

So thank you very much for the attention and I leave the word to you, Hilde.

QUESTION AND ANSWER

Hilde Nafstad - ***Statoil ASA - Head of IR***

Thank you Eldar. We will now run another Q&A session and this time we will have both Eldar and Oystein available for answering questions regarding their presentations. Once more we will start out with taking questions from the audience here in London, and again please state your name and the name of your company before your question. And I also again ask you to please limit yourself to one question at a time. And we can start up with Jon. Please Jon?

Jon Rigby - ***UBS - Analyst***

Is that one question per principal on the stage? Because I did have -- maybe I'll come back with my second one. So if I could ask my first question for Oystein. I'm trying to relate the production targets that you have to the CAPEXCAPEX targets you've also announced in Norway and I'm conscious that over the next two to three years you're probably building up developed proved reserves in advance actually of tick-up in production from things like Johan Svederup etc. So are you able to give some guidance on capital intensity, so a development cost, either blended or by region, Norwegian Sea, North Sea, Barents Sea, that we can use as a guide as a development cost, unit development cost for Norwegian oil and gas over the next decade or half a decade?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

We don't give all those details for all of our separate projects, but we are guiding on CAPEX numbers over the next years in total. So I'm not sure if I can give you all the details. But, as I said, we have an average breakeven price of $50 per barrel. That is some indication of what it costs to develop the NCS.

Jon Rigby - ***UBS - Analyst***

Sorry, I don't need it per project. I'm just trying to get an idea of the build-up of capital intensity and then almost the release of capital intensity as you come off the back of what looks like quite an active development process over the next few years. So I'm just trying to get an understanding of the unit CAPEXCAPEX intensity so that we can plot that out over the decade.

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Maybe we could come back to this just to make sure we can give you what you are actually asking for.

Jon Rigby - ***UBS - Analyst***

Alright. Okay.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Yes, Theepan.

Theepan Jothilingam - ***Nomura - Analyst***

Hi, afternoon. Theepan from Nomura. Sort of a derivative of that question I guess, but I guess the backbone of your growth in Norway has grown over the last couple of years. The question I have is do you think there's enough capacity in the local contractor market in Norway to meet your aspirations or are you increasingly going to use Asian contractors to deliver on your projects?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Well, as I said, we are increasingly using the international supply market and we have been working on that for some time actually to qualify more contractors and to qualify more suppliers in the market and also how to team them up with the right competencies that we need on the NCS. So we have been preparing for that. We have seen that this activity level is more than can be absorbed by the local markets. But still for example Norwegian suppliers are very heavily involved in our projects and they're contributing a lot. But we have prepared for that and we see that there is an international supply industry that can provide us with the capacity we need.

Theepan Jothilingam - ***Nomura - Analyst***

So is there a very deliberate strategy therefore to keep the market in Norway, let's say, as subdued as it could be?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Do we keep the market at --

Theepan Jothilingam - ***Nomura - Analyst***

Is there a strategy therefore to keep that market in Norway -- let's say, not to over-inflate that market? You are clearly the biggest suppliers.

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Yes it's important to keep competition in the market. That is important for us. So we would like to see the supply market being able to compete with us so that we are not stuck with a limited capacity because then the prices and the cost level will rise to more than we can live with.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Haythem please?

Haythem Rashed - ***Morgan Stanley - Analyst***

Thank you. Afternoon. It's Haythem Rashed from Morgan Stanley. My question is for Eldar actually on your presentation on gas. Just really if you could perhaps give some more color and substance around the comments you made around the expanding of the commercial relationships and increasing that share to sales directly to end users in trade markets? I just wondered if you could talk a little about what Statoil is doing to prepare for that in terms of resourcing staffing? Do you feel you're ready as an organization to grow that or is that something to come? Thank you.

Eldar Saetre - ***Statoil ASA - EVP, Marketing, Processing and Renewable Energy***

Okay, I appreciate that question because that gives me an opportunity to repeat that this is -- we are looking for opportunities in this new reality. And that means that we are not reactive; we are proactive. So we seek to prepare ourselves before the event, to put it that way, and build the organization, build the capabilities on top of the competence base that we already have to be able to deal with a much bigger number of customers, which is one of the features of the future. By selling directly through the hubs, increasing volumes, and also by selling directly, increasing volumes, we will have to deal with a lot of -- many more customers and smaller customers. So we will need to build the competence to deal with that.

And we are doing that quite aggressively. We have a direct sales organization in Brussels that has been doing a tremendous job and has developed very good relations and expanding their market presence and has grown, as I indicated there, that part of the business quite significantly. And we have high ambitions for further growth in that area. And our trading activities, which is carried out from London, first of all is making good money so I think we demonstrate on the way that we are up to the task. But we are also preparing ourselves to do more volumes and utilize the whole set of opportunities that Europe gives us and the flexibility that we have. So we are expanding that both geographically and also in terms of building our capacity to run that business.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Yes, Rahim first.

Rahim Karim - ***Barclays - Analyst***

Thank you. It's Rahim Karim from Barclays. Eldar, you talked about the fact that your long-term contracts were taking different shapes and different forms, and you're also looking to sell more of your gas to end users directly. I was just wondering if you could perhaps talk a little bit about the different commodity prices or different price risks you might be willing to take on or that you are having to take on as a result of these shifts? I guess we all assume or mainly assume that those contracts are going to be spot gas price linked or some derivative of that, but perhaps you could give us a sense of you're linking contracts to other commodities or other pricing references?

Eldar Saetre - ***Statoil ASA - EVP, Marketing, Processing and Renewable Energy***

You know the legacy contracts have a huge component of oil in it, the gas oil, fuel oil, so obviously we are willing and will continue to be willing to take on that kind of risk. It's a core risk for Statoil as such so no problem. We will increasingly take on gas market risk into this and we like that; it's also part of our core risk.

So and then we see that there is developing a diversity of desires and needs from various customers. In particular when we go down to the more shorter term and more smaller customers with more specific needs, we see a variety of things that we need to relate to. And one of the basic principles is the product unbundling here. That when you have -- you start with a hub price on these new sales and if there is something which has a price tag attached to it, that basically has to be priced into this. And that could also have a hedging type of nature. So we are into some kind of commodity that we might not want to prefer as a core risk for us and then we might look at what is the cost of taking that back to crude oil or gas or something.

So I think we are very conscious in our strategy as to what is the kind of risk that we like and so on.

What I should say is that when it comes to the power segment, that is an issue because they are facing basically power -- electricity risk at the end and gas risk on the other end. And there is a risk component there to the extent that there is spark spread positive (inaudible), which is a problem currently. But where we have discussions and have developed concepts involving ourselves in discussions, which is about how to look upon that risk. And we had a couple of contracts which have been signed which have more complex risk and which also have component of power risk and electricity into our risk profile. That's not a big chunk but there are those kind of components as well.

Hilde Nafstad - ***Statoil ASA - Head of IR***

And I think there is Neill with our next question please.

Neill Morton - ***Investec - Analyst***

Thank you. It's Neill Morton at Investec. Back to the NCS. Oystein, you mentioned that back in New York two years ago you gave a 1.4m barrel a day target for 2020. Your projections today now include new volumes from the Utsira High and from the Barents yet the target's still the same. I just wondered what the offsetting factor was.

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

We can say we have had a development. We are also divesting from the NCS. That is affecting our production. And also the target or the ambition that we stated in New York one and a half years ago also included exploration success; that was a part of it. So this is what we do actually have? We have confirmed that the potential in the exploration prospects that we were looking at. That actually is true and that is adding onto our production in 2020. And of course we are much firmer on our guiding now than two years ago.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Michael, please?

Michael Alsford - ***Citigroup - Analyst***

Hi. It's Michael Alsford again from Citi. Can I maybe just refer back to the European supply and demand chart that you talked about on the gas market. Clearly we can all model maybe the supply declines in the existing production base, but can you maybe talk a little bit more about your thoughts around the demand targets you lay out? I think you talk about 20% increase in European gas demand until 2030, but maybe could you talk a little bit about where you think gas is as a percentage of share into the utilities market, for example? Are you saying that it's going to increase or is it simply just a recovery in GDP that's driving that assumption? That would be great. Thanks.

Eldar Saetre - ***Statoil ASA - EVP, Marketing, Processing and Renewable Energy***

There are several factors that go into that belief as such when it comes to the overall demand and then I'll discuss the price as a separate thing because that's strongly related to the supply side as well.

When it comes to demand, what we do see is that -- and honestly we believed a few years back that the power sector would be the main engine and the driver for growth as such. That has not materialized and that's also why we have seen a contraction in the European gas demand in combination with the economic situation in Europe which hasn't rebounded. We are still optimistic about the power sector as such, but let me remind you that there are other sectors also where gas plays an important role. When it comes to the power sector we think it will be rather astonishing if Europe at some point doesn't recognize the fundamental nature of gas in terms of climate policies and the effectiveness of gas in terms of coexisting with renewables and so on.

So we think that it might take some time but eventually there will be policies established, like we see in the UK actually, which is favoring gas slightly more than we typically see in Germany, for instance. And we think also that the EU in terms of the ETS system will have to come together at one point. They are struggling but they will have to come together to establish a system that makes this come into the money in a way and have an impact on what was the starting point for the whole ETS system. So these more fundamental -- there are variances from year to year here, but we have to take a fundamental view and we think that is going to drive also this sector longer term.

And then it's going to be differences depending on what parts of Europe you're looking at. We're talking about 100 bcm of additional demand which would be part of the 250 bcm glut that I was talking about. We don't think that the material part of that is going to come in Northern Europe. It is probably going to come in Southern and Eastern Europe. So that is also an aspect of this which is important in our analysis.

Another component is that obviously renewables has played an important role, in particular in countries like Germany so far, and displacing gas, and the price of coal has made it superior to gas in this environment. We also think that fundamentally the cost of renewable subsidy is increasingly, I'm also looking at the economic situation in Europe, coming up among politicians as an issue. And we see those debates emerging also in Germany now. So we think that that sort of -- the politicians' view on how much financial willingness there is to invest massively in further development of renewables is also going into this equation.

So all in all, renewables, subsidies, finances, climate policies, fundamental attractiveness of gas, it all points together into a longer-term development that we are quite convinced about. But the main driver of what I said about the price is actually in any case there will be a significant supply glut from the indigenous production side, from the supply side.

Hilde Nafstad - ***Statoil ASA - Head of IR***

I can't see any. Yes, I can see one more from Jon.

Jon Rigby - ***UBS - Analyst***

It's Jon Rigby from UBS again. If I can ask my gas question now, if I look at the chart that you showed of your projections on prices, which you don't show a European contract price in but you show Japanese LNG prices dipping down, which I guess is a reflection of your oil price view, and you also show NBP spot European prices climbing. It strikes me that if you were to put a European contract price on there you'd end up showing that spot prices in Europe and contract prices in Europe pretty much converge in your scenario and therefore we get back to the answer we first thought of. Is that a correct interpretation?

Eldar Saetre - ***Statoil ASA - EVP, Marketing, Processing and Renewable Energy***

No, I consciously didn't show a typical. I would have to pick a contract to do that. We don't do that. But what you see, what you have seen, is actually quite strong evidence that we are able to deliver strong reserves despite the fact last year that we have 55% on a hub basis.

Going forward obviously what kind of assumptions are we putting in place is also important and how the forward curve for gas and oil is developing. And we see that oil is backwardated and gas is the opposite. So even today we see strong evidence that we are dealing with this situation in a good way and going forward, looking at the market and how it prices those commodities, I think we might be back to the situation that we had earlier that, before the economic crisis which took a lot of the gas demand, that it's a pricing that is pretty much equal. It goes up and down but over time it is equal.

So I honestly think that longer term a hub-based pricing and a liquid market for gas is a good thing longer term, and we are preparing ourselves for doing that and we are making good money on that already now.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Yes, I see another hand.

Peter Hutton - ***RBC - Analyst***

Peter Hutton from RBC. You've got a strong position in European gas pipeline deliveries. Is there a question mark over the sustainability of that or are there any handicaps to the long term position of that given that as a company you're relatively underweight in global LNG, and are there any issues to address there?

Eldar Saetre - ***Statoil ASA - EVP, Marketing, Processing and Renewable Energy***

You know it's the fundamental nature of a pipeline you cannot -- there's not much you can do about it. So there is an infrastructure. I think the main point is that it's a flexible infrastructure. It gives us access to various markets and that gives us a very strong starting point.

If you look at Europe, I think it is -- I mentioned there is demand uncertainty. We have a view on that. We think the pricing in Europe is quite robust and that we will have a situation where Europe will need LNG to balance the whole thing. I pointed out some risk factors obviously. Things could happen if you don't give a lot of probability to. That sort of takes away the whole European gas market. But I think we would have to see a quite serious situation before we were really concerned with the pipelines of gas to Europe. And the cost efficiency of utilizing that system is so huge that my starting point gives me a very strong hand and is a benefit to us.

But ideally, if we're looking at how to expand our growth business, our gas business, we have said that LNG is a nice thing. The flexibility of LNG in a global context is something that we would like to see. We have tried for many years. And in that context the Tanzanian position is a very good asset for us that will make a difference in that respect.

Hilde Nafstad - ***Statoil ASA - Head of IR***

I think we'll turn to the audio audience now and our first question comes from Teodor Nilsen with Swedbank First Securities. Please go ahead Teodor.

Teodor Nilsen - ***Swedbank - Analyst***

Hello again. A question related to the NCS. You have said that you want to concentrate your portfolio in Norway so then I guess you want to divest some assets in some areas and maybe want to increase exposure in some other areas. Is it possible to give some color on which areas you will pay attention to and which areas you will seek to make some divestments in?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Well, as you know, we have already done two major transactions that is telling something about what our thinking about this is. That we are building up in, for example, Utsira and selling down in the Gjøa/Vega area, that's a reflection on where we intend to be and where we do not intend to be. And the same was with the Centrica deal where we also divested many, say, very early phase projects because we were not or we didn't want to prioritize these and therefore we also divested them.

So we have a plan, we have a strategy to where we want to be, and then it is the opportunities and the price, and to find the right partner to do these transactions with. But this will be a continuous effort on the NCS and we would very much like to see more of this happen. But of course this depends on many parties. But we do work systematically on this issue.

Teodor Nilsen - ***Swedbank - Analyst***

Do you have any thoughts around owner shares? There's some fields on the Utsira you already have a pretty substantial owner share in. Could you own 100% of a field or do you have any thoughts around that in terms of risk management?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Well, we donot want to own 100% of the fields. It's also a matter of sharing the risk with other partners and that will also be part of our strategy going forward.

Teodor Nilsen - ***Swedbank - Analyst***

Okay, thank you. And a final question just on recovery rate, if I may. You were aiming for a 60% recovery rate on NCS, which is nice. Could you say something about the CAPEX requirements per barrel and also something about the internal rate of return you expect on the CAPEXCAPEX related to increased recovery?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

As I said, this is a very long-term ambition and this is only natural going forward. From the 35% we started out with, we had 49% last year, we are 50% this year. And we have said that this is the right ambition for us to give direction to our IOR efforts. What we say also is that this will require technological development. So we are not there today to say that. We do not know exactly what it takes to make a 60% recovery from our NCS portfolio. But we will, most important thing, we will have a strong effort on doing research, doing technological improvements or developments to get there in the future.

And, as I said also, this will happen in the long term and most of it after 2020. So I can't give you any figures or directly the price for this 60%. We don't know.

Teodor Nilsen - ***Swedbank - Analyst***

Okay, that's fair. Thank you.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Our next question comes from Brandon Mei with Tudor, Pickering, Holt. Please go ahead Brandon.

Brandon Mei - ***Tudor, Pickering, Holt & Co - Analyst***

Hi. I may have missed it but I was wondering if you can give some color on what you're seeing on the coal competition and maybe if you could put some numbers around it, and what you expect going forward?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Yes, obviously there are some paradoxes here but what we see is that the United States is basically growing their gas consumption at the expense of coal, and improving their climate accounts as such, without the climate policy to put it that way, while Europe, which has a climate policy, goes the other way.

So it's a paradox and I think the solution to that equation is the coal that increasingly comes in at a low cost from the United States into Europe, into Germany, at quite low cost. And it's hard to compete when that happens. And Europe is willing to accept that stuff into their power generation and for other purposes with CO2 emissions which is three times at least as much with the old power plants as you would see on gas. But that's what happens, at least we have seen that in Germany.

I don't think that paradox or that situation can prevail for a long time. I think the UK is seeing it and their electricity market reform is pointing at acceptable levels of carbon emissions for power generation and that creates a problem at least for new coal investments. And I think it also incentivize gas at least to a large extent.

So I think -- and the other x factor in this is Europe. And I think the fundamental thing is that Europe, if they want to reduce CO2 they have to put a cost on it, and if they want to achieve something not only put a cost on it but a cost that has an impact. And so far there is a cost but it doesn't have an impact and it's far away from that. So European policies have to address that in a way which displaces coal. Otherwise they will not see impacts in their climate ambitions.

So that's my general view on this. As I said, longer term we think this will -- these elements will emerge and that coal will really struggle in the European energy mix and it should.

Brandon Mei *- Tudor, Pickering, Holt & Co - Analyst*

Thanks. Then I guess my second question is on the Marcellus again. Can you give some color on what new opportunities you're exploring in the midstream in the Southern Marcellus?

And then also your thoughts on LNG export from the US and also petrochemical projects?

Eldar Saetre *- Statoil ASA - EVP, Marketing, Processing and Renewable Energy*

Yes. Petrochemicals, to take the easy one, that is something we have been into a few years ago and we're not going back there. But obviously petrochemicals is a potential customer. And I talked about ethane extraction as such and that is part of the thinking, to supply into petrochemical industry.

When it comes to Southern Marcellus, we are looking into that. The key thing here is to attract key markets, premium markets that have a demand and would like to develop a demand, and where there are infrastructure projects that is addressing these markets.

So I think basically we are heading slightly south and not north as we have seen into Toronto and New York, and into southern markets like the Atlanta region and so on. So we are exploring those kind of opportunities and pipeline opportunities in that respect. But it's based on the same competence that we have from the Norwegian side and the same principles that you have seen us develop in the Marcellus so far. And to take out the wet components and maximize values from that is also a key part of the strategy in the south.

Hilde Nafstad *- Statoil ASA - Head of IR*

Right.

Eldar Saetre *- Statoil ASA - EVP, Marketing, Processing and Renewable Energy*

Hilde, there was a question that I might try to answer on, Torgrim [CFO, Torgrim Reitan], on the volumes that we have moved forward to put it that way and how much money we have made on that. And I have to disappoint, not surprisingly, a little bit on that question because I think we have indicated the volumes, Torgrim, that we have moved forward, around 15,000 barrels per day. And if I were to give a number on that I would pretty much expose every strategy on decision-making and how we think about this, and I don't think that is a wise thing for me to do. But all I can say is that obviously we make good money on that and that's part of what you see also in our accounts.

Hilde Nafstad - *Statoil ASA - Head of IR*

Okay. Then next on the list we have Jason Kenney from Santander.

Jason Kenney - *Santander - Analyst*

Hi there. Thanks for another question opportunity. Just going back to the earlier questions on capital intensity but also thinking of unit costs and I wonder if you could share your thoughts on the unit cost profile going forward versus today at least, particularly over the period to 2016.

And then maybe if you could just expand a bit on the $50 per dollar cash breakeven of new projects, and relate it to the current cash breakeven of your business and maybe the whole portfolio and the profile going forward?

Oystein Michelsen - *Statoil ASA - EVP, Development and Production Norway*

That was a lot of details to sort of -- well when it comes to unit cost, we see the cost is developing. We try to keep it in a kind of constant, but it will have a slow increase in the years to come. But we have full control of that. It's not getting out of control, as we said, because we are working on or we have -- our ambition is to keep the field cost level at a constant level.

When it comes to the capital or the cash, or the breakeven on the projects, there is a variety. We have $50 per barrel as an average, about that. There's some of our projects are much better than that and some of them are not as good. And when it comes to Aasta Hansteen, for example, where I mentioned that we have a somewhat higher breakeven and that is also because this is an area solution; it's opening up a new infrastructure and so on. But on average we have a very robust portfolio and our best projects within fast track is better than $30 per barrel breakeven.

Jason Kenney - *Santander - Analyst*

Okay. Thanks.

Hilde Nafstad - *Statoil ASA - Head of IR*

We'll take the last question today from Christine Tiscareno from SP Capital IQ. Please go ahead Christine.

Christine Tiscareno - *S&P Capital IQ - Analyst*

Thank you. I don't know if you're the right person to ask this, but I wonder if you could give us an update on the Troll field, which is one of your most flexible ones? If you have any comments on that and maybe also the Alve field? Thank you.

Oystein Michelsen - *Statoil ASA - EVP, Development and Production Norway*

I didn't -- the Troll field?

Hilde Nafstad - *Statoil ASA - Head of IR*

The Troll field and -- what was the second field?

Christine Tiscareno - *S&P Capital IQ - Analyst*

Yes, the Troll field and Alve.

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Alve.

Christine Tiscareno - ***S&P Capital IQ - Analyst***

Correct.

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Yes, okay. That was -- what do you mean about the Troll field, the update of that? The projects?

Christine Tiscareno - ***S&P Capital IQ - Analyst***

Well, yes. There was a significant decline in production in the fourth quarter versus the third quarter and I don't know if most of your so-called held-back volumes are coming from there?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Yes, so that is one kind of Eldar question. Troll is a swing field and we can produce -- we have a very large flexibility of production capacity. So the gas size is very much controlled by --

---

Eldar Saetre - ***Statoil ASA - EVP, Marketing, Processing and Renewable Energy***

The fourth quarter is full speed. That is -- so with the gas prices that we have seen and, as already mentioned, we have also moved forward volumes. So basically the Troll field has been full speed. So any kind of decline in the fourth quarter that --- there have been some minor operational interruptions, but those are minor so they shouldn't have any impact on the production volumes as such in the fourth quarter. So I can't relate to a material reduction from the Troll field. That should basically be as much as possible at least in November and December.

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

When it comes to Alve, I'm not quite sure what you mean about that.

Christine Tiscareno - ***S&P Capital IQ - Analyst***

Well, there was also a very significant reduction in volumes.

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

Yes we have had some problems with the rise at Norne and that has affected the production from Alve. That is correct. But that was a very minor effect on our total production.

Christine Tiscareno - ***S&P Capital IQ - Analyst***

Okay. So going forward in the first half of the year the Troll production could increase again or it could stay where it is, which is basically half of what it did in the third quarter?

Oystein Michelsen - ***Statoil ASA - EVP, Development and Production Norway***

I'm not familiar with the numbers that you're referring to. They don't fit with my market intelligence. But we'll check.

Eldar Saetre - ***Statoil ASA - EVP, Marketing, Processing and Renewable Energy***

We'll check it I think.

Christine Tiscareno - ***S&P Capital IQ - Analyst***

Okay. That's fine. Thank you very much.

Hilde Nafstad - ***Statoil ASA - Head of IR***

Thank you very much for that. Okay then we'll have to conclude the Q&A session and should there be any further questions please feel free to contact us in Investor Relations. The presentation and the Q&A session will be available for replay from the website in a few days and transcripts will also be available. Now before we end I would once again like to introduce our CFO Torgrim Reitan who will close today's events. Please Torgrim.

Torgrim Reitan - ***Statoil ASA - CFO***

Okay. Thank you Hilde. So it has been very good to be together today and I hope it has been a useful few hours for you. We have given you a comprehensive level of details and information and I'll let you digest the information and I'm not going to repeat it now.

What I want you to remember is two things. Firstly we have delivered a very strong set of numbers for 2012 and we have enhanced the value for our shareholders. And then secondly we are on track to deliver on the longer term ambitions and our strategy remains firm and there is quite a big momentum in the strategy work. It has to be said that a strong set of results, it raises expectations for future deliveries. That is a challenge that we live well with.

We have been clear on the development in 2013 and I do think it has come across that as the CFO I'm looking forward to 2013. And I'm proud to be part of an organization that is able to deliver strong growth, the transactions we have done, the exploration results that we have seen in 2012. So let 2012 be a teaser for what we would like to achieve in the years ahead.

So thank you very much for your attention here today and then I'm looking forward to enter into discussions with you over the next few days. So thank you very much.

DISCLAIMER

THOMSON REUTERS